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## BREAKING NEWS

**PUTIN CLARIFIES POWERS OF PRESIDENTIAL REPRESENTATIVES.** On 25 December at a Kremlin meeting with his administration, the seven presidential representatives, their first deputies, and chief federal inspectors, President Putin outlined the boundaries of the

representatives' power. He stated that the federal districts were not new units of the country and that attempts to create "district governments" should not be expanded. He also said that the representatives were not supposed to manage federal agencies in the regions, but to coordinate their activity (*Nezavisimaya gazeta* and *Segodnya*, 26 December). Several of the seven representatives previously had called for an increase in their powers, and Putin's statements seemed to provide a negative answer.

The president said that the representatives' first priority was making sure that local authorities brought their legislation in line with federal norms. The representatives also should better define tasks to be carried out at the federal level and at the regional level. Ideally, the number of tasks put under joint jurisdiction should be brought to a minimum, he said.

Putin addressed the long-running conflict between the seven regional representatives and the Moscow-based Main Territorial Department of the presidential administration. He made the seven regionally-focused departments of the central administration subordinate to the seven representatives. Thus two-thirds of the central administration staff will be transferred to the control of the seven representatives (*Nezavisimaya gazeta*, 27 December). Having a larger staff would naturally increase the capacity of the representatives to work in their regions. Sergei Samilov will remain in charge of the Territorial Department, which is now one-third the size that it used to be. One of the main victims is Aleksandr Abramov, the curator of the seven districts, who now will only control the staff of the State Council, which is not seen as a powerful body (*Kommersant Daily*, 26 December). A decree on this matter is expected in the first half of January. Observers will examine its text carefully to see whether it expands the powers of the seven representatives and how it defines their relationship with the presidential administration.

**CONSTITUTIONAL COURT SEEKS TO PROTECT LOCAL GOVERNMENT.** In a ruling dated 30 November 2000, the Russian Constitutional Court ruled that Kursk Oblast had to change its charter to prevent possible abuses of local government by the oblast government (*Rossiiskaya gazeta*, 19 December and *Vremya novostei*, 1 December). The court rejected provisions of the charter that allow the oblast to transfer some of its responsibilities to local governments without providing the necessary funding to carry out these tasks (see *EWI Russian Regional Report*, 18 October 2000). The court also declared unconstitutional the provision of the oblast charter, which allows local government to give up its power through a referendum. Additionally, the court determined that the municipalities had the right to determine the term of their legislators, not the oblast.

**KRESS TO HEAD STUDY OF ELECTRICITY REFORM.** The 26 December meeting of the State Council presidium appointed Tomsk Governor Viktor Kress as the head of a working group to study options for reforming the country's electricity monopoly, Unified Energy System (EES). He is supposed to prepare a report by 1 March. However, he said that it would be good if the sides could come to a unified opinion by the middle of the summer. He said that the purpose of the group is to learn from others' mistakes. Kress is a member of the board of EES. He said that the group would consider the opinions of EES head Anatolii Chubais and his critics, like Presidential Economics Advisor Andrei Illarionov. (*Vremya novostei*, 27 December)

**PUTIN VETOES ADMINISTRATIVE CODE.** President Putin vetoed the administrative code on 25 December. He said that the code gave too much power to the regions to set up their own laws on administrative responsibility (*Vremya novosti*, 26 December). The State Duma had passed it over the objections of the Federation Council, where the majority believed that it would violate citizens' rights (see *EWI Russian Regional Report*, 13 December).

**ISHAEV'S PLAN ADDRESSES REGIONAL DISPARITIES.** Last month the Khabarovsk newspaper, *Tikhookeanskaya Zvezda*, published the complete text of the report on Russia's strategy for the next decade, which Khabarovsk Krai Governor Viktor Ishaev proposed to the State Council at its first meeting on 22 November. Although originally seen as alternative to Minister for Economic Development and Trade German Gref's economic plan (see *EWI Russian Regional Report*, 29 November), now parts of the Ishaev plan dealing with regional policy are being incorporated into Gref's economic agenda. Leading experts on regional development, including Alexander Granberg, an adviser on regional affairs to former President Boris Yeltsin, and Pavel Minakir, Director of Khabarovsk's Institute of Economic Research, assisted Ishaev in preparing the report. For the complete text of Ishaev's plan, please see <http://www.iew.org/rrrabout.nsf>.

One of the main points that Ishaev makes in his report is that Russian society as a whole is splitting into haves--who support the further liberalization of the economy--and have nots--who support greater intervention in the economy by a paternalistic state. Although Ishaev notes that regional differentiation is a normal development in a state the size of the Russian Federation, he sees a similar trend toward growing income inequality between donor regions and recipients of transfers from the federal budget. In Ishaev's view, three alarming tendencies are becoming clear: (1) economic wealth is being concentrated in a few regions, while others risk becoming an "economic desert;"

(2) economically disadvantaged regions gradually are becoming disengaged from inter-regional economic links; and (3) political disagreement among regions is exacerbating regional economic differentiation. According to Ishaev, the federal government should try to address the negative aspects of differentiation by providing effective institutions and a stable environment in which regions can address their own socio-economic problems. Instead, Ishaev points to a tendency by the federal authorities to concentrate economic resources at the center, thereby reducing the financial ability of the regions to resolve social problems. Echoing a complaint lodged by many governors, Ishaev criticizes the way the 2001 budget divides revenue between the center and the regions and calls for a 30-70 distribution in favor of the regions.

## **GOVERNORS' ELECTIONS**

**ULYANOVSK: SHAMANOV UNSEATS GORYACHEV.** Lt. Gen. Vladimir Shamanov, the former commander of the 58th army in the North Caucasus Military District, won a decisive victory in Ulyanovsk's 24 December gubernatorial elections, defeating Governor Yurii Goryachev, 56.13-23.47 percent. Turnout was about 56 percent, 10 percent higher than in the 1996 gubernatorial elections. Only 3.86 percent of the electorate voted against all.

Human Rights Watch has accused Shamanov of leading a group of men who allegedly shot civilian residents of Alkhan-yurt in Chechnya in December 1999. In effect, Shamanov was fired from his position, but the Ministry of Defense said that it was not because of any errors he had made. In January 2000, Putin had praised him.

In this election, the rural parts of the oblast, which backed Goryachev four years ago, turned against him. Shamanov secured victory with the campaign slogan of "Order, changes, reliability" ("Poryadok, peremeny, nadezhnost). It turned out to be effective in the villages, where people have not been paid in five years.

Voters supported Shamanov because they hoped that he could end the Goryachev-era stagnation in the region and were impressed by his national reputation as a decorated officer, according to "Region" research center Director Elena Omelchenko. Shamanov's reputation was particularly important because the regional elite could not field a candidate capable of replacing Goryachev.

The voters ignored Goryachev's argument that military men, with their particular mentality, lack the ability to run a civilian economy. Goryachev also failed to scare the electorate with threats that the election of Shamanov, well known for his vicious campaigns against the Chechens, would provoke terrorist attacks in the region. "Chechnya does not forgive," one anonymous flyer proclaimed. "If you want tragedy in your own home, vote for the general." Goryachev also argued that any changes would be worse than the social stability created under his rule.

The victorious Shamanov is trying to make peace with Goryachev, who at the beginning of the campaign accused the general of ties to the organized crime groups based in Samara and Togliatti. Now, Shamanov is ready to pass special benefits for Goryachev through the oblast legislature. Legislative Assembly Chairman Sergei Ryabukhin, who also competed in the race and won third place with 11.7 percent of the votes, supports Shamanov in this effort and has warned against "kicking a resting lion."

Despite these efforts to help Goryachev personally, Shamanov has promised "global personnel changes" in the media, which during the course of the campaign used a variety of methods against him. In the current situation, Shamanov begins his activity in the absence of any opposition from local parties or the media: both left and right wing politicians united around the general to remove the ineffective Goryachev and are now celebrating victory. The media that was once loyal to Goryachev now faces the choice of changing or disappearing.

Shamanov's priority tasks are defining a new structure for his administration, developing an oblast budget, and seeking money to heat the oblast since the power plants currently lack fuel. Economist Viktor Sidorchev will be the first deputy governor. Shamanov invited two of his former opponents to join the administration as well and won their agreement: head of the Federal Fund to support Agrarian Reform and the Rural Economy Valentin Denisov (fourth place with 1.7 percent of the vote) and Deputy Director of Ulyanovskvodokanal Igor Polyakov (fifth place with 1.07 percent of the vote). Denisov will be the deputy governor for agricultural issues and Polyakov will deal with construction and housing issues.

Of the 23 municipalities in Ulyanovsk Oblast, only seven mayors held onto their jobs, allowing Shamanov to speak of a systematic management crisis under Goryachev. Although the new Ulyanovsk mayor, Federal Security Service Colonel Pavel Romanenko, is not a member of

Shamanov's team, he has already begun to cooperate with the governor, providing hope for an end to the four-year battle between the oblast and the city. In 2000, Goryachev only gave the city of Ulyanovsk 7 million rubles of the 256 million rubles he had received from the federal government. Former Mayor Vitalii Marusin did not participate in the elections. He has already been appointed as the head of Ulyanovsk's central Lenin Raion.

Shamanov took office on 6 January and his formal inauguration will be 13 January. - Sergei Gogin in Ulyanosk

**VOLGOGRAD: COMMUNIST INCUMBENT WINS.** Incumbent Governor Nikolai Maksyuta won Volgograd's 24 December gubernatorial elections with 36.72 percent of the vote. Local election law mandates that the winner is simply the person who wins the most votes and a runoff is not needed if no one wins more than 50 percent. Turnout was 50.40 percent and 5.46 percent voted against all. During the last week of the campaign LUKoil head Vagit Alekperov and Russian Education Minister Vladimir Filippov visited the region to support Maksyuta. However, he won another term because of the region's relatively strong economic performance, the change in the law on gubernatorial elections eliminating the need for a runoff, and the support of the Communist Party of the Russian Federation.

Maksyuta's main opponent, Oleg Savchenko who was backed by Sibneft, won 28.3 percent of the vote. Despite his defeat, he is expected to remain a player in oblast's political life. Volgograd Mayor Yuri Chekhov won only 11 percent, in a performance that was considered a major defeat. Even in the city of Volgorad, Chekhov only won 16 percent of the vote. This result was the worst Chekhov has ever received. Undoubtedly, his opponents will now use these results to reduce his hold over the city's elite.

On the same day, 23 of the 48 mayors of Volgograd Oblast cities and rural districts were reelected. In the oblast's second largest city, Volzhskii, the new mayor is Energotekhmash Director Igor Voronin, who had the support of the Communist Party. He defeated the candidate backed by the MDM group, which owns the largest enterprise in the city and the sitting mayor, Anatolii Shiryayev. The Communists had backed Shiryayev four years ago, but then excluded him from the party because of his poor performance as mayor. - Ivan Kurilla in Volgograd

**ABRAMOVICH ELECTED GOVERNOR OF CHUKOTKA.** Roman Abramovich, the head of Sibneft and a State Duma member, won election as the governor of Chukotka on 24 December with 90.61 percent of the vote ([www.fci.ru](http://www.fci.ru)). Governor Aleksandr Nazarov withdrew from the race on 16 December in anticipation of being appointed as Abramovich's representative to the Federation Council. Abramovich plans to rule the distant Chukotka from Moscow, according to Semen Novoprudskii writing in *Vedomosti* (26 December). Novoprudskii claimed that Abramovich will make more money in Chukotka, than Kirsan Ilyumzhinov, another millionaire who became a governor, would in Kalmykiya. Since Abramovich apparently has good ties with the Kremlin he will be able to pursue his economic interests in the region without federal interference. He will also be expected to redirect some of this wealth to the federal level. The Yeltsin administration was never able to gain control of these financial flows, although Putin seems to be having greater success.

**FSB MAN WINS IN VORONEZH.** Voronezh Oblast Federal Security Service (FSB) Director Vladimir Kulakov defeated incumbent Ivan Shabanov on 24 December by a margin of 59.99-15.21 percent to win the region's governorship. In the election, Kulakov had the support of the Yedinstvo, Otechestvo, and Yabloko parties. Kulakov also had the backing of industrialists in the group "Za vozrozhdenie ekonomiki." Also crucial was the support of Aleksandr Solovov, the head of the Voronezh Sberbank. He has served as the head of the Voronezh FSB since 1991.

While Kulakov did not make any original promises in the campaign, he was lucky in that the incumbent governor was extremely unpopular. Voronezh's economy is in much worse shape than many of its neighbors (*Nezavisimaya gazeta*, 26 December). Former Governor Aleksandr Kovalev was elected mayor of Voronezh.

**KHAKASIYA'S LEBED WINS ANOTHER TERM.** Khakasiya Governor Aleksei Lebed, the younger brother of Krasnoyarsk Krai Governor Aleksandr Lebed, won a second term as governor on 24 December with 71.21 percent of the vote. Lebed had the strong backing of Oleg Deripaska's Siberian Aluminum in the campaign (*Nezavisimaya gazeta*, 26 December). The only difficulty he faced was ensuring that turnout would reach the required 50 percent, which he barely achieved.

**CHELYABINSK'S SUMIN WINS.** Chelyabinsk Governor Petr Sumin won reelection easily on 24 December, taking 58.77 percent of the vote, defeating his closest competitor State Duma Deputy Mikhail Grishankov (16.68 percent).

**KOSTROMA GOVERNOR REELECTED.** Kostroma Governor Viktor Shershunov won reelection on 24 December with 63 percent of the vote, defeating Kostroma Mayor Boris Korobov.

**KALMYKIYA'S ILYUMZHINOV TO SEEK ANOTHER TERM.** On 31 December 2000, Kalmykiya President Kirsan Ilyumzhinov announced that he would seek a third term as the leader of his republic. His announcement followed shortly after the State Duma amended a Russian law adopted on 16 October 1999 that limited regional leaders to two terms. The new version considers regional leaders' first term to be the one they were serving when the 1999 law was adopted. Ilyumzhinov was elected in April 1993 and won a second term in election moved up to October 1995. Ilyumzhinov's current seven-year term will not expire until October 2002, when the next elections will be held.

Ilyumzhinov decided to announce his decision now for a number of reasons. First, his relationship with the federal authorities is relatively good. Recently Ilyumzhinov has had successful meetings with Putin and Presidential Representative to the Volga Region Viktor Kazantsev.

Second, Kalmykiya is participating in a variety of international projects. The Tengiz-Novorossiisk pipeline built by the Caspian Pipeline Consortium passes through the republic, extending 277 km on Kalmykiya's territory. Each ton of oil shipped through the region should produce \$11 in revenue for the republican budget. With construction now complete, shipments

are expected to begin in January. However, the situation is more complicated with the North-South corridor connecting Asia and Russia. Ilyumzhinov wants the route to pass through Kalmykiya, but federal officials favor a route through Astrakhan Oblast.

Finally, considering the internal situation in the republic, Ilyumzhinov wanted to move first so that he would be in a strong position to dictate the course of events over the next year and a half. - Vladimir Volgin in Elista

## **CENTER-PERIPHERY RELATIONS**

### **LATYSHEV BUILDS NEW STRUCTURES IN URAL FEDERAL DISTRICT.**

Presidential Representative to the Urals Federal District Petr Latyshev is continuing to set up several new managerial and coordinating structures at the federal district level. Latyshev sees his Urals district as a model for Russia's six other federal districts. He feels that he has two main responsibilities: serving as a crisis manager, coordinating work to correct previous mistakes, and playing a role in reforming the relationship among the federal government, regional leadership, economic elites, and societal groups within the framework of the existing constitution.

With this goal, Latyshev opened the Ural Federal District Center for Economic Planning and Forecasting. The co-chairmen of the center are First Deputy Presidential Representative Sergei Sobyenin and Urals Economics Institute Director Aleksandr Tatarkin. The center seeks to provide scientific support to state efforts to regulate economic and social processes in the federal district, forecast trends, choose priority directions for social and economic policies, prepare draft projects, and initiate and support strategic partnerships among scientists, businesses, the population, and public officials in the district. Sverdlovsk Oblast Governor Eduard Rossel, in contrast, believes that one cannot talk about the social and economic development of the Urals region outside of the context of overall Russian development.

On 21 December, the first meeting of the Coordinating Council for the realization of the Russian government's tax policy in the district took place. Besides Latyshev, participants in the meeting included the tax collection agencies, tax police, federal bankruptcy agency, bailiffs' organization, and police. The head of the Interregional Tax Inspectorate in the Urals Federal District is Gennadii Bezrukov, a former advisor to Governor Rossel on tax issues. The head of the Interregional Agency on Bankruptcy in the Urals Federal District is Sergei Fomin, who once held the same job in Sverdlovsk Oblast. In this way, Latyshev is attracting more of the oblast's employees to work at the district level.

Latyshev called on the police to monitor the collection of taxes in the region, arguing that such work is necessary to make sure that regional governments receive the money due them. Latyshev believes that underpayments and the black economy are the main reasons that the state does not receive what is due it. He believes that underpayments amount to 58 billion rubles in the Urals Federal District. To address the black market the federal government is going to create a financial intelligence service, with branches in the federal districts, to support the tax collectors. Currently, Sverdlovsk Oblast has one of the worst records in Russia in terms of collecting taxes, bringing in less than 30 percent of what it should (less than 2 billion rubles of 12.5 billion). Latyshev also hopes to use bankruptcy proceedings to find effective new owners

for enterprises rather than destroying them, something that often happens under the current system.

Latyshev is also addressing the information policy of the region and the first meeting of the Consultative Council on Cooperation with the Mass Media has taken place. Representatives of 40 media outlets from numerous regions participated. The participants discussed a wide range of issues on the relationship between the authorities and the media, including the legal position of journalists and the use of the media for PR purposes during political campaigns. The participants decided to continue their discussions with the future participation of judges and representatives of the Central Electoral Commission. - Sergei Pushkarev in Yekaterinburg

**PROCURATOR PROTESTS NEW BASHKORTOSTAN CONSTITUTION.** On 9 December, just more than a month after Bashkortostan adopted its new constitution on 3 November 2000, the Russian General Procurator sent a protest to the republican legislature charging that 80 points in 51 of the document's 164 clauses violate Russian legislation. Deputy General Procurator Aleksandr Zvyagintsev demanded that the republic bring its basic law into line with Russian norms.

By making such charges, the general procurator has effectively undermined the public statements of high-level Russian officials who have praised the adoption of the new constitution. During a visit to the republic in November 2000, Presidential Representative to the Volga Federal District Sergei Kirienko had declared the new republican constitution a "common victory" for the federal and republican leadership (see *EWI Russian Regional Report*, 15 November). The protest was prepared under the aegis of the federal district procurator, rather than the republican procurator, suggesting that the republican procurator is under the influence of the republican leadership, while the federal district procurator has greater latitude in criticizing the republican leadership.

Another interesting feature of the procurator's protest is that it is dated 9 December. On 15 December the leaders of Bashkortostan and Tatarstan, Murtaza Rakhimov and Mintimer Shaimiev, met with Kirienko and deputy presidential administration chiefs of staff Dmitrii Kozak and Vladislav Surkov and no one publicly said anything about the new constitution not conforming to Russian legislation. The procurator's protest only became public after the meeting, but Kirienko must have known about it at the time and decided that it would not be expedient to discuss it publicly then.

The procurator's protest is far-reaching. He found violations of Russian norms in articles of the republic's constitution that:

- declare Bashkortostan to be sovereign
- place the republic's laws above federal laws
- establish independent republican citizenship
- assert the republic's ownership of the region's natural resources
- declare the republic a subject of international law, allowing its president to sign and renounce international treaties, and
- allow the republican Constitutional Court to encroach on the responsibilities of the Russian Constitutional Court in examining international treaties and agreements signed between Bashkortostan and other Russian regions.



In addition, the procurator charged that the new constitution grants excessive powers to the republic's central bank and procurator and allows the president inappropriate rights in the formation of the republic's electoral commission. - Igor Rabinovich in Ufa

**PRIMORSKII KRAI AUTHORITIES OPENLY DEFY PULIKOVSKII.** Billboards denouncing Presidential Representative to the Far East Federal District Konstantin Pulikovskii now decorate Primorskii Krai roads running through the cities of Artem and Vladivostok. Among the slogans displayed are: "Primorye is Not Pulikovskii's Field" and "Pulikovskii! Primorye is not Chechnya."

The governor put up similar billboards during his December 1999 campaign against gubernatorial candidate Aleksandr Kirilichev, then considered incumbent Yevgenii Nazdratenko's number-one rival. The current campaign against Pulikovskii indicates that regional authorities have taken the gloves off in their fight against the presidential representative.

The billboards first appeared immediately following Pulikovskii's late December report to President Putin on the state of Primorskii Krai. In the presidential representative's own words, the report was negative in tone. The centerpiece of the report was the krai's energy problems.

Immediately after the New Year holidays, an accident at LuTEK, the krai's largest power generator, led to a renewal of the energy crisis. Following the breakdown of two rotary excavators at the Luchegorskii coal pit, the plant quickly used up its backup fuel supply, and electrical energy production was reduced by two thirds. Another krai power provider, Dalenergo, is also facing difficulties.

At the heart of all these energy problems lies the issue of payment arrears. The lack of payments prevented local energy companies from shoring up their coal supplies in a timely manner. They were also indirectly responsible for the breakdown of the two rotary excavators, which could not be repaired due to a lack of funds. It is estimated that krai electrical energy consumers owe suppliers 1.5 billion rubles. Local energy workers have not received their salaries in five months. Observers say that the situation, while stable, remains extremely tense. Officials estimate that some 8,000 krai residents currently have no heat.

Nakhodka Mayor Viktor Gnezdilov was forced to declare a state of emergency in his city. Several kindergartens have been closed, and all streetlights are dark, though traffic lights are still working. Industrial enterprises have been ordered to cut their energy usage by 50 percent and emergency brigades have been formed. In order to avoid any potential catastrophes as a result of 12-hour-a-day electricity black outs, all housing services have been ordered to stay open around the clock. - Oleg Zhunusov in Primorskii Krai

## **PATTERNS OF REGIONAL DEVELOPMENT**

**AFTER FOUR-MONTH STRUGGLE, IRKUTSK ELECTS SPEAKER.** On 25 December, the Irkutsk Oblast Legislative Assembly elected Viktor Borovskii, the general director of Irkutskenergo and the leader of the opposition to Governor Boris Govorin, as the speaker of the oblast's legislature by a vote of 27-15. The legislature gained a working quorum in 24 September by-elections (after the original June elections did return enough members to

form a quorum, see *EWI Russian Regional Report*, 4 October 2000), but its members were deadlocked over the choice of their speaker. Borovskii prevailed only in the seventh vote.

During the struggle to elect a speaker, Govorin had backed Vladimir Kovalkov, the general director of the Irkutsk Aviation Production Association, and refused to back down until the 25 December ballot, when Kovalkov did not run. Until this setback, Govorin had "absolute power" in the region, according to Irkutsk State Duma Deputy Yurii Ten (*Izvestiya*, 5 December). However, Govorin turned out not to be strong enough to win the election of his candidate as speaker. On 3 January, Govorin announced that he had no plans to meet with Borovskii. Govorin also said that he would like to move up the region's gubernatorial elections from July 2001 to April. Incumbent governors usually benefit by moving up their elections, making it harder for the opposition to organize.

During the battle over the speaker, many of the oblast legislators blamed Govorin for exerting undue influence over some of the deputies and for generally seeking to disrupt the work of the legislature. They claimed that he used the law enforcement agencies, courts, and media to pressure legislators into electing his candidate. The deputies fired off a letter seeking President Putin's help that was supported by many of the State Duma deputies representing the region. The standoff slowed political life in the region by blocking the adoption of the 2001 budget and preventing the legislature from bringing local laws into line with Russian legislation, as the president has sought.

In the days after the election of Borovskii, many members of the pro-governor faction refused to participate in the legislature's work. Legislator Valerii Sokolov said that the other side refused to compromise with them.

As the head of Irkutskenergo, the 69-year old Borovskii had managed to preserve the utility's independence from the national monopoly, Unified Energy System. The consequences of Borovskii's departure for the utility remain unclear. - Based on reports from Teleinform in Irkutsk and other sources

## **POLITICAL ECONOMY**

**SIBERIAN ALUMINUM BUYS UP NIZHNIИ CARMAKER.** Starting in October, Oleg Deripaska's Siberian Aluminum began to buy up stock in the Gorkii Automobile Factory (GAZ), Russia's second largest carmaker, and the Zavolzhskii Motor Factory (ZVZ), which supplies engines to GAZ. By the end of October, the aluminum company had bought up enough of the stock (25 percent plus one share) to control the automaker. The purchase follows Kakha Bendukidze's Uralmashzavod's successful purchase of Nizhnii's Krasnoe Sormovo ship-building factory. Local observers suggest that Governor Ivan Sklyarov did not take vigorous actions to stop the purchases, although GAZ management was opposed to the new owner. GAZ plays a major role in the local economy since it provides 40 percent of the oblast budget's revenue and more than half of the revenue collected by the city of Nizhnii Novgorod.

In the past, the region's major enterprises always found common cause with the governor and supported him. Now Sklyarov has signed an agreement on social partnership with Deripaska. However, this does not mean that the new owner of GAZ is as committed to the region as the old owners were. The agreement Sklyarov and Deripaska signed is not legally

binding, and Deripaska faces no consequences for not fulfilling it. The fact that GAZ President Nikolai Pugin remains in his job is simply a formality since his powers in running the plant have been significantly reduced.

The transition to the new ownership has not been smooth. GAZ had to shut its main production line from 7 to 13 December. The official reason for the shutdown was that the new owners decided to use only money in all their transactions. Earlier almost all GAZ cars were sold by means of mutual debt cancellation and with the use of veksel. This system worked because GAZ is a huge debtor, and it did not want to halt production every time the tax authorities froze the plant's bank account. The parts necessary to make the cars came from non-monetary swaps and the factory workers were paid through the dealers. Siberian Aluminum did not like the fact that under this arrangement the dealers, who have close ties to the GAZ management and the local authorities, were able to skim off all of the profits.

ZVZ, for example, did not pay for electricity because GAZ covered these costs through mutual debt swaps. As soon as the new owners tried to switch over to monetary payments, the old system immediately collapsed. The utility turned off energy supplies to ZVZ and ZVZ, in turn, demanded that GAZ pay for previously delivered engines in cash. The resulting chaos meant that GAZ could no longer produce cars. Of course, the utility would not shut off power to ZVZ, on which the economy of the city depends, if there had not been a previous agreement between the two. At that stage, ZVZ was still trying to fight the take over by the outsiders.

It is not clear what the ultimate consequences of Siberian Aluminum's purchase of GAZ will be for the city. When the production line stopped, the day care centers associated with GAZ also shut. Until now, care takers in these facilities were employees of GAZ, earning the same benefits as the factory workers. Now these facilities have been transferred from the factory to the city. In the past the GAZ day care employees earned twice as much as similar city employees. Although Nizhnii Novgorod Mayor Yurii Lebedev promised to maintain salary levels, everyone knows that the city does not have sufficient funds to do so. Lebedev also replaced the head of Avtozavod Raion. Earlier he could not do this without Pugin's permission, but Pugin is now in a weak position. Lebedev made the change because he needed to ensure the election of allies in the City Duma elections held at the end of December.

Another question is how Siberian Aluminum plans to invest in the automaker's future development. Some sources, such as the Moscow-based *Vedomosti*, speculate that Deripaska will end the joint venture GAZ has set up with Fiat. - Yurii Rodygin in Nizhnii Novgorod

## **SPECIAL REPORT**

### **FREE ECONOMIC ZONES: MANY COMMON PROBLEMS**

By Olga Kuznetsova, Working Center for Economic Reforms

During the summer of 2000 President Putin vetoed a law on free economic zones that had been adopted by both houses of the parliament. This was not the first attempt to adopt a law on free economic zones. However, legislators are likely to try to draft new laws soon, since such zones are already operating in Russia and their activity should be regulated by law.

The president objected to the previous draft because it violated numerous existing federal laws, including tax and customs legislation. The bill also did not address many of the substantive issues concerning free economic zones and their activities.

Several free economic zones (also called special economic zones and enterprise zones) were created in the early 1990s. Since there was no federal law on their activity, the zones functioned on the basis of ad hoc instructions. In most cases presidential decrees or federal government acts established these zones (however, some regional authorities also set up zones). As a result, no one can say exactly how many zones exist today in Russia, although there are at least 20 (see Table 1 for a list of the zones - <http://www.iew.s.org/rrrabout.nsf/pages/zones>).

Moreover, no federal agency can provide accurate information about which of the zones are actually functioning and what impact they have on the socio-economic situation in the territories in which they are located. The most well known zones are those functioning in Kaliningrad, Magadan and Nakhodka. The zone in Ingushetiya was disbanded by a 1997 government ruling.

There are several general reasons for the ineffectiveness (or very limited effectiveness) of the majority of Russian zones. First the legislation has gone through many stages. In the first part of the 1990s, the main goal of the zones was to increase exports and attract investment. Therefore producers working in the zones were given a wide assortment of tax breaks and customs exemptions. However, most of these benefits were cancelled in the middle of the 1990s, and the existing zones now focus less on encouraging production than facilitating trade through lucrative customs benefits. Naturally, such legislative changes did not increase the investment attractiveness of the zones.

Second, the zones have fallen victim to gigantomania. World experience shows that zones are most likely to be successful where there is a highly developed infrastructure (transportation links, telecommunications, and hotels). Building such infrastructure makes up much of the costs of establishing and running a free economic zone. Developed countries can spend between \$20 million and \$70 million per square kilometer to set up such a zone. Usually foreign investors do not contribute to construction, with up to 80 percent of all investments in the zones coming from domestic sources. Usually, the zones are extremely compact. These requirements were not taken into account in Russia and often the zones cover entire regions.

Third, many in Russia saw the creation of such zones as a way to address social and economic problems in depressed and backward regions. However, as world experience shows, these zones can only succeed if they have some sort of competitive advantage, such as an advantageous location. In Russia, many of the zones are based far from the border and even far from the main transportation links.

Since the economic zones face common problems, the solutions for them are also similar. The law on free trade zones should address the question of equality among Russian regions. The draft law's failure to do so was one of the reasons that Putin rejected the old one. Creating a zone in one or another region and granting it benefits exacerbates regional disparities. In and of itself this should not be an obstacle to creating zones since the federal government's regional economic policy is built on giving certain benefits to specific territories. However, to prevent problems in center-periphery relations, the federal government should view zones as instruments of regional policy and choose the regions that will receive the benefits (indirect

financial aid) on the basis of clear criteria that are incorporated into Russian law. Thus, it should be clear that not just any region can be an economic free zone, but only those that meet certain demands, such as those with an advantageous location or rich natural resources.

The need to concentrate the small amounts of foreign investment that Russia receives in regions and economic sectors able to serve as local and national catalysts means that the number of zones must be limited. Thus, at least in the initial stage, the small number of zones should have a compact territory and clear sectoral priorities.

The law on the zones should be as concrete as possible. The Russian experience shows that most declarations of intent usually remain on paper. The law on zones should not violate other Russian laws or have priority over them. The provisions of the law should remain stable over the long term, the benefits granted for a significant period of time, and any attempts to take away the benefits from functioning enterprises should be banned.

Russian free trade zones have to be competitive with those operating in other countries, particularly those near Russia's borders. Therefore, before introducing a free trade zone, it is necessary to analyze the laws in neighboring states. Simply freeing some goods from customs duties will hardly will be a sufficient stimulus for foreign investors.

**Table 1. Free Economic Zones in Russia**

Free Economic Zone	Year of creation	Legislative Basis
Nakhodkha (Primorskii Krai)	1990	RSFSR Supreme Soviet resolution
Tekhnopolis Zelenograd		RSFSR Supreme Soviet Act ( <i>postanovleniya</i> )
Zone in Kaliningrad Oblast		
Dauriya (Chita Oblast)	1991	Decree of the Chairman of the RSFSR Supreme Soviet Presidium
Free enterprise zone in St. Petersburg		
Free enterprise zone in Vyborg (Leningrad Obl.)		
Zone in Altai Krai		
Eva (Jewish Autonomous Oblast)		
Sadko (Novgorod Oblast)		
Kuzbass (Kemerovo Oblast)		Act of the RSFSR Supreme Soviet Presidium
Sakhalin		
Ecological and economic zone "Gornyi Altai"		
Free trade zone Sheremetev	1992	Presidential decree
Customs Free Zone "Moskovskii franko-port" and "Franko-port Terminal"	1993	
Special economic zone within an ecologically protected region of Russian mineral sources - Caucasian mineral waters	1994	Act of the Russian government

Kabardino-Balkariya	1995	Presidential decree
Customs free zone at the Ulyanovsk-Vostochnyi airport	1996	Act of the Russian Government
Ingushetiya International Business Center		Federal Law
Special Economic Zone in Kaliningrad Oblast		
Yelabuga Automobile Factory		Act of the Russian Government
Osetiya Intensive Economic Development Region		Presidential decree
Zone in Khakasiya		
Special Economic Zone in Magadan Oblast	1999	Federal law

**NEW TAX CODE LIMITS KALININGRAD'S FREE ZONE.** On 1 January, the second part of the Russian tax code went into effect, depriving Kaliningrad Oblast of many of the benefits it obtained in the 1996 law that created a Special Economic Zone in the region. According to instructions issued by the Russian Federation State Customs Committee, the customs service now will collect value-added tax and fees from goods imported to Kaliningrad Oblast as well as goods produced in the region and then shipped to other Russian regions. The decision will have severe consequences for the oblast. Prices on imported goods have already jumped 15-20 percent, a hike that will undoubtedly have a negative impact on the standard of living for Kaliningrad residents. Moreover, the competitiveness of goods produced in Kaliningrad has dropped because almost all goods produced in Kaliningrad and then sold elsewhere in Russia are made from imported kits. Thus the final price of Kaliningrad goods sent to the rest of Russia has risen significantly.

The federal law creating the special economic zone in Kaliningrad includes an article giving the oblast a preferential customs regime including a list of goods that are not subject to value-added tax. Accordingly, the new instructions violate the earlier law and therefore should not have any legal effect. At a press conference on 4 January, the newly-elected Kaliningrad governor, Vladimir Yegorov, announced that as a result of negotiations with the State Customs Commission, the implementation of the instructions would be postponed for two months. Yegorov also announced that the oblast administration would work to completely overturn the instructions. Additionally, Sergei Pasko, president of the Kaliningrad Union of Entrepreneurs, has filed a suit seeking to have the instructions annulled. Pessimistically inclined observers believe that the court will not rule in favor of Kaliningrad because the status of the newly adopted tax code, on which the customs instructions are based, could be declared higher than the law creating the special economic zone. - Yekaterina Vasileva in Kaliningrad

**FATE OF NAKHODKA PARK STILL UNCERTAIN.** On 20 November, the State Duma Committee on problems of the North and the Far East held parliamentary hearings on the ratification of the Russian-South Korean agreement to create a special economic zone in the Primorskii Krai port of Nakhodka. The deputies urged the government to consider their recommendations for ratification prior to 15 December and asked the president to "take the question under his personal control." However, no agreement was reached by the appointed

date and once again the State Duma had to request that the federal authorities come to agreement on the terms of ratification.

This dilatory process should come as no surprise to those familiar with the history of the Nakhodka Special Economic Zone (SEZ). Since the project was launched in 1990 the Nakhodka SEZ has been scaled down considerably. Originally planned to be a 330 hectare zone which would attract American and South Korean investment, after a decade of false starts and allegations of mismanagement its scale and size were reduced substantially. By 1999, the project had evolved into a 20 hectare Russian-South Korean industrial park. On 28 May 1999, the Russian and South Korean government signed an agreement to build the park. Although the South Korean parliament ratified it more than a year ago, the Russian government has yet to do so because of disagreements within certain ministries, especially the Tax Ministry. Moreover, during the recent hearings, the Russian government sent the South Koreans a memorandum, changing Russia's position on certain tax issues.

During the hearings the Deputy Tax Minister Sergei Shulgin asserted that the tax people always held a consistent position on the Nakhodka zone but that, despite their proposals, the agreement contained several points that contradict Russian policies. For example, the agreement allows for tax-free imports into the zone of goods and labor from other countries. In effect a hole would be made in the Russian border, through which goods from foreign countries and other regions in Russia could enter without paying customs duties and leave without being taxed. Thus the zone would not be promoting production but would become a market-place for goods and services. According to Shulgin it was a good thing that the government recognized this problem. He noted that in discussions with the South Korean side, it was clear that the tax-free status only would apply to goods and services involved in production in the zone, but that this was not indicated in the text of the agreement. Shulgin stated that ratification should occur after a new memorandum was signed. According to Igor Garivadskii, the head of the department for investment policy at the Ministry of Economic Development and Trade, the memorandum has been drafted and sent to the government. Once appropriate instructions were granted, negotiations could begin with the South Korean side.

- Irina Drobysheva in Vladivostok

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## THE VIEW FROM MOSCOW

### **BATTLE INTENSIFIES OVER PRESIDENTIAL REPRESENTATIVES.**

Kremlin insiders are now waging an intense battle around the president over the powers of the seven representatives to the region. At a meeting with the presidential representatives and their key staff members on 25 December, Putin gave his staff until 15 January to prepare a decree defining the powers of the representatives. The meeting

produced contradictory results, in some ways limiting the representatives' power and in some ways expanding them. Putin said that the seven federal districts should not be governments and warned the representatives not to intervene in affairs of the governors. On the other hand, he said that they could do so in the case of an emergency, but left unclear what situation constituted an emergency and who would declare it. Additionally, he gave the seven representatives control over half of the staff of the Presidential Administration's Territorial Department. Additionally, the president's seven representatives to the regions are now opening their own offices in Moscow with a staff of approximately 15 employees.

By reducing the power of the Territorial Administration, the president only will get information about the regions from the seven representatives. The information will come in bits and pieces, but not part of an overall, comprehensive view and the president will not have direct access to other sources. When he served as presidential chief of staff in 1996, Anatolii Chubais realized that presidential administration largely duplicated the work of the government. He therefore transferred all economic powers to the government and essentially left only regional policy in the hands of the administration. If Putin's instructions are implemented, the role of the administration in this sphere will be significantly reduced and the stature of the administration will drop since it will not have control over a particular policy area.

Presidential Chief of Staff Aleksandr Voloshin heads the group trying to reduce the powers of the presidential representatives. Other groups such as the Security Council support them. However, the lines are not drawn very clearly, as the seven representatives do not coordinate with each other. They are jealous of each other's powers and have a history of saying different things about what their powers are and should be. In effect, the establishment of the representatives created a new generation of bureaucrats, bringing in people from different places who express a different point of view. The old guard is fully aware of this situation and is fighting back. Despite the murky situation, the battle is getting more and more intense.

Some Kremlin journalists believe that Putin is not satisfied with the work of his representatives. While he may not disband the institution altogether, it is possible that he will replace some of the representatives with new people. For example, Georgii Poltavchenko has not been successful in asserting his influence in the Central Federal District. There are hundreds of examples of violations of Russian law in Moscow, which secured a high degree of independence under Yeltsin, yet the procurator only has filed 17 complaints. Konstantin Pulikovskii is on vacation in Krasnodar while the Far East faces its latest energy crisis. He is supposed to coordinate federal agencies in the region, which include the coal industry, railroads, and electricity providers, but all he does is criticize Governor Yevgenii Nazdratenko. Petr Latychev is still having difficulty handling Governor Eduard Rossel and organized crime in his district.

Putin and his team also fear that Chuvashiya Governor Nikolai Fedorov will win the Constitutional Court case he filed against the legislation approved last summer supporting Putin's federal reforms, such as restructuring the Federation Council and giving the president the right to fire governors. In this situation Fedorov is playing a complex game because he is not opposed to the Kremlin in every area. Putin cannot ignore the problem of the Constitution and the Constitutional Court because he does not want to provoke a crisis with the governors or the public. By attacking the governors and

oligarchs head on, Putin has created a latent opposition that is waiting for him to make a mistake so that it can attack.

Another tendency is the growing power of the republics. Tatarstan and Bashkortostan are likely to go on the offensive after Tatarstan President Mintimer Shaimiev is reelected in March. They will likely seek greater freedom from the federal government. The republics are generally more prosperous than the average Russian region. They have many religious, cultural, and language issues they will use in their arsenal. The republican leaders also benefit from the prominence of such nationally known singers as Zemfira (from Bashkortostan) and Alsu (Tatarstan), who are able to compete with Alla Pugacheva. After starting with cultural demands, the republics will assertively push a more political agenda against the president.

Looking at the string of regional elections during the fall of 2000 and early weeks of 2001, it is hard to say if "the Kremlin" won any of them. In regions such as Ulyanovsk or Tyumen, some groups in the Kremlin supported one candidate, while other groups supported a different one. This problem reflects a general tendency of Putin to avoid making difficult decisions. As a result, the main decision makers are at the secondary and tertiary levels and because of the intense on-going struggle for power, they tend to adopt contradictory policies. - Robert Ortung in Moscow

## **CENTER-PERIPHERY RELATIONS**

### **BASHKORTOSTAN LEADER REJECTS EFFORTS TO BRING LAWS IN LINE.**

In a major policy statement on 11 January, Bashkortostan President Murtaza Rakhimov expressed his disagreement with the methods employed by the federal government in bringing regional laws into line with federal norms. He argued that the federal authorities had turned the idea of making the laws conform into a goal in itself, while forgetting what he described as the authorities' main job: improving the life of ordinary citizens. He labeled the procurator's criticism of Bashkortostan's new constitution as part of an attempt to create the legal basis for restoring a "unitary administrative system" (see *EWI Russian Regional Report*, 10 January). Rakhimov advised the republic's legislators to be careful in changing the republic's laws and to preserve the republican legal system's stability, continuity, and consistency. He suggested working on the basis of the 1993 constitution, but not on federal laws which themselves "require updating and an accounting of the specifics of the regions of multi-national Russia." He called on the republic's legislators to work on updating federal laws even though he argued that the federal parliament generally ignored regional input.

Rakhimov stressed that the 1994 power-sharing agreement continued to regulate relations between Russia and Bashkortostan and claimed that Putin supported this point of view. Rakhimov said that the republic had made great progress in bringing its law into line with federal norms (essentially ignoring the prosecutor's complaints) and said that the process would be finished by 1 March. - Igor Rabinovich in Ufa

## **RESTRUCTURING THE FEDERATION**

### **UST-ORDA BURYATIYA "INEVITABLY" WILL UNITE WITH IRKUTSK.**

Recently reelected Ust-Orda Buryatiya Autonomous Okrug Governor Valerii Maleev

believes that his region will soon be folded into Irkutsk Oblast, of which it is a constituent part according to the current constitution. "We received a letter from the presidential administration which laid out two ways for the merger to take place. A referendum on complete unification could be conducted. The alternative would be to negotiate with Irkutsk Oblast over the nature of our relations," he said. - Teleinform in Irkutsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SUMIN LAUNCHES SECOND TERM IN CHELYABINSK.** On 10 January Chelyabinsk Governor Petr Sumin took the oath of office for his second term, this one lasting five years. Attending the ceremony were Presidential Representative to the Ural Federal District Petr Layshev, Sverdlovsk Governor Eduard Rossell, Kurgan Governor Oleg Bogomolov, and Bashkortostan President Murtaza Rakhimov.

There are many rumors in the oblast that Chelyabinsk will face new elections soon due to Sumin's poor health. In that case, his most likely successor would be Andrei Kosilov, who currently is in charge of the oblast's social sphere and agriculture. Similar rumors circulated during Sumin's entire first term and never amounted to anything. The governor himself has not given any indication that he intends to resign early.

Beyond health issues, the governor faces several new problems in his second term. First is the split in his team and the departure of many deputies who played a role in the oblast's economic growth during 1999 and 2000, particularly former First Deputy Governor Vladimir Utkin who ran against Sumin in the gubernatorial campaign. In 1999 oblast production increased 15 percent and shot up 17.5 percent in 2000. In recent months, the pace of growth has dropped noticeably, and the slowdown seems to be becoming more acute.

Second, there are new difficulties in the sphere of interbudgetary relations. In 2000, the oblast was able to keep 58 percent of the tax collected on its territory, while in 2001, this figure will drop to 48 percent. The profits of the region's metallurgy plants, which make up 70 percent of regional production, are expected to drop because of poor market conditions and higher prices for railroad transportation and electricity.

Finally, during the campaign, Sumin denounced the attempts of the "oligarchs" to subordinate Chelyabinsk Oblast to their own interests and to take control of its most lucrative sectors. While the governor's statement probably won't frighten the "oligarchs," it might drive away other investors, without whose support life will be difficult in Chelyabinsk Oblast.

On 12 January, the newly elected oblast legislature reelected Viktor Davydov as its chairman, a position he had held for the last four years. Over 70 percent of the members of the legislature are serving for the first time. Davydov had the unanimous support of all 45 members. During his first term, he worked well with Governor Sumin. Davydov never came into serious conflict with the executive branch and managed to preserve a degree of independence.

Industrial enterprise directors dominate the legislature and its decisions will reflect their economic interests. More than 30 of the 45 members are enterprise directors. Despite the unanimous vote for the speaker, the makeup of the oblast legislature is not as monolithic as it had been earlier. While all the deputies support a pro-state, pragmatic

approach to oblast politics and seek to avoid confrontation with the federal authorities, the deputies represent different companies, which have different economic interests.

In this context State Duma Deputy Mikhail Yurevich is setting up a faction to represent Union of Industrialists and Entrepreneurs (SPP). Yurevich is known as the "bread" magnate in the region and also has interests in the gas industry. Five other members of the legislature represent bakeries. So far the industrialist deputies have not decided if they need a faction, which could include up to two thirds of the legislature's members. However, the very discussion shows that the legislature could behave more independently in the future.

Mayors constitute the other major group in the legislature, although they are in a clear minority compared to the industrialists. The industrialists and mayors are likely to have strongly different interests, potentially allowing the administration to stay "above the fray" and to use the conflict for its own interests. However, 2001 is likely to be difficult because the oblast is losing money to the federal government and the steel sector is anticipating a slowdown. In sum, the new legislature is less politicized, but more diverse than the previous one. Therefore, there will likely be tense internal battles among economic interests on the political and legislative front. - Igor Stepanov in Chelyabinsk

**NEW BALANCE OF POWER IN KALININGRAD.** Kaliningrad Oblast elected Vladimir Yegorov as its new governor on 19 November, and it is now becoming clear who his key appointments will be and what political course they are likely to chart.

The first and most obvious outcome of the recent elections is the victory of pro-Yegorov forces. Newly elected Oblast Duma Chairman Vladimir Nikitin (Soyuz pravyykh sil) and his deputy Valerii Frolov are both recognized Yegorov supporters, as are the majority of oblast deputies. It is clear that the oblast administration will receive strong support from the Duma. These loyalties will be put to the test in the near future, when the Duma considers the 2001 oblast budget and amendments to a series of regional economic laws.

Former Kaliningrad Oblast Governor Yurii Matochkin, a Duma deputy who ran for chairman but had to content himself with heading up the Economics Committee, is the main source of organized opposition to Yegorov.

In the Federation Council, former leader of the Yantarnii krai bloc Nikolai Tulaev will represent the Oblast Duma and former Oblast Duma Speaker Valerii Ustyugov will represent the governor. While Tulaev's post is a significant step up in his political career, the same cannot be said of Ustyugov, who sought a key role in the new administration but has instead been "honorably exiled" to Moscow.

More important is the makeup of Yegorov's cabinet. Vladimir Prigorov, a well-known local businessman who heads a number of financial and telecommunications concerns and helped run Yegorov's electoral campaign, has been appointed vice-governor. It is likely that he will wield significant influence in the new administration.

Yegorov also has named his deputy governors. Two of them hail from LUKoil, the largest economic player in the region: Mikhail Tsikel, who will be responsible for foreign economic and international ties, and Pavel Fedorov, who will oversee finance and investment. Anatolii Khlopetskii, another famous local entrepreneur, will be responsible for regional development, transportation, and the special economic zone. None of former Governor Gorbenko's deputy governors were kept on, with the exception of Tamara



Kuzyaeva, who served as deputy governor of justice under both Matochkin and Gorbenko but left the latter's team long before the recent electoral campaign.

Yegorov has clearly replaced Gorbenko's team with a young, energetic, and pragmatic group of people, experienced in business management under market conditions and fully aware of the importance of developing the regional economy in a manner that takes both foreign and domestic factors into account. It is also clear that Yegorov's team lacks bureaucratic experience, a situation that will quickly change and might in fact be considered a strength by some.

The new regional authorities will benefit from Moscow's support, as well as that of the international community -- virtually all foreign politicians and business partners supported Yegorov for governor. The question of the day is whether the new team will be able to optimize the oblast's potential while resolving the array of complex problems facing Russia's westernmost region. - Yekaterina Vasileva in Kaliningrad

**ALPHABET SOUP IN TATARSTAN.** Tatarstan is continuing to debate the republican parliament's decision to employ the Roman, rather than the Cyrillic, alphabet for the Tatar language. The Russian Federation State Duma unwittingly sparked this debate in December, when KPRF Deputy A. Chekhoev announced that Tatarstan's decision to overthrow the Cyrillic alphabet represented a national security threat. Chekhoev recommended that a commission be set up to bring the Tatarstan government in line and to file a report on the matter. The KPRF, Narodnii deputat, Agrarians, and even the Yabloko faction supported Chekhoev, with only Soyuz pravyykh sil dissenting. The other factions, including LDPR, whose leader usually speaks out against the Russian Federation's national republics, remained silent.

A working group comprising the head consultant to the State Duma Committee on Nationalities, a representative of the Moscow Institute of the countries of Asia and Africa, and a member of the National School Institute recently visited Kazan. Their visit further politicized this linguistic issue. Interestingly, a similar language reform is underway in Kalmykiya, a fact that has eluded the attention of State Duma deputies. The working group recently departed Kazan and is now preparing its report.

Such federal interference in an issue that is purely regional in nature and affects the Tatar people alone cannot but be viewed by locals with surprise and concern. No one can explain why adopting the Roman alphabet would cause a threat to national security.

Even in Tatarstan the change in alphabet remains controversial. On the positive side, supporters say, the Cyrillic alphabet does not adequately reflect the Tatar language, as it lacks the requisite letters for forming certain important phonetic groupings. In addition, they say, Roman letters will allow the Tatars to form closer linguistic and cultural ties with other Turkic peoples who use the Roman alphabet (e.g. Turkey), as well as the countries of the Middle East. Finally, switching to the Roman alphabet would simplify greatly local use of international computer technology.

Detractors argue that switching to the Roman alphabet would lead to the loss of an entire layer of Tatar culture. They also point out that no one is prepared for the transition: teachers have not been trained for the task, and there are no student textbooks or teacher's guides using the Roman alphabet. Finally, they say, adopting a new alphabet would be enormously expensive, and the republic does not have the resources for the project.

Some observers have taken the middle ground: while not opposed to the change in theory, they do not believe that now is the right time for it. They point out that the republic currently has a budget deficit, and all available resources should go to addressing much more serious social problems.

Whatever the outcome, it seems clear that this is a question the Tatar people should decide for themselves, without federal interference. - Midkhat Faroushkin in Kazan

## **GOVERNORS' ELECTIONS**

**SOBYANIN WINS IN TYUMEN OBLAST.** Deputy Presidential Representative in the Ural Federal District Sergei Sobyenin defeated incumbent Tyumen Governor Leonid Roketskii in Tyumen's gubernatorial elections on 14 January, taking 51.3 percent of the vote. In the race, President Putin publicly had supported Roketskii even though Sobyenin was a member of his presidential administration.

Tyumen is important because it produces nearly all of Russia's natural gas and two-thirds of its oil. The region is divided into three units: the resource-rich Yamal Nenets and Khanty Mansii autonomous okrugs in the north and the agricultural Tyumen proper in the south. Since the northern okrugs produce much of the region's wealth, they resent having to share it with the rural south and have sought to secede from the oblast to which they are formally subordinate. In the election, Sobyenin, once the chairman of the Khanty Mansii legislature, represented the northern okrugs, while Roketskii represented the south. Accordingly, most of Sobyenin's votes came from the north, while most of Roketskii's support was located in the south.

During the campaign, Roketskii stressed that Putin supported him and that he had close relations with the separatist governors of the okrugs. The okrug governors, however, backed Sobyenin and formed a united front against Roketskii. Despite the separatist tendencies of the okrugs, there are strong ties between the northern okrugs and southern rump of the oblast. Often young workers from the southern part of the oblast go to the north to make their fortune and then return to the south to retire.

Roketskii stressed that he would be the key figure in preserving the unity of the oblast and its three units, arguing that it did not make sense to break the oblast up and divide its resources. Before the election, observers believed that if Roketskii won, the governors of the okrugs, Aleksandr Filipenko and Yurii Neelov, would do everything they could to separate themselves from their southern neighbor. Sobyenin's victory, in contrast, improves the possibility of keeping the oblast together. In fact, *Vedomosti* (16 January) argued that Sobyenin would implement the idea, now under discussion in the Kremlin, of eliminating the autonomous okrugs and making Tyumen oblast a united whole, although it is not clear how successful such a plan would be. As a consolation prize, Roketskii may be able to retain his membership in the State Council, where he is currently a member of the presidium. The council, made up of the governors and the president, allows former governors to be members.

The election naturally had important consequences for Russia's oil companies. Roketskii is the chairman of the board of the Tyumen Oil Company (TNK) and the company reported contributed \$1 million toward his reelection (*Segodnya*, 16 January). Sibneft and LUKoil apparently supported Sobyenin. According to *Segodnya*,

Surgutneftegaz contributed to both candidates, though *Vedmosti* claimed that the company backed Sobyenin. - Sergei Pushkarev in Yekaterinburg and other sources

**BUTOV REELECTED IN NENETS AUTONOMOUS OKRUG.** Nenets Autonomous Okrug Governor Vladimir Butov won a landslide victory to secure a second term, defeating his opponent, Deputy Director of the Polyarnoe siyanie company Aleksandr Shmakov, 68-14 percent. LUKoil had actively supported Shmakov because Butov has blocked the company from doing serious work in the region. Butov's opponents asked the court to remove him from the race, claiming that he had tried to buy votes, but the court rejected the case (*Kommersant Daily*, 16 January).

## **LOCAL GOVERNMENT**

**ELISTA MAYOR TO BE APPOINTED BY CITY ASSEMBLY.** Amendments to the Elista City Charter as proposed by the City Assembly came into effect on 12 January. The most significant amendment involves the status of the mayor, who -- as in the past -- heads the legislative and executive branches of city government. In other words, this individual serves simultaneously as both Chairman of the City Assembly and Mayor of Elista. But whereas in the past the citizens of Elista directly elected the mayor/chairman, the City Assembly will be responsible for appointing this official to a four-year term now.

In other words, only 11 people will be responsible for electing Elista's mayor. The electoral campaign to the City Assembly is already underway, with elections scheduled for 4 February. Interestingly, the amendments to the City Charter were announced in the press and took effect immediately following the registration of candidates. Twenty-seven people are vying for 11 places. The most notable figure among them is incumbent R. Rurulov, under whose leadership the proposed amendments took effect. Burulov replaced his predecessor V. Shamaev in March 2000, when the deputies called for Shamaev's pre-term removal from office, citing abuse of power. - Vladimir Volgin in Elista

## **BUDGET ISSUES**

**ST. PETERSBURG REFORMS BUDGET PROCESS.** Just before the New Year's holidays, St. Petersburg Governor Vladimir Yakovlev approved a program to reform the city's budget system. The new program takes into account changes made in the new federal tax code, which went into effect on 1 January. A key part of the process is reducing the level of subsidies to state enterprises. Specifically, one of the main goals of the reform is "the gradual abolition of state subsidies to enterprises that provide communal services" and "the establishment of new prices that make it possible to finance municipal services with funds generated by the enterprises that provide such services." Another priority is "the elimination of subsidies to state enterprises and the transition to new mechanisms for raising capital for their investment programs, including allowing them to issue stock."

Additionally, the governor ordered his Financial Committee to prepare draft instructions on establishing a treasury system for state enterprises. While in the past, state enterprises simply received subsidies from the state budget, under the new system the

treasury would transfer money directly to the supplier providing goods and services to the enterprises. Presumably, the new mechanism would eliminate the kinds of corruption that currently plague the system.

The administration also is planning to conduct an inventory of all the property belonging to enterprises owned by the city and to examine how effectively the property is being used. The audit will likely force the closure of some enterprises. In this way, the city plans to reduce the amount of unused or misused property that it currently owns.

Combined with these moves, the city plans to study how much money it has to pay for benefits established by federal law. Often federal law provides benefits for certain categories of citizens or enterprises without providing the necessary funding to pay for such benefits. - Marina Makova in St. Petersburg

## **INTERREGIONAL POLICIES**

**DAGESTAN EXPANDS CONTACTS WITH ITS NEIGHBORS.** Dagestan has begun to increase its contacts with its neighbors. Most prominently, the head of the Dagestan State Council, Magomedali Magomedov, participated in President Putin's delegation on his trip to Azerbaijan on 9-11 January.

Just before that visit, on 8 January, a delegation headed by Dagestan Minister of Internal Affairs Adilgire Magomedtagirov and Deputy Russian Minister of Internal Affairs Igor Zubov visited the Azerbaijani city of Khachmas to meet with a delegation of Azerbaijani law enforcement agencies. The meeting took place within the framework of the agreement signed by the ministries of internal affairs of the so-called "Borjomi Four" (Russia, Georgia, Azerbaijan, and Armenia). At the meeting, the two sides discussed mutual cooperation in fighting organized crime and terrorism, providing security for the economy and transportation, and expanding telecommunications links. The two sides signed a protocol to increase cooperation between police in the border regions of the two states.

Zubov said that "Our work is not simply a declaration of intentions to conduct joint exercises, but has provided concrete results in terms of the joint detention of criminals and conducting special operations. We have arrested 1,400 people in recent years."

Another notable event was the visit of Groznii Mayor Bislan Gantamirov to Makhachkala Mayor Said Amirov on 11 January. This is the first visit of an Chechen politician to Dagestan since the beginning of the second Chechen war. Chechen President Aslan Maskhadov tried to visit in October 1999, but residents of the border region blocked his motorcade because he had not denounced the August 1999 invasion into Dagestan led by the field commanders Shamil Basaev and Khattab.

This time Gantamirov apologized for the invasion, describing it as a "common problem." He claimed that he would restore order in Grozny in two to three months, and described his visit to Makhachkala as the first step in the process of establishing a peaceful life. The Chechen delegation included the head of the city's energy complex and chief cultural official. The mayors signed agreements expressing their desire to develop cooperation in the cultural, socio-economic, political, and legal spheres and to set up a working group to address these issues. - Nabi Abdullaev in Makhachkala

## **DISPATCHES FROM THE FIELD**

### **FORWARD TO PUTINISM, BACKWARD TO COMMUNISM?**

by Nina L. Khrushcheva

MOSCOW-NIZHNI NOVGOROD-NOVOSIBIRSK-January 5, 2001: There was once a great Soviet slogan: "Forward to Communism!" Russia today is experiencing a familiar *deja vu*. In the Yeltsin era Russians lived with an underdeveloped market economy and with some elements of a democratic system of governance, thinking that they were moving forward, slowly but forward. Now they have no idea where they are moving, or in fact if they are moving at all.

First, following President Vladimir Putin's firm recommendation, the State Duma approved (almost unanimously) the new Russian (old Soviet) anthem with changed words, of course, but with the same spirit: "Great Russia united forever the unbreakable Union of Soviet Republics." Then the FSB's (Federal Service Bureau, former KGB) foreign espionage branch celebrated its anniversary in the company of its former employee Vladimir Putin himself, as well as many others whose career record never indicated any connection with this "state ideology protection" office. Then there was the shareholders meeting of the RAO EES (United Energy System), the Russian energy giant headed by the former reformer, turned oligarch, Anatolii Chubais. The meeting itself was a good thing, but the banner over the presidium, "Long Live the 80th Anniversary of Vladimir Lenin's GOELRO Plan," was an entirely different story. The GOELRO (State Organization for the Reconstruction and Development of the Soviet People's Economy) plan was designed and implemented by Vladimir Lenin, whose slogan for the Soviet Russia was "Socialism means Soviet statehood plus electrification of the whole country." Chubais's plan to build such a system in the new market environment under the state leadership of Vladimir Putin also means to involve all people across the nation.

As if we were taking the old music of national pride and unity (and torture, provided by that very KGB celebrated today under the new FSB name), and filling it with new words of God and wisdom, heating will miraculously come to the remote areas of the country (Chubais's plan is indeed similar to the GOELRO one - instead of national socialization, it calls for obligatory national marketization: if a region can't pay, people will be simply left without any heat), pensions will get paid, teachers and workers will receive their wages and salaries, the economy will improve, and Russia will live happily ever after....

For the rest of the enormous country, however - with a population of almost 150 million and 11 time zones - these are all Kremlin games, hypothetical, symbolic, with no relation to reality - just some vague nostalgia for the past, some vague idea of how it can (or rather cannot) work for the future. Russian

people are different today after 10 years of the near-anarchic Yeltsin freedoms in politics, economics, entrepreneurship, and survival techniques. They no longer care about slogans and old symbols mean very little in their everyday life, because they have to live today: they need to pay their bills, feed their families, go to work in Novgorod, Saratov, Novosibirsk... At the end of the day, when they are done digging mines, teaching children and waiting tables, they want to have reasonable services, a logical tax system, and a monthly paycheck, regardless of anthems, old or new. They hope that someone will explain to Chubais that national marketization is good when supported by functioning social structures; otherwise it is as destructive for an individual as socialization.

Traveling in the regions, I fully grasped the enormous disconnect between the center and the periphery, the rulers and the ruled. Such a disconnect is not new for Russia of course - there was a Czar and his serf, or a General Secretary of the Communist Party and a faceless proletariat. When post-communist Yeltsin declared a vague collective of *Rossiyanе* (citizens of Russia), he deprived (or freed, depending on one's point of view) Russia of its collective mentality, based on the famous slogan, "The whole Soviet country is like one man." Today each person deals with life and its hardships individually (a new word in the Russian common vocabulary) regardless of the Kremlin desire to bring back its uniformity.

The uniformity itself has become different. In the Novgorod suburbs I saw quite a few LukOil gas stations. I saw them in Moscow, too, and then in Novosibirsk. They looked uniform - red and white, brightly lit, clean and businesslike. What makes America America, I thought, or any market economy a market economy, for that matter, is that one can find an identical Texaco station and a Seven Eleven store in Alaska or South Carolina. When LukOil stations can be found in central Moscow and remote Siberia, it means a great thing - there is hope for Russia to become a "normal" country, where the uniformity of slogans has been replaced by the uniformity of services.

Some highbrow Americans might object, arguing that faceless sameness kills individuality. In the United States where individuality is not a novelty, this may be an issue, but in Russia a couple of thousand LukOil stations today hardly poses a threat. In fact, they *are* individuality - of entrepreneur and survivability against the tyranny of the socialist crowd. Besides, for those critics, there are better signs of individuality. On my way to the Novosibirsk airport at 5 in the morning at minus 48 Celsius (minus 118 Fahrenheit) I saw a brightly-lit small wooden hut: "Pizzeria Venezia" said its sign with a beautiful carving of a gondola and waves underneath.

Globalization has come to the depths of Russia, I thought.

Nina Khrushcheva is senior fellow at the World Policy Institute of the New School University in New York.

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## BREAKING NEWS

**NEW GOVERNORS WILL ENTER THE BOARD OF ELECTRICITY MONOPOLY.** When the electricity monopoly Unified Energy System holds its next board of directors' elections, new governors likely to oppose utility chief Anatolii Chubais' restructuring plans will replace governors more favorably disposed to the plan. The regions control approximately 17 percent of the stock in the utility, giving them the right to three of the 15 seats on the board. On 20 December, the Federation Council

selected its slate of representatives, *Vedomosti* reported on 17 January. The list includes Amur Governor Anatolii Belonogov, Ryazan Governor Vyacheslav Lyubimov, and Orel legislature Speaker Nikolai Volodin. Currently, the members of the board are Tomsk Governor Viktor Kress, Novgorod Governor Mikhail Prusak, and Vologda Governor Vyacheslav Pozgalev. The future members of the board are much less liberal than the current ones and are likely to cause the utility's leadership more trouble. Federation Council Speaker Yegor Stroev apparently nominated the slate at the end of the session, when many of the governors had already left the hall and without putting the issue to a vote, beyond asking if there were any objections. Observers say that the current board has not done much, but that board members driven by a Communist ideology would not improve the situation.

The governors have a series of questions about Chubais' reform plan to break the monopoly into independent power generating plants and a state-controlled distribution network. They wonder who will answer for delivering light and heat to residential customers if the current system is dismantled. They are also concerned about how prices will be set and where money for future investments will be found.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SAKHA PRESIDENT SEEKS THIRD TERM.** Sakha President Mikhail Nikolaev plans to seek a third term in the republic's elections set for December 2001. The current Sakha constitution forbids the president from serving more than two terms, but Nikolaev clearly is orchestrating a campaign to remove that obstacle. In early January, residents of Churapchin Raion appealed to the republican legislature to make the necessary changes allowing Nikolaev to stand again. On 19 January, local media published an appeal to all residents of the republic to support the changes.

Nikolaev's campaign comes at a time when the republic is beginning to stand up to the Putin administration. On 16 January, the republican legislature rejected a bill proposed by Republican Procurator Nikolai Polyatinskii that would have renounced the republic's sovereignty. Nineteen of the legislature's 32 members voted against it. The legislators proposed that procurator initiate a procedure to negotiate amendments to the constitution. The republican parliament has already removed from the republican constitution ten of the most egregious violations of federal law, including a provision which allowed the republic to have its own army. However, of the 15 bills under consideration now, only three have been adopted in the first of three readings. These involved relatively minor points, such as setting up a human rights monitor (*Yakutiya*, 18 January).

Sakha authorities also have been focusing on developing the republic's diamond industry and diversifying into energy production. Sakha republic signed a 25-year agreement with the Alrosa diamond company on 11 January. The government said that the agreement would help it preserve its income and allow for continued diamond mining in the region. Now diamond production makes up for 77 percent of the republican government's revenue and any reduction in this income would lead to serious financial problems for the region.

In the agreement, the two sides reached a compromise. For renting Sakha mines, Alrosa will pay 21.6 percent of its revenue in 2001, the same as last year. However, in the future Alrosa will pay a lower rate (16.5 percent) because it needs to invest in new projects in Sakha such as an oil refinery in Mirnii, the Vilyuiskoi hydro-electric plant, oil pipelines, mining facilities in Nyurbinsk Raion, and participating in a tender to develop the Talakan oil and gas deposits. The financial arrangements of the 25-year agreement will be adjusted every five years. - Oleg Yemelyanov in Yakutsk

**EU FOCUSES ON KALININGRAD, WHILE MOSCOW LOOKS AWAY.** The recent *Washington Times* article claiming that Russia is basing nuclear weapons in Kaliningrad, an accusation the Russians denied, created a background for worsening political relations between Russia and NATO. That scandal was quickly followed by another, when the British newspaper *Daily Telegraph* printed an article claiming that Germany had secretly proposed that Russia give it extensive economic control over the oblast in exchange for writing off part of Russia 22 billion pound debt to Berlin. Russian and German officials denied that any such deal was in the works.

Despite this negative background, relations with the European Union seem to be improving. Sweden, which holds the rotating EU presidency for the first six months of 2001, is seeking closer ties with Russia. On 22 January, it published its working plan, which outlines the basis for the EU's relationship with Russia during Sweden's presidency. As Swedish Prime Minister Goran Persson pointed out, one of the main priorities of the working plan is providing support for Kaliningrad. The EU summit in June 2001 will discuss some of the key problems facing Kaliningrad, such as the high levels of pollution, the spread of AIDS and tuberculosis, and organized crime. By summer 2001, the EU plans to develop a plan to link automobile and train tracks between the oblast and Europe, creating a trans-European highway. The EU also plans to finance ecological programs in the region.

On 18-19 January, Chris Patten, the EU official responsible for foreign affairs visited Moscow. He outlined the EU's plans for building cooperation with Russia, Lithuania, and Poland. In particular, he presented ideas on demarcating borders, financing various transportation projects, and providing energy to the region. He also suggested opening an EU office in Kaliningrad. TACIS will resume work in the region, focusing on the modernization of border checkpoints, developing the Kaliningrad port, improving waste treatment procedures, developing small business, and generally sparking economic development. It plans to spend 15 million euros on these projects.

Despite the increased outside attention, Kaliningrad continues to face severe problems at home. Thanks to the new tax code, Kaliningrad lost many of the benefits it had gained from the establishment of a free economic zone (see *EWI Russian Regional Report*, 10 January). Prices of imported goods have gone up 20 percent in the region and locally-produced goods are losing their competitiveness on the Russian market. Governor Vladimir Yegorov is planning to discuss this issue with President Putin on 30 January. The State Duma Committee on Economic Policy and International Affairs will hold hearings on this issue on 26 January. On that day Kaliningrad residents are planning protest rallies. The oblast hopes to overturn the actions of the State Customs Committee, which effectively abolished the special economic zone through its interpretation of the tax code. One piece of good news is that customs officials agreed on 22 January to change the way they collect the value added tax (VAT) so that Kaliningrad producers would not have to pay it twice.

Another problem looming on the horizon is that Latvia will force Russians to acquire transit visas for trips between Kaliningrad and the rest of Russia (*Vremya novostei*, 16 January). Imposing such a step would make trips more expensive for Kaliningrad residents. On top of these other issues, former Governor Leonid Gorbenko seems to be increasing his control over the region's port. Gorbenko held the job of port manager before he became governor. Observers believe that under Gorbenko the port was a center of corruption in the oblast.

The expressed support for Kaliningrad Oblast from Swedish Prime Minister Persson and the EU's Patten contrasts sharply with Moscow's apparent indifference to the increasingly difficult situation

in the oblast. Moscow's actions are thus leading to growing separatist feelings among Kaliningrad residents. These feelings are already leading to renewed calls to turn the oblast into an independent Baltic Republic. - Yekaterina Vasileva in Kaliningrad

## **RESTRUCTURING THE FEDERATION**

**KARELIYA LEADER REJECTS IDEA OF LARGER REGIONS.** In recent weeks the Russian press has been filled with discussions about combining some of Russia's 89 regions in the hopes of making the country more manageable. Responding to these debates, Kareliya's leader, Sergei Katanandov, argued that it is too soon to have a "serious" discussion about the issue. He said that the idea was not "ripe" since it could "strike a blow to the very idea of the federal structure of the country. There are no pre-conditions for changing the number of regions or internal borders." Katanandov did not exclude the possibility that "in time, it is possible, that it will be necessary to re-examine the existing borders." But this time only will come "significantly later and after seriously developing and preparing this idea." For the time being, he said, "it is necessary to complete the important reforms that the president has already launched and is realizing."

Katanandov said that he did not have "an allergy" to canceling the system of electing governors. However, he warned that canceling governors' elections, one of the main achievements of Russian democracy, would have negative consequences, including in the view of world opinion. - Maksim Timofeev in Petrozavodsk

## **CENTER-PERIPHERY RELATIONS**

**FEDERAL GOVERNMENT EXERTS POWERS IN PRIMORSKII KRAI.** Chief Federal Inspector for the Primorskii Krai Pavel Lysov has held his first meeting for the heads of federal agencies based in Primorskii Krai and they have agreed on a plan of future work. Since there are 56 federal agencies in the region, the federal officials agreed to work in sections. Only those officials who have a direct relationship to the topic at hand will be invited to particular meetings, whether they deal with the fishing industry, demographic issues, or energy. He said that now the regions will be able to lobby their interests through a chain that reaches from the federal inspector to the president's representative in the federal district to the president and government.

If this system is successful, it will establish a management hierarchy in the region that operates in parallel to the governor. This is the kind of system that State Duma Deputy Yuri Rybalkin called for when he suggested imposing direct presidential rule in the krai to address the energy crisis.

Approximately 10,000 people in Primorskii Krai remain without heat, according to data prepared by the Far Eastern headquarters for dealing with emergency situations. Blackouts have led to the shutdown of some water pumping stations. The still water is freezing in some places and bursting pipes.

On 24 January residents of the village Razdolnoe tried to block traffic on the Trans-Siberian Railway, but the local police prevented them from doing so. Approximately 200 policemen had to face down 150 women. More than 3,000 people in the village have not had heat since the beginning of the cold season.

The krai administration claims that "the situation remains difficult, but under control." It asserts that all electrical service will be restored with the arrival of coal shipments from Siberia.

However, experts expect that even the arrival of the Siberian coal will not stop the shortages. They claim that even when the system is working at full capacity it can only provide electricity at a rate in which some parts of the city do not have electricity for 3-4 hours a day. Bringing in additional coal will not address this problem. The situation becomes even worse when there are accidents forcing some of the generating capacity to go off line. Such breakdowns occur frequently because much of the equipment has not been maintained for the last 10 years.

Governor Yevgenii Nazdratenko, who traditionally represents the energy-hungry military and mining industries, has called on his constituents not to pay their energy bills. Customers own Dalenergo more than 2 billion rubles and LuTEK more than 1.5 billion rubles. The energy producers say that these debts caused the current energy crisis because they could not buy fuel or repair their equipment in a timely manner. - Oleg Zhunusov in Vladivostok

**SVERDLOVSK GOVERNOR BLOCKS CHANGES IN OBLAST CHARTER.** Federal officials are becoming increasingly angry that Sverdlovsk Oblast is not rushing to change the passages of its charter that violate federal legislation. In recent days, Presidential Representative to the Urals Region Petr Latyshev, Supreme Court Chairman Vyacheslav Lebedev and Justice Minister Yurii Chaika have complained about the lack of progress. Sverdlovsk Oblast Governor Eduard Rossel is not bothered by this criticism and is even trying to use federal officials to counter the comments. On 17 January Constitutional Court Chief Justice Marat Baglai came to the region for the opening of the new building of the oblast's charter court. Rossel had hoped that Baglai would speak highly of the oblast charter, but his desires were not realized. Baglai said that it was impermissible for citizens of Russia to have different rights in different regions. In particular, Baglai said it was important for the procurator and legislators to deal with provisions of the oblast charter, which have no analogy in the Russian constitution.

During the visit, Latyshev's deputy Sergei Vakhrukov denounced Rossel and the committee on amending the charter that he heads in strong terms. Vakhrukov said that "in order to ruin something, you must be in charge of it, and pretend that the committee is doing titanic work." He particularly criticized the charter for granting the governor immunity from legal prosecution and demanded that this clause be removed. His words can be interpreted as a direct threat to the oblast's leadership.

Leaders of the Our Home-Our City (NDNG), led by Yekaterinburg Mayor Arkadii Chernetskii who is a chief opponent of Rossel, are using the conflict to push through their own legislation, much of which has nothing to do with bringing regional laws into line with the federal constitution. They propose getting rid of the oblast prime minister, transforming the current bicameral legislature into a unicameral one, and abolishing the charter court. The new legislature would be formed half on the basis of party lists and half through single-member districts. The Mai faction, which also opposes Rossel, proposed increasing the ability of the oblast legislature to approve cabinet appointments. All of these proposals would reduce the power of the governor. Deputies allied with the governor support making only minimal changes to the charter. - Nataliya Mints in Yekaterinburg

## **INTERREGIONAL RELATIONS**

**IRKUTSK GOVERNOR ELECTED HEAD OF SIBERIAN ACCORD ASSOCIATION.** The Siberian Accord Interregional Association elected Irkutsk Governor Boris Govorin as its leader on 18 January, replacing Tomsk Governor Viktor Kress, whose term expired at the end of last year. The association is a voluntary grouping of 19 Siberian regions that was founded in November 1990. Russia has eight such associations, which have been seeking to define their role in the country in the wake of Putin's decision to form the seven federal districts. The borders of the seven districts do not coincide with the membership of the interregional associations. The Siberian association has 25 coordinating councils that focus on specific sectors of the economy, such as construction, agriculture, machine-building, investment, foreign economic activity, among others.

Govorin's election to the new post undoubtedly will enhance his stature at the federal level and make it easier for him to represent Irkutsk's interests in the Russian parliament and the presidential administration. The appointment will also help Govorin in Irkutsk where gubernatorial elections are set for July of this year. Govorin is trying to move the elections to April, arguing that voter turnout would be very low in the summer. Traditionally, Irkutsk had elections in the spring, but Govorin was elected in July following the resignation of the previous governor Yurii Nozhikov in 1997 (see *EWI Russian Regional Report*, 24 April 1997).

Immediately after assuming his new responsibilities, Govorin called for deep changes in the way the association functions. Currently the association's executive directorate is located in Novosibirsk regardless of who is the chairman. Govorin complained that the chairman of the association cannot effectively organize its work and monitor how well its funds are being spent if he is not based in Novosibirsk. Despite these criticisms, Govorin did not make clear whether he plans to move the association's offices to Irkutsk. - Teleinform in Irkutsk

## **LOCAL GOVERNMENT**

### **KALMYKIYA OPPOSITION PRESENTS UNITED FRONT IN CITY ELECTIONS.**

Elections to the Elista City Assembly (Kalymykiya) are scheduled for 4 February and the republican opposition is trying to draw federal attention to this local process. "The election will not pass unnoticed in the Southern Federal District and in the country as a whole," the opposition newspaper *Sovetskaya Kalmykiya Segodnya* declared on 13 January. The newspaper published an appeal written by nine candidates to President Vladimir Putin, General Procurator Viktor Ustinov, and Central Electoral Commission Chairman Aleksandr Veshnyakov. The open letter requests that the federal authorities "support Russian citizens' constitutional guarantee for full electoral rights."

The impetus behind this appeal was the failure of the Okrug Electoral Commission to register V. Kolesnik, one of the leaders of the regional Yabloko party and a popular local figure. In elections to the State Duma in 1999, Kolesnik came in second in the Kalmykiya electoral district behind A. Burataeva. He received the majority of votes in Elista.

Opposition candidates are certain that the authorities failed to register Kolesnik because he had a strong chance of being elected. Once elected, he could easily have run for mayor since the Elista mayor is elected by the City Assembly deputies from among their membership.

The Okrug Electoral Commission claimed that it blocked Kolesnik from running for office because he had not collected enough legitimate signatures to qualify. Kolesnik protested this ruling in



city court, which ruled against him. However, the opposition is not backing down and has appealed the decision to federal authorities.

The opposition's determination to take power in Elista is unprecedented. Regional Yabloko activists are among the staunchest opponents of Kalmykiya President Kirsan Ilyumzhinov. Several independent candidates have joined with them under the slogan "Our City Needs Honest and Responsible Government." Eight of the 11 okrugs slated to hold elections have registered members or allies of the local opposition.

The party of power and the opposition are the principal contenders for seats in the City Assembly. No other political parties register on the radar screen. The local Communist Party has only three candidates running, Soyuz pravyykh sil has two, and the Kalmykiyan General B. Gorodovikov movement has only one. Four of the candidates are incumbents. - Vladimir Volgin in Elista

## **INTERVIEW WITH TATARSTAN PRESIDENT MINTIMER SHAIMIEV**

### **ON RUSSIAN FEDERALISM AND PUTIN'S REFORMS**

*On 19 January, RRR Correspondent Vasilii Filippov interviewed Tatarstan President Mintimer Shaimiev in Kazan.*

**RRR:** How do the unequal status, rights, and responsibilities of the regions affect the socio-economic, political, and ethnic processes taking place in the country?

**Shaimiev:** The Soviet stereotype of equality in poverty hangs over Russia. Let everyone be poor, but equal. There are some who believe that Tatarstan received privileges and is becoming fat. In fact, in signing the 1994 power-sharing agreement, we took on more responsibilities than other regions and naturally took these functions on the basis of special inter-budgetary relations. In signing the treaty, we posed the question of compensating the republic for the ecological damage caused by the extraction of oil through chemical processes. The south-east part of the republic was, and partly remains, on the verge of an ecological catastrophe. It is sufficient to say that in many populated areas in the oil producing regions, residents must import bottled water. The center agreed with our conclusions and partially provided compensation for the ecological disaster. Thus, we stopped the decline in oil production and increased the income for local, republican, and federal budgets.

During the last several years, Tatarstan has witnessed a growth in output as a result of its independent policy. These gains are the result of this independence. We did not wait for orders from the center and did not follow its economic policy, especially in the years of radical reforms. The republic had its own program of privatization, which was more cautious. We have our own agricultural policy, which produces visible results. We also have our own program of targeted social aid. Thanks to a flexible taxation system, we not only stabilized oil production, but increased it. We have managed to preserve the majority of industrial sectors and simultaneously constructed federally important projects.

Now there is a natural, healthy, economic competition between regions in Russia. Today, unfortunately, they [the federal government] are conducting the kind of budget policy, which turns donor regions into recipients. Ultimately, this will lead to a worsening of the general economic situation in the country.

**RRR:** What is better in Russian conditions: a constitutional or treaty-based federation?

**Shaimiev:** In a multi-ethnic state, treaty relations rather than the mechanical majority should solve problems. Therefore even in a constitutional federation, it is necessary to use treaties to take into account the interests of all peoples in Russia.

**RRR:** To what degree does it make sense to preserve ethnically-defined republics, claiming significant preferences, within the Russian Federation? Is there now a threat of ethnic separatism in Russia?

**Shaimiev:** ... Republics are necessary to preserve and develop national cultures in Russia. The center does not play an active role in these issues. For example, neither Tatars nor any of the other various peoples in Russia have radio or television stations on the federal level even though they conscientiously pay their taxes. The republics are dealing with this alone. Given the significance of the national question, it would be correct to set aside certain sums to support national cultures. Ultimately, that would be cheaper than later trying to put down conflicts.

The threat of ethnic separatism is a problem that can be resolved on the basis of a well-adjusted national policy. The right to self-determination in the international sense of the term provides for various forms of organization and secession is only an extreme measure.

**RRR:** Are Putin's reform of the state system the realization of a well thought out concept or just political improvisation?

**Shaimiev:** There are weighty reasons why Putin started his state reforms. In recent years the authorities started to collapse. There were battles in several regions. Remember Primorskii Krai. No self-respecting president would allow such a state of affairs to continue.

Another question is how to understand the hierarchy of power. Putin has been focusing on simple administration, without thinking about which powers belong to the center and which to the regions. In our view, it is necessary to build a well-defined system of dividing responsibility in the country, especially in terms of the responsibilities that are currently held jointly. Based on these principles, it will be possible to build a system of state organs and define their functions.

**RRR:** Was the establishment of the federal districts justified? Is it possible to interpret this innovation as a step in the direction of uniting several regions into larger regions? In practice what are the rights and responsibilities of the seven presidential representatives and the regional leaders?

**Shaimiev:** Today I would not give too much importance to the federal districts. They do not have clear functions or real powers. They still need to find their place in the state structure. According to the constitution, there are regions and federal constitutional organs. Therefore any attempt to subordinate them [the constitutional organs] will not be effective. Apparently, the federal districts will work to encourage the economic integration of the regions.

**RRR:** Will the federal center be able to bring regional constitutions and legislation into line with the Russian constitution and federal legislation?

**Shaimiev:** Many republics adopted their constitutions before Russia did. In Tatarstan we adopted our constitution in 1992 after conducting a referendum about the status of the republic. At the Russian Constitutional Convention in 1993, we suggested taking into account the regional constitutions, which already had been adopted, but this was not done and therefore the population of Tatarstan practically

did not participate in the referendum on adopting the 1993 Russian constitution. This is a difficult situation and to think that it is possible quickly, without negotiations, to bring our constitution into line with the Russian constitution, means that you don't understand all the difficulties of the issue. The treaty between Russia and Tatarstan from 1994 is being preserved as the basic document in the relationship between Tatarstan and the federal center and this factor should be taken into account when bringing the Tatarstani constitution in line with the Russian constitution.

Several Tatarstani laws have been brought in line with Russian laws. In the course of this work, it became clear that the federal center often violates its Constitution, taking power from the regions. Often the laws are of low quality and regional laws are more realistic. Therefore, we recommend changing some federal laws.

**RRR:** Do you consider the new principles for forming the Federation Council optimal? Does Russia need a bicameral legislature in general?

**Shaimiev:** The interests of the regions should be represented in the national legislature. The Federation Council expresses the interests of the regions, which is important for the stability of the country.

**RRR:** Does the "governors' opposition" present a real threat to the Kremlin?

**Shaimiev:** It is necessary to work with the governors, whether the Kremlin likes this or not. In politics it is impossible for everyone to please the center. The governors represent the interests and moods of their regions.

**RRR:** Will the republican ethnopolitical elite try to mobilize the ethnic factor?

**Shaimiev:** This factor is always present in Tatarstan. In the 1990s there was a powerful national movement in the republic and even though today its influence on policy has weakened, nevertheless, national problems always play a big role in the social consciousness. It would be a mistake to underrate the ethnic factor. The main thing is for the authorities to avoid making the kind of mistakes that provide a basis for [ethnic activists] to unite and increase their strength.

## **POLITICAL ECONOMY**

### **ANTI-MONOPOLY MINISTRY CHECKS SIBERIAN ALUMINUM PURCHASE OF GAZ.**

The Nizhnii Novgorod Oblast branch of the Anti-Monopoly Ministry is continuing its investigation of Siberian Aluminum's purchase of the Gorkii Automobile Factory last year. When purchasing more than 20 percent of such a large enterprise, it is necessary to gain the ministry's approval beforehand. Although Siberian Aluminum apparently bought a 25 percent share in November, it only asked for permission in January. In approving the deal, the ministry may want to issue some guidelines for the way the new owners behave. For example, in approving the purchase by Glaverbel of the Bor Glass Factory, the ministry required the buyer to refrain from reducing the plant's output, explain the need for any staff cuts before making them, and abstain from importing products similar to those made at the factory.

According to Gennadii Gudkov, the ministry's local chief, Siberian Aluminum has not explained how much of GAZ it actually owns. If the aluminum maker bought GAZ in violation of the law, it will

have to pay a steep fine. Foreigners own more than 50 percent of GAZ stock and their relationship with Siberian Aluminum is unclear.

On 20 January, the GAZ board of directors held an extraordinary meeting. Viktor Belyaev, a member of Oleg Deripaska's Siberian Aluminum group, became factory director and Nikolai Pugin, the factory director for the last seven years, was appointed chairman of the board. Belyaev is now running the factory and Pugin has no direct executive functions beyond strategic planning. On the new board, 11 members represent Siberian Aluminum and 7 speak for the old team. According to the new company charter, the board will ultimately shrink to 11 members, but it is not clear who will remain. After the meeting of the board, Pugin and Belyaev stressed that there were no disagreements between representatives of GAZ and Siberian Aluminum and that they would now all work in one team.

Pugin said that the plant's switch to dealing only in cash rather than barter was a logical move, but one that the factory's former directors could not carry out (for more on this see, *EWI Russian Regional Report*, 10 January). Pugin said that the new owners "have the support of the government and beyond. Therefore they act with great assurance." The plant employs 100,000 people and the exclusion of barter exchange reduced sales by 30 percent. This policy creates redundancies at the plant and increases social tension in the city of Nizhny Novgorod. Only someone independent of the local authorities and not responsible for local problems could take such a decision. The new GAZ owners clearly place the profitability of the factory (and its ability to pay federal taxes in full) over the social problems of Nizhny Novgorod residents. Pugin was clearly not the person to carry out this policy since he had long ties to the region and the top regional leaders. - Yuri Rodygin in Nizhny Novgorod

## **FOREIGN INVESTMENT**

### **WHO FAVORS AND OPPOSES FOREIGN INVESTMENT IN THE REGIONS?**

By Natalya Lapina and Alla Chirikova, Russian Academy of Sciences

The foreign economic activity of Russia's regions is by now well established as a subject of study. Often economists categorize the regions into those that are open to international economic cooperation and those which focus on their own internal market. However, these issues have a sociological aspect in that the various groups comprising the regional elite have different views about trade. Our research focuses on Perm and Rostov oblasts. Perm exports about \$1 billion worth of goods a year, making it one of the Russian leaders. Rostov has more modest exports, totaling about \$500-\$700 million a year. The journal *Ekspert* ranked Perm 9th and Rostov 15th in terms of investment potential in 2000.

Today's regional elite does not doubt the need to conduct an open economic policy. The debate revolves around what the borders of this openness should be. In our study we tried to find out what strategy various elite groups choose and with what resources (foreign or domestic) they connect with the economic development of their territories. The elite's answers to these questions are generally determined by the resources of the region. In regions that have significant economic resources, members of the elite generally emphasize their own resources. In regions with limited resources, they focus on outside investment. The majority of officials we interviewed stress the complementary effects of internal and external resources. Domestic investment is a major stimulus for foreign investment and it is possible to attract foreign investors only when the region conducts an active investment policy. Usually this takes

place by supporting regional enterprises from the regional budget or offering them tax breaks. Regional leaders generally view a policy of paternalism as a temporary measure to help enterprises establish independent ties with foreign investors. In general, the Rostov leaders were more interested in foreign investment than were their counterparts in Perm because they could not duplicate the latter's high levels of growth and because Rostov does not have as many natural resources as Perm.

Within the regional elite, various groups have different opinions about foreign trade and foreign direct investment. The governors generally are the most consistent supporters of foreign investment. Their interest is clear because economic successes are quickly converted into political capital, thereby increasing the politicians' popularity. Successful projects give the governors more revenue, create new jobs, solve social problems, and often finance new social programs.

Enterprise owners often have a different view of foreign capital. They see foreign investment as a possible, but not always desirable, way to develop the regional economy. Many representatives of this group are focused on domestic resources. The plant owners do not always reject foreign investment. However, they often do not want to take capital on the terms offered by the investors and particularly want to avoid situations of "unequal partnership." Many Russian enterprise owners do not trust western businesspeople and believe that many are simply interested in turning a quick profit. Often the critical statements of Russian businesspeople hide their fears of powerful competitors who are implementing strategies that the Russians simply do not understand.

The efforts to strengthen the center and the clear desire of the federal authorities to monitor economic activities in the regions will deprive many regions of the freedom which they have had in the sphere of foreign economic activity. Monitoring these processes and financial transparency is clearly necessary. However, it is also important to preserve the main achievement of the Russian reforms: the large number of actors, which in conjunction with the central authorities participate in developing economic policy. Hopefully, in carrying out its reforms, the center will be wise enough to not destroy the experience that was built up in the last decade in foreign economic activity and other spheres. The experience did much to provide economic and social stability to the country during the difficult 1990s. (For more on this topic, including an explanation of the methodology used to conduct the survey, see the author's book *Strategii regionalnykh elit: ekonomika, modeli vlasti, politicheskii vybor*, Moscow: INION, 2000).

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## BREAKING NEWS

**PUTIN ISSUES DECREE ON REPRESENTATIVES.** On 30 January, Putin issued a decree that places his seven presidential representatives to the regions directly under Chief of Staff Aleksandr Voloshin. Now Voloshin will "determine the relations between the representatives and their staffs and other divisions of the Presidential Administration" ([press.maindir.gov.ru](http://press.maindir.gov.ru)). In the past the constitution, federal laws, and presidential orders guided

the representative's activity. Putin's decree now adds the instructions of the chief of staff to this list.

Putin issued his original decree establishing the seven presidential representatives in May, and since September observers have expected a new one that would expand the powers of the representatives. At a meeting on 25 December Putin gave his staff two weeks to prepare the text of a decree on the seven. The decree issued on 30 January is certainly not the final round in the battle for control of the regions. Soon the president is expected to issue another decree reorganizing the Main Territorial Department. *Izvestiya* claimed that Voloshin's increased power means bad news for the seven representatives. Voloshin, who had sharply opposed expanding the powers of the representatives, will now be their main coordinator within the administration (see *Izvestiya*, 30 January). Most of the representatives had considered Security Council Secretary Sergei Ivanov to be their informal boss.

The decree represents a victory for Voloshin's faction over Ivanov's group within the presidential administration. Macalester's College's Nikolai Petrov describes this development as relatively good news for two reasons. First, Voloshin's civilian team won this round of the battle against the generals in the Security Council even though it was considered to be the weaker of the two groups, thus restoring, at least partly, the system of equally balanced groups around the president. Second and also very important, the presidential administration is maintaining an ability to gather information on all regions. While the Territorial Administration certainly has its faults, Petrov said that it was crucial for the president to have a group of people who could oversee all of the regions rather than asking "a couple of unskilled generals in the Security Council to do this," which would have led to disaster.

There have been numerous press reports about what the expected decree on the Main Territorial Administration will look like. Putin met with his seven representatives, Chief of Staff Voloshin, Security Council Secretary Ivanov, and Prime Minister Mikhail Kasyanov on 27 January to discuss the powers of the seven representatives. Staff members for the representatives believe that the current 105-member staff of the Main Territorial Administration will be cut by 40 percent (*Nezavisimaya gazeta*, 30 January). Twelve people will go to the legal department, where they will work on problems of bringing regional laws into line with federal norms. Twenty-eight will go to work for the representatives themselves (4 each). The seven divisions of the Main Territorial Administration will be replaced by one, employing 12 people, that will deal with all of the representatives.

**STATE COUNCIL PRESIDIUUM DISCUSSES LAND CODE.** The State Council Presidium on 30 January discussed land reform in Russia without coming to any conclusions. One of the key issues was whether there should be one law for all regions or simply a framework that allowed each region to define land laws for itself. Tatarstan's Mintimer Shaimiev, Novgorod's Mikhail Prusak, and Saratov's Dmitrii Ayatskov are governors who support allowing each region to define its own framework. Tyumen's newly elected governor, Sergei Sobyenin is one of the spokesman for a country-wide law (*Nezavisimaya gazeta*, 30 January). A second issue was whether there should be separate legislation on agricultural land (last week the State Duma decided to address agricultural land separately), *Nezavisimaya gazeta* reported 31 January. Most of the governors believe that the federal land code should

have a general framework that applies to all regions, but enough flexibility to take into account regional variation. Belgorod Governor Yevgenii Savchenko said that it did not make sense to overturn regional legislation now. In the absence of federal guidelines, about a third of the regions have adopted land legislation that makes it possible to buy and sell land (*Kommersant-Daily*, 31 January). Putin said that the government would take the governors' views into account as it worked toward adopted a federal land code. The government hopes to have a land code (minus the sections on agricultural land) enacted by the end of the year.

Putin also signed a decree allowing former Tyumen Oblast Governor Leonid Roketskii to remain a member of the State Council. Most likely, Roketskii will soon leave the State Council Presidium, which has a membership that is supposed to rotate every six months.

**DUMA APPROVES BILL ALLOWING CURRENT GOVERNORS TO SEEK THIRD, FOURTH TERMS.** On 25 January the State Duma approved a bill that allows some current governors to stand for third and fourth terms. The bill is a major concession to Russia's governors, many of whom feared that they would have to leave office after two terms. The bill amends a law adopted on 16 October 1999, which limited governors to two terms. The amendment counts the first term for a governor as the one starting after 16 October 1999. Thus Moscow Mayor Yurii Luzhkov, who won a second term in December 1999, can run for one more term, while Tatarstan President Mintimer Shaimiev, who was elected earlier, can stand for two more terms, the *Moscow Times* reported on 26 January. (For a list of how the law affects individual governors, see *Kommersant Daily*, 25 January.)

Sergei Markov, who works for the pro-Kremlin strana.ru, said that the bill was part of a deal cut between the president and the governors by which the governors would lose their power at the federal level, but could take full control of the regions. He claimed that "the president's revolutionary zeal for reforming relations between the federation and the regions has been overestimated," according to the *Moscow Times*. State Duma Member Boris Nemtsov worried that by giving entire regions to the old regional elite, the bill was "undermining the foundations of Russian statehood" (*Moscow Times*, 26 January). However, Moscow Carnegie Center's Andrei Ryabov pointed out that the president was counting on his seven representatives to become stronger so that it would not matter who the governors were.

**TULEEV RESIGNS TO MOVE UP ELECTIONS.** Kemerovo Governor Aman Tuleev resigned on 25 January, eight months before the end of his term, to move up the region's gubernatorial elections to 22 April, when a host of local elections will also take place in the region. Tuleev already has announced his intention to seek another term. He claimed that he wanted to move up the election to save the region money (*Izvestiya*, 26 January). He remains popular in Kemerovo and does not appear to face any serious opponents. He has reasonably good relations with the Kremlin, neither being one of Putin's favorites nor an open enemy. Although Tuleev behaves relatively independently, he also avoids conflict with Moscow. In the 2000 presidential elections, he ran against Putin and won in his own region (taking 51.57 percent to Putin's 25.01), demonstrating that he had much stronger local support than did Samara Governor Konstantin Titov, whose own presidential campaign was not successful even in his home region.

Tuleev claims that he wants a second term to finish the job he has started in his west Siberian coal mining region. He pointed out that now the region has the fastest rate of industrial growth in the country. He also claimed that miners are now being paid on time and that their strikes are a thing of the past.

**IVANOV WARNS GOVERNORS ON FOREIGN CONTACTS.** In a meeting at the Foreign Ministry on 30 January, Foreign Minister Igor Ivanov warned a group of governors about going too far in their foreign relations, particularly with Belarus, *Kommersant Daily* reported 31 January. The governors met as part of the Council of Regions for International and Foreign Economic Ties. Ivanov said that although Russia had uniquely close relations with Belarus, he urged the regions not to force the process of integration. Many of the regions have developed close ties with Belarusian President Aleksandr Lukashenko, who has courted regional leaders as a way to increase his influence on the national leadership in Moscow. Ivanov stressed that the national interests of Russia and Belarus were not identical. His remarks reflected increasing tension in Russia's relationship with Belarus.

At the meeting, Putin criticized the ministry for not doing a better job in coordinating foreign policy. Ivanov warned the governors that the federal government planned to dramatically improve its oversight of their foreign political and economic policies.

## **CENTER-PERIPHERY RELATIONS**

**FEDERAL AUTHORITIES WANT BETTER CONTROL OVER PROPERTY.** On 25 January Federal Representative to the Urals Federal District Petr Latyshev held a meeting on increasing the effectiveness of the management of federal property in Sverdlovsk and Tyumen oblasts. Participants in the meeting included the presidential administration, the procurator, Sverdlovsk Oblast Minister for State Property Management Venyamin Golubitskii and his counterpart in Tyumen, V. V. Zagvyazinskii. The meeting's recommendations, if implemented, would significantly reduce the governors' ability to manage federal property.

Overall, the federal authorities believe that federal property is not being used effectively. In the Urals Federal District, the federal government owns about 2,500 enterprises and has stock in an additional 300. This figure constitutes about 2.5 percent of all enterprises in the region. These property holdings are not generating much income. Over half of these enterprises produce losses. In Tyumen only one third of the companies in which the federal government held shares paid dividends. The procurator also pointed out that individuals often gain control of federal property in ways that did not provide a fair return to the federal government through bankruptcy proceedings or simply not fulfilling the conditions under which the investor bought the property. In Sverdlovsk Oblast in 1998, for example, the federal government lost ownership of 18 factories that were declared bankrupt.

Sverdlovsk's Golubitskii, who was appointed by Sverdlovsk Governor Eduard Rossel, disagreed with the assessment of the federal officials. He argued that if one judged effectiveness of property management in terms of the income it generated for the state, then Sverdlovsk was doing a good job. It had exceeded targets for income from privatization by 140 percent and renting federal property by 196 percent. He claimed that Sverdlovsk was in the top three

regions in the federation according to these indicators, an unprecedented situation. Golubitskii said that he and Rossel would not allow the procurator and the presidential representative to interfere in property matters.

In spite of Golubitskii's objections, the meeting participants adopted a resolution that was sharply critical of the oblast officials. It stressed the need to re-examine the federal property ministry's practice of allowing regional administrations to manage federal property. The participants proposed developing a mechanism to transfer federal holdings, through competitive bidding, to special management companies on a long-term basis and exercise strict oversight over them. Preference would be given to financial and stock market specialists who would consult with the sectoral ministries in making important decisions.

The participants recommended that, after making a special study, the government should set up territorial branches of the federal Property Ministry that are independent of the regional authorities. Representatives of the ministry, rather than oblast officials, should represent federal interests in companies where the federal government owns shares, the meeting recommended. In the near future, Latyshev's office plans to set up a council on property use to coordinate the activities of the territorial branches of the property ministry. - Sergei Pushkarev in Yekaterinburg

**PRESIDENTIAL REPRESENTATIVE STEPS UP ACTIVITY IN KOMI.** Chief Federal Inspector in Komi Aleksei Grishin announced that he will work to force republican and local officials to respect federal institutions. Until now the federal officials have not played much of a role in Komi, where the republic's leader, Yurii Spiridonov, has sought to minimize federal interference and has sharply criticized it. At a meeting of the republican anti-monopoly committee on 16 January, Grishin said that it was time for the federal authorities to exercise their full authority. For example, Grishin said that the anti-monopoly committee should not seek Spiridonov's approval for its actions. He also said that it was time to block the attempts of regional leaders to "rip the country into shreds."

With these comments, Grishin signaled that there would be many conflicts between the federal and Komi government this year (*Molodezh severa*, 25 January). Grishin's aggressive stance is unexpected because he was considered to be an ally of Spiridonov and had served as his chief of staff for many years. Now it seems that Spiridonov is facing a serious opponent.

This fall Spiridonov will stand for election for a third term. In the run-up to the vote he does not want to become embroiled in a struggle with the federal authorities that would cost him federal support and the votes of citizens interested in peaceful relations with Moscow.

Most likely the federal government will be able to increase its influence in the republic as a result of the evolving situation. Its influence may be able to reduce the authoritarian features of the current regime. Grishin said that his staff would not participate in the election campaign, but that "if there are legal violations, we will be forced to react" (*Tribuna*, 26 January). Once the elections are over, neither Spiridonov nor a possible successor will likely be able to reduce the federal government's role after it has successfully expanded. - Yurii Spiridonov in Syktyvkar

**CHIEF FEDERAL INSPECTOR IN BASHKORTOSTAN DOES AS LITTLE AS POSSIBLE.** On 19 January, Chief Federal Inspector in Bashkortostan Rustem Khamitov



announced that in the near future, he plans to set up a council to bring together the federal agencies working in the region and a separate council of the power ministries to focus on questions of security. Khamitov's announcement seems rather strange because since he took on his new job, he has done very little to increase the power of the federal agencies in the region. Mostly he has participated in formal ceremonies, claiming that he would under no circumstances become "an instrument for intervening into the politics or economy of the region." In particular, he has avoided any potential political conflict with the republican leadership. He did not even use his right to select the heads of the republican branches of the Customs Service or the Justice Ministry when vacancies appeared in those institutions. He explained this inaction by restating his desire to avoid any conflict with the republican leadership.

In fact, the chief federal inspector's personnel policy is a return to the practice of winning approval for the heads of federal agencies in the republic with the republican leadership. Khamitov's policy violates the instructions of Presidential Representative to the Volga Federal District Sergei Kirienko that regional authorities should not interfere in the personnel policies of the federal government.

In fact, the Bashkortostan leadership continues to monitor the activities of the federal agencies in the region. For example, a republican Security Council, chaired by Bashkortostan President Murtaza Rakhimov, has worked for several years to manage the activities of such federal agencies as the republic's procurator, Federal Security Service, and others. Additionally, republican officials continue to provide financial aid to the federal agencies because often necessary funds are not forthcoming from the federal government.

Most likely Khamitov's efforts will not be successful. He will have difficulty monitoring and coordinating the activities of federal agencies in the republic without coming into political conflict with the republican authorities. It remains unclear how Khamitov will resolve this conundrum. - Igor Rabinovich in Ufa

## **GOVERNORS ELECTIONS**

**OLIGARCH ELECTED GOVERNOR OF TAIMYR.** On 28 January Norilsk Nickel General Director Aleksandr Khloponin won the gubernatorial elections in the Taimyr Autonomous Okrug, which is located on the northern part of Krasnoyarsk Krai. He won about 62 percent of the vote, defeating the incumbent Governor Gennadii Nedelin and the Norilsk Mining Company's material supply director, Mikhail Steklov. Nedelin won about a third of the votes and Steklov took about one percent.

The outcome of the election surprised no one. In the desperately poor villages of this northern region, the life of Norilsk Nickel and especially the opportunities enjoyed by its employees look like heaven. Norilsk has sales totaling \$5 billion a year. The average salary is over 10,000 rubles a month, much higher than the Russian average. "You will receive just as much," Khloponin promised the okrug's residents. Nothing else was needed to secure a victory.

Khloponin has served as head of Norilsk Nickel since 1996. He has close ties to Sergei Potanin's group, which owns the mining and processing company, since attending the Moscow Financial Institute in the late 1980s. He had the support of Krasnoyarsk Governor Aleksandr Lebed in the election.

The head of Norilsk Nickel has become the second "oligarch" to win a governor's election, following Roman Abramovich's election as governor of Chukotka. Now rumors are floating around Irkutsk that Boris Berezovskii will run for governor in this region's elections this spring or summer. - Teleinform in Irkutsk

### **SAKHA PRESIDENT CREATES MEDIA AGENCY TO RUN ELECTION**

**CAMPAIGN.** Sakha President Mikhail Nikolaev has created the Republican Information and Consulting Agency (RIKA) to coordinate the media effort in his campaign to win a third term as republican president in elections set for December 2001. Informally the agency has been dubbed the "Ministry for Nikolaev's Presidential Elections," or more crudely the "Ministry for a Third Term."

According to Nikolaev's instructions, the republic's Property Management Ministry is to give the agency 37 percent of STV Sakha television, 51 percent of the newspaper *Ekonomicheskii vestnik*, and 51 percent of Sakhakapital and office space. By 1 February, the republican government should provide RIKA with 5 million rubles to buy office furniture, telecommunications equipment, 30 computers, and four cars. RIKA will employ 46 people, including a commercial coordinator, a coordinator for political monitoring, and a coordinator for implementing new technology. There will also be representatives in Khabarovsk (the capital of the Far Eastern Federal District of which Sakha is a member) and Moscow. The presidential decree states that the purpose of the agency is "to optimize information structures and create a unified state information policy."

RIKA is a state agency and its director, Anatolii Bravin, the former deputy minister for ethnic groups and federal affairs, will have the status of minister. Bravin has a degree in sociology and has worked on many campaigns, including that for State Duma Deputy Vitalii Basygysov.

In Sakha, the president does not have the right to create ministries. That is the prerogative of the republican prime minister and all new ministries must be approved by the legislature. In November 2000, the legislature rejected the proposed government structure, which included a media ministry. Establishing an agency does not require such a complicated process. In short, Nikolaev has established his campaign headquarters at the expense of the tax-payers (*Nashe vremya*, 26 January).

On 23 January, Nikolaev's first opponent announced his intention to run. He is Fedot Tumusov, the president of the Sakhaalmazproinvest Financial Industrial Group. Nikolaev faces some problems because he must revise the republic's current constitution, which would limit him to two terms. The speaker of the republican legislature, Vasilii Filippov, said about 18 months ago that the legislature would not change the constitution just to serve the interests of the sitting president. - Oleg Yemelyanov in Yakutsk

### **POLITICAL PARTIES IN THE REGIONS**

#### **STAVROPOL GOVERNOR RESHAPES LOCAL KPRF TO CONTROL IT.**

Communist Aleksandr Chernogorov won the Stavropol Krai gubernatorial elections on 17 December, earning a second term, but all was not well with the local branch of the Communist

Party of the Russian Federation (KPRF). In the run-up to the election, Kraikom First Secretary Viktor Khorunzhii nominated himself as a candidate to stand against Chernogorov. Khorunzhii was removed from the leadership and Kraikom Second Secretary Viktor Pisarenko effectively took his place. Khorunzhii ultimately won only 1.41 percent of the vote.

At a recent plenum, the Stavropol party elected Pisarenko as its leader by a vote of 113 to 23. The governor supported Pisarenko, who had done a lot to win his re-election. Chernogorov wanted to have an ally as the head of the party so that he could control the organization.

Until Khorunzhii's departure, the Stavropol Communists had been split among factions who supported or criticized the governor. The split in the party evolved from the time when State Duma Deputy Yurii Burlutskii led the party. At that time, Chernogorov launched his effort to turn the party into an organization that would take orders from him. Now he has achieved his goal since Burlutskii, Khorunzhii, and their allies have been pushed aside.

In the race for leadership of the krai party, Pisarenko's main opponent was State Duma Deputy V. Iver, a candidate who was much too independent-minded for the governor. During the governor's inauguration ceremony, Iver reminded the governor that he was a member of the Communist Party and that the party had played a large role in his election. The governor did not want to give such an ambitious opponent a strong position. In voting to make Pisarenko the head of the party, many of the rank-and-file were voting to preserve their current jobs or perhaps win a new one by supporting the governor.

Pisarenko has not rushed to declare a total victory since sharp divisions still remain in the party. He modestly predicted that there would be problems in the future. However, the party hopes that it will be able to pull back from the edge of a split and patch up its differences. However, pessimists within the party think that its position will not improve even under new leadership. The governor's elections demonstrated less the strength of the party than the weakness of the governor's opponents. - Olga Morozova in Pyatigorsk

## **POLITICAL ECONOMY**

### **SPEAKER HANDS LEBED, SIBERIAN ALUMINUM DEFEAT IN KHAKASIYA.**

Aleksei Lebed took the oath of office for his second term as the leader of Khakasiya on 23 January and quickly faced a setback in his relations with the republic's legislature. Although Lebed was elected on 24 December, he had to wait until the first session of the new republican legislature before he could be sworn in. During this time, his deputy Vladimir Popov, formerly an official at the Sayansk Aluminum Factory, was running the region.

Before his inauguration, Lebed unexpectedly issued a sharp criticism of the legislature. He charged that it had adopted regional laws in violation of federal norms and claimed that there were dozens of violations in the republic's constitution. Lebed complained that the legislators' recent amendments had effectively given the republic a parliamentary system and severely limited the power of the executive. In a recent issue of the republican newspaper *Khakasiya*, Lebed provided a point-by-point critique of the deputies' amendments to the constitution. In particular, Lebed disagreed with passages that give the legislature the right to monitor the adherence and implementation of the region's laws. In his critique, Lebed did not mention that

the constitution was drafted during a year-long process in 2000 and that members of his administration had contributed to it. He even took the oath of office on the very document he had criticized.

Speaker Vladimir Shtygashev may be vulnerable to Lebed's attacks because he and another deputy won office in elections in which they faced no opponents. Such single-candidate elections do not violate local law, but Lebed has suggested that they both resign voluntarily. At its first session, the legislature almost was not able to elect a speaker. Competing against Shtygashev was Abakanvagonmash General Director Sergei Privalov. Privalov is a Lebed ally and Siberian Aluminum controls his factory. At least 28 of the 72 deputies in the legislature are loyal to Siberian Aluminum. In the first ballot, both speaker candidates won 36 votes each. However, Shtygashev managed to defeat Privalov in the second round 41-31.

Shtygashev's victory is a serious defeat for Lebed, who questions the legitimacy of the speaker's power. It is also a serious loss for Siberian Aluminum, which had sought to put its own person in the speaker's chair. Undoubtedly, the conflict between Lebed and the legislature will heat up in the near future. Most likely, Lebed will seek to have a federal court overturn Shtygashev's election, since federal law does not allow single-candidate elections. - Maksim Shandarov in Novosibirsk

#### **ABRAMOVICH SEEKS KOMI COAL TO CONTROL BIG STEEL PLANT.**

Observers in Komi believe that companies controlled by Chukotka Governor Roman Abramovich are interested in obtaining a stake in the Vorkutaugol (Vorkuta Coal) company. Currently the federal government owns a 40 percent share, the Komi government owns 22 percent and individuals and firms own 38 percent. There are rumors circulating in the State Duma that the federal government is about to sell its stake. The republican government is trying to increase its holding to 25 percent (a blocking share) and therefore is creating higher demand for the stocks in Vorkuta.

Companies associated with Abramovich have been active in the coal market recently. In November, Siberian Aluminum bought a large share of Khakasugol and now is interested in sales of Vostoksibugol and Kuzbassugol. Observers believe that Vorkutaugol is of interest to Abramovich because it is the main supplier of coking coal to Severstal, one of Russia's big three steelmakers located in Vologda Oblast. Controlling the coal supply would give Abramovich significant influence over the giant steel plant (*Molodezh severa*, 25 January). Vorkuta, which boasts the richest coal deposits in European Russia, will start to attract additional interest as coal begins to play a larger role in Russia's energy policy in the near future. - Yurii Shabaev in Syktyvkar

#### **BUDGET ISSUES**

**TVER ADOPTS BUDGET THAT RELIES HEAVILY ON FEDERAL FUNDS.** On 25 January, the Tver Oblast legislature adopted a budget in the third reading. The budget foresees 3.969 billion rubles in expenditures, with income that falls 215.5 million rubles short of this figure. The oblast will earn less than 50 percent of this money from its own resources and expects to receive 2 billion rubles from the federal government (*Veche Tveri*, 26 January).

The adoption of the budget did not put an end to discussions about it. Representing the oblast administration's relatively optimistic line, Vice Governor Yurii Krasnov described the budget as one that would "gradually get the oblast economy moving." He pointed to expected increases in tax collections and federal subsidies. Chairman of the Legislative Assembly Budget Committee Sergei Potapov presented a diametrically opposed view. He argued that the budget just reaffirms the "state of crisis in the oblast economy." His criticism of the governor's economic policy seems timely and a realistic evaluation of the region's economic situation. - Boris Goubman in Tver

## **HUMAN RIGHTS**

**PERM ESTABLISHES HUMAN RIGHTS OMBUDSMAN.** Perm Oblast has become the ninth Russian region to establish an ombudsman for human rights. The region's law is one of the best that has been adopted. The reason is that the Perm Regional Human Rights Center, an independent organization, spent a long time working on the draft. The various amendments regional legislators added to it did not significantly change it.

The law establishes the ombudsman as an independent office that is not subordinate to any regional or local officials. The oblast legislature appoints him to the post for a five-year term. The ombudsman can only be removed at his request, if a court finds him guilty of a crime, or if he does not quit his other paying jobs or give up all party memberships.

The ombudsman will have a wide variety of rights. He can demand documents from regional and local public officials, ask them to respond to questions in writing, or visit any office, public or private, in the region. He also has the right to introduce legislation in the area of his competence. He can send his findings to any official and even file a court case.

The only harmful amendment added to the law gives the oblast legislature or governor the right to request special documents on specific questions from the ombudsman. This right opens up the possibility that regional officials could reduce the ombudsman's effectiveness by burdening him with requests to write numerous reports. Nevertheless, local human rights activists are happy with the law.

The first ombudsman will be elected in March. The personality of the future ombudsman matters considerably. The authorities naturally want someone they can control as is the case in Kalmykiya and Bashkortostan. The situation in Sverdlovsk Oblast is no better. Ombudsman Vladimir Mashkov, the former presidential representative who was appointed to this post by the governor, has turned all the local human rights organizations against him. Consequently he has little chance to influence the situation. The best example of an ombudsman so far in Russia is Saratov's Aleksandr Lando, who is considered an honest and effective person and operates on the basis of an old friendship with the governor.

Among Perm human rights groups, the best candidate for the position is Igor Averkiev. He has worked for human rights since the Soviet era and has the reputation of being an honest person and a good administrator. However, some legislators would prefer a more manageable candidate, such as Oblast Legislative Assembly member Mikhail Kasimyi, who also has some experience in the human rights field. Other rumors suggest that the newly elected governor, Yurii Trutnev, has someone else altogether in mind. - Andrei Suslov in Perm

## **PATTERNS OF REGIONAL DEVELOPMENT**

**NAZDRATENKO TAKEN TO HOSPITAL.** Primorskii Krai Governor Yevgenii Nazdratenko was taken to the hospital on 31 January in moderately serious condition, the governor's press secretary announced. In October, Nazdratenko had a gall-bladder operation. The governor's enemies describe his illness as a result of the difficult political situation in the krai due to the on-going energy crisis. The governor's press service could not say which of the 13 deputy governors would be in charge while he was in the hospital.

According to the latest figures, 16,000 people in the region remain without heat. Emergencies Minister Sergei Shoigu completed his second trip this winter to the krai on 29 January, after an extremely difficult conversation with Nazdratenko. Before going to the hospital, Nazdratenko fired Vice Governor Viktor Chepik, who was responsible for the krai's energy system. Chepik, an old friend of the governor, was removed for "inadequacies" in his work. Nazdratenko has also faced difficulties in his personal life recently. On 29 January he returned from Belarus, where he buried his mother. - Oleg Zhunusov in Vladivostok

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## **Russia's Fate Through Russian Eyes: Voices of the New Generation**

*Edited by Heyward Isham with Natan M. Shklyar*

*Introduction by Jack F. Matlock, Jr.*

*Westview Press, 2001; 429 Pages; 0-8133-3866-2; \$30.00; hc*

**"*Russia's Fate Through Russian Eyes* makes an important contribution to the West's understanding of the profound disorientation which the political, economic, and social upheavals have had on the lives of ordinary Russian citizens. These essays by rising young leaders of the post-Soviet generation, as yet largely unknown in the West, speak with unusual candor of the frustrations and deprivations, the loneliness and yearning for leadership that pervade all regions and walks of life. Heyward Isham has provided valuable insight into the issues that must be faced by the architects of Russia's future."**

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-- In "**Civil Society Building Blocks**," Nadezhda Azhgikhina, prominent journalist and feminist thinker, illuminates the contradictory historical and cultural forces that have shaped today's burgeoning Russian feminism.

-- In "**Preserving the Culture, Modernizing Education**," Vladimir Mirzoev, resident director of the Stanislavskii Drama Theatre, discusses the central, subversive role of theatre in Soviet times and the paradoxical "cultural wasteland" created by the rapid transition to free speech and capitalism.

***What do reviewers have to say about Russia's Fate Through Russian Eyes?***

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## CENTER-PERIPHERY RELATIONS

**PRIMORSKII'S NAZDRATENKO OUT, OPPOSITION WORRIED ABOUT LACK OF REAL CHANGE.** Under intense pressure from the Kremlin and in the hospital suffering from an apparent heart attack, Primorskii Krai Governor Yevgenii Nazdratenko resigned on 5 February and said that he would not seek reelection. Earlier, Nazdratenko had said that he would seek another term if forced to resign. However, until a new governor is elected, he said that he would retain his membership in the Federation Council. President Vladimir Putin blamed the governor for Primorskii Krai's energy problems. He also held responsible Fuel and Energy Minister Aleksandr Gavrin and the Unified Energy System (EES) electricity monopoly.

Putin fired Gavrin on 5 February and called for strengthening the EES leadership, suggesting that EES chief Anatolii Chubais' position was in danger.

Nazdratenko appointed First Deputy Governor Konstantin Tolstoshein as acting governor. Tolstoshein is one of Nazdratenko's closest associates and served as Vladivostok mayor during the period when Nazdratenko had forcibly removed Viktor Cherepkov from office. More recently, Tolstoshein has developed a reputation as one of the most pugnacious participants in Nazdratenko's battles with the press, EES, and Moscow. Under Nazdratenko he was in charge of the energy, financial, and defense sectors and claimed that he would maintain these portfolios now. [Some reports said that the acting governor would be First Deputy Governor Valenin Dubinin, but Tolstoshein was clearly in charge with Nazdratenko's blessing (see [www.primorsky.ru/press/index.html](http://www.primorsky.ru/press/index.html) for reports on Tolstoshein's first actions and *Vladivostok*, 7 February, [vl.vladnews.ru](http://vl.vladnews.ru)).]

At an extraordinary session to be held on 19 February, the krai Duma will consider proposals to set the gubernatorial elections for 10 June. However, the battle to succeed Nazdratenko is well under way. The krai Duma now has 14 days from 6 February, when it received Nazdratenko's official resignation, to set the elections. They must be held within six months. If the regional legislature does not set the elections, the Krai Electoral Commission will do so.

The anti-Nazdratenko opposition considers the governor's resignation only the first step for implementing fundamental changes in the krai. "We must demolish the entire system of Nazdratenko's personal power -- only then will the krai emerge from its systemic crisis. Otherwise, Nazdratenko will simply be reelected or someone from his team, a miserable copy of the original and therefore even worse," Krai Duma Deputy Sergei Solovev said. Solovev believes that it is necessary to replace all of the heads of the federal agencies in the region and all the members of the regional electoral commission to achieve real change in the region. "The current electoral commission observes the letter of the law, not its spirit, which it violates in favor of the krai administration." Solovev believes that the members of the electoral commission could be replaced if one of the factions in the State Duma supports this proposal.

The opposition is also fighting the appointment of Tolstoshein as acting governor. Krai Duma member Yurii Rybalkin said that only the Russian president had the right to appoint the acting governor. The opposition believes that there will be large protests against the appointment of Tolstoshein in the coming days.

Eight specialists from the presidential administration's Main Monitoring Department arrived in the krai on 2 February. The commission is checking to see that previous instructions for addressing the energy crisis are being implemented and is continuing to examine the work of the krai administration, according to the commission's deputy chief, Nikolai Leshchev. The head of the commission is Presidential Administration Deputy Chief of Staff Yevgenii Lisov, who had met with Nazdratenko in the hospital. The Main Monitoring Department had examined the krai administration's work in November and had ordered that all problems be resolved by 1 May 2001. Nevertheless, the commission returned to the krai even before this deadline. Putin himself had worked as the head of this department shortly before he became president. - Oleg Zhunusov in Vladivostok

**OMSK GOVERNOR WANTS TO ANNUL POWER-SHARING TREATY.** At the 18 January meeting of the Siberian Accord Interregional Association in Krasnoyarsk Omsk Governor Leonid Polezhaev announced his desire to annul Omsk's power-sharing treaty. President Boris Yeltsin signed the treaty on 19 May 1996. In the wake of the governor's comments, the Omsk media warned that canceling the treaty would significantly limit the powers of the governor and the oblast. The regional media also claimed that Siberian Federal District Procurator (who also holds the title of Deputy Procurator General) Vladimir Simuchenkov had sought the annulment of the treaty because it violated some aspects of federal law.

However, Aleksandr Butakov, the chairman of the oblast administration's Legal Committee rejected these ideas. He said that the procurator had not protested the treaty. However, Simuchenkov had conducted an analysis of the treaties signed by Krasnoyarsk, Irkutsk, and Omsk and had suggested some changes.

Rather than make a few changes, Polezhaev decided to annul the treaty. Butakov said that the oblast no longer needed the treaty because the document had outlived its usefulness. He asserted that the treaty was really just a symbolic part of Yeltsin's campaign in the run-up to the 1996 presidential elections. In contrast to the treaty signed with Tatarstan, the Omsk treaty is very general, serving to confirm the federal structure of the Russian state, rather than impart any benefits to the region.

Additionally, Butakov asserted that the laws on center-periphery relations and regional governments adopted respectively in June and October 1999 changed the legal environment and basically removed the need for power-sharing treaties. Some fear that abolishing the treaty will take away the governor's right to have a voice in the appointment of federal officials working in the regions. But Butakov said that recently adopted federal laws guarantee these rights.

Now the governor is looking for a way to annul the treaty, but it cannot be done unilaterally. The governor has proposed that the Kremlin also renounce the treaty signed by Yeltsin. So far, there is no answer from Putin. He could renounce the treaty or even decide to amend it and suggest signing a new one.

The Omsk governor already won the support of the Kremlin administration for his initiative to renounce the treaty. Unlike Sverdlovsk Oblast or Tatarstan, Omsk has nothing to lose from doing so. In fact, it could gain by showing loyalty to the Kremlin. - Pavel Shagiakhmetov in Omsk

**PROCURATOR PROTESTS NEW KHAKASIYA CONSTITUTION.** Khakasiya Procurator Oleg Trofimov has filed a protest with the Khakasiya Supreme Soviet charging that many of the more than two dozen amendments made to the republican constitution last year violate Russian legislation. The legislators spent most of 2000 working on the amendments, but the procurator's complaint makes clear that Moscow is not happy with the results.

The federal government had sought to bring regional laws into line with federal norms by 1 January 2001. However, this goal proved to be impossible: some regions simply adopted new laws that still violated the constitution. Thus, the victorious reports of federal officials claiming that they had brought ever larger numbers of regional laws into line have little to do with reality.

In fact, it is possible that the number of regional laws violating federal norms has grown rather than decreased in recent months.

Until recently, the procurator did not seem to have much trouble with legislation in the region. At the end of last year, he said that there were 13 republican laws violating federal norms still on the books.

However, now the procurator has found numerous violations in the amendments to the republican constitution that the legislature adopted on 21 November 2001. Among the passages the procurator rejected are those that give the republican legislature the right to remove judges from the republican Constitutional Court and powers to monitor the implementation of federal laws. It also rejected a clause that required the republican executive to carry out the instructions of the legislature. Additionally, the procurator sought to replace the phrase "Khakass and Russian languages" with "Russian and Khakass languages."

Many of the procurator's objections are similar to republican leader Aleksei Lebed's protests (see *EWI Russian Regional Report*, 31 January). Lebed accused the legislature of encroaching on his powers. In his criticism of the constitution, Lebed did not mention that the procurator had also filed protests against many of his orders as well. - Maksim Shandarov in Novosibirsk

#### **KALININGRAD: GOVERNOR MEETS WITH PUTIN TO IMPROVE ECONOMY.**

Kaliningrad Governor Vladimir Yegorov met with President Putin, Prime Minister Mikhail Kasyanov, and State Customs Committee (GTK) Chairman Mikhail Vanin on 30 January to discuss the consequences of the GTK's implementation of the new tax code in a way that effectively ends the oblast's status as a free trade zone (see *EWI Russian Regional Report*, 10 and 24 January). As a result of the meeting, on 1 February Vanin overturned the GTK's earlier interpretation of the tax code. Vanin's instruction came after the procurator general issued a protest seeking the annulment of the GTK's action.

Yegorov also met with Foreign Minister Igor Ivanov. The government is worried about the continued functioning of the region's energy system, maintaining uninterrupted transit of freight and passengers from the oblast to the rest of Russia, and preserving a visa regime that is beneficial to Kaliningrad residents. On 29 January, Yegorov also participated in a meeting of the Russia-Belarus Union Government. There the parties signed an agreement about the unified customs system of Russia and Belarus. Yegorov hopes that the document will lead to larger flows of Belarusian goods through Kaliningrad's ports. All of Yegorov's activity is preparation for a government meeting on 22 March, which will examine the future socio-economic development of Kaliningrad Oblast. - Yekaterina Vasileva in Kaliningrad

#### **PATTERNS OF REGIONAL DEVELOPMENT**

**ULYANOVSK'S SHAMANOV RAISES PRICES IN FORMER SOCIALIST BASTION.** Lt. Gen. Vladimir Shamanov's victory over incumbent Yurii Goryachev in Ulyanovsk's 24 December gubernatorial elections by a 56-23 margin gave him a reserve of good will to adopt economic reforms, including ones that are unpopular. He has already started to use up this reserve. On 6 January, as soon as he took the oath of office, he said that the

oblast would no longer supply the subsidies on almost all basic goods for which it had been famous. Instead he would provide targeted aid to the poor and open up opportunities for entrepreneurship.

"We cannot give benefits to healthy people capable of work who can find additional ways of earning money or setting up their own business," First Deputy Governor responsible for economic issues Viktor Sidorchev said. "We cannot encourage inactivity, we should encourage enterprise."

This announcement marked the end of Goryachev's policy of subsidizing food for all, regardless of income and his mistrust of business people, whom he labeled "speculators."

Shamanov removed subsidies on bread and milk beginning on 1 January. In Ulyanovsk, there is no longer any "governor's" bread for 1.5 rubles. Now a loaf costs 4.30 rubles. Prices for dairy goods also have increased noticeably. To help the poorest segments of the population, the governor has promised 60 rubles a month to poor pensioners and 50 rubles a month per child to poor families. In the oblast of about 1.5 million people, there are 87,000 who need these bread subsidies, requiring 4.4 million from the oblast budget.

After raising prices, Shamanov raised salaries for civil servants 145 percent at a time when the average raise in Russia was 20 percent. Sidorchev said that these costs would be covered by revenue generated from increased industrial production, which was already apparent in January. Sidorchev also announced that the governor was preparing a decree ordering the managers of industrial enterprises to raise the salaries of their workers. Under Goryachev, Ulyanovsk had some of the lowest prices, but also the lowest salaries in Russia.

Beginning on 1 January, Ulyanovsk residents faced a 60 increase in the price they pay for hot water and heat. Ulyanovsk Mayor Pavel Romanenko announced that the city could no longer hold down prices because it owed enormous amounts of money to energy providers and simply did not have the money to further cover these costs. Ulyanovsk does not have its own energy supplies and must buy fuel oil and natural gas on the federal market.

Initially, the oblast administration generally agreed with the mayor's price hikes, pointing out that it was necessary to explain to the population why these steps were necessary and providing aid to the hardest hit. On 5 February, however, Shamanov began backtracking. At a press conference, he said that the price increases had been made hastily, even mistakenly, and that they had been adopted before a wide discussion among citizens, trade unions, and social groups could be held. He did not say that he would overturn the mayor's decrees, but suggested that price increases should not be adopted so quickly and should do a better job of taking account of real life. The governor said that he would deal with the situation in the course of a week.

Shamanov believes that he can increase the oblast's tax revenues by increasing industrial production, launching investment programs, and restructuring the oblast's debts to its bankers. He claimed his program has support "on the highest federal level."

The Goryachev administration left Shamanov a terrible legacy in the form of 7 billion rubles worth of debts (the oblast and local budgets combined amount to 3.5 billion rubles a year and the oblast budget is 1.5 billion rubles a year). Sidorchev divided these debts into three categories: debts that the administration would repay, credits that were misused and needed to

be repaid by those who took them, and credit agreements which the administration would fight in court.

Most observers believe that only a team of professional managers can deal with these problems. Shamanov's critics during the campaign said that a general could not manage a complex enterprise like Ulyanovsk Oblast. However, Shamanov answered that the military academies had always produced top managers and that his task would be to put together a qualified team to develop a strategic program. The governor's task would then be to implement it.

Shamanov has promised to reduce the size of the bureaucracy by 20-30 percent. Of the key officials in Goryachev's cabinet, the only ones remaining are Head of the Financial Department Anatolii Kryuchkov and Chairman of the Economics Committee Vladimir Chaya. Shamanov filled most key spots with his own people. For example, he appointed Major General Aleksandr Kalita as his representative in the Federation Council. Kalita managed Shamanov's campaign and previously worked in the Main Education Department of the armed forces.

Shamanov has not carried through on his threats to implement "global personnel changes" in the oblast media that backed the former governor. No one has been fired from *Narodnaya gazeta*, which was one of Goryachev's main mouthpieces. Also keeping their jobs are journalists who wrote that Shamanov was backed by local oligarchs, thirsting for power and control over more property. Now regional media outlets glorify Shamanov in the same way they once exulted Goryachev, changing only the name of the governor. The former governor's name has completely disappeared from the media and now it is as if he had never existed.

Nevertheless, Shamanov is much more open to the press than Goryachev was. The former governor never gave press conferences and only met with journalists from publications and broadcasters that he controlled. Shamanov has already met with reporters four times. Moreover, he has sought to reach out to the population by riding public transportation and visiting local shops. - Sergei Gogin in Ulyanovsk

### **VORONEZH'S NEW GOVERNOR SEEKS COOPERATIVE LEGISLATURE.**

Voronezh's newly elected governor, Vladimir Kulakov, is seeking to win a cooperative regional legislature in elections set for 25 March. The campaign promises to be one of the most intense in oblast history. In one of his first press conferences since being elected on 24 December, Kulakov said that his administration would "actively influence the process," albeit within the framework of the law. "We will not give any commands to the oblast electoral commission, but we will influence the elections in the most direct sense. Above all, we will lead the population to accept the ideas, which formed the main part of my campaign. However, people will make their own choices." ([www.voronezh.ru](http://www.voronezh.ru))

Analysts already are predicting that candidates from the "governor's list" will win, just as Moscow Mayor Yurii Luzhkov's candidates won in the Moscow City Duma (*Bereg*, 22-28 January). The new administration rejects this scenario, however.

The governor and Oblast Duma already came into conflict when the legislature refused to conform any of the governor's appointments to his cabinet. The deputies' rejection angered the governor and he is now planning to go over their head to make his case directly to the



oblast's voters so that "they will vote accordingly." The governor said that he will not submit his list of appointments to the Duma for another vote, preferring to wait until after 25 March and the seating of a new Duma.

Perhaps the greatest surprise for Kulakov was that he did not even win the support of the Yedinstvo faction, which had supported him in the elections. There are 20 legislators in the faction, but only 4-8 of them voted for various individual appointments. Understandably, the current relationship between the executive and legislative branch of the oblast government is tense. - Yuliya Fedorinova

## **GOVERNORS' ELECTIONS**

**CANDIDATES SPENT OVER \$15 MILLION IN CHELYABINSK'S GUBERNATORIAL ELECTIONS.** Candidates in Chelyabinsk's 24 December gubernatorial elections spent up to \$18 million on their campaigns, according to local political consultants familiar with the race. Campaign financing is a very murky issue in Russia and the candidates are careful to hide their true expenditures from the public. It is impossible for outsiders to collect accurate and reliable data. Of the seven candidates, only three were serious contenders. State Duma members Valerii Gartung and Mikhail Grishankov spent about \$3 million each, according to estimates based on their campaign activities. The consultants believe that incumbent Governor Petr Sumin spent \$12 million to win a second term. The regional electoral commission registered his official expenses as 830,000 rubles (about \$30,000).

These experts also believe that the 311 competitors for the 45 seats in the Legislative Assembly spent about \$7 million. The race for mayor of Chelyabinsk cost \$100,000 and the city council was a maximum of \$20,000.

Beyond the money spent, the governor used his administrative resources extensively and to good effect. Practically all of the local broadcast media supported Sumin. His opponents could only get access to unpopular radio stations (usually in the FM band which most voters don't use), TV stations, and print media. Since most people do not like to read newspapers filled with election propaganda, the results from even a 1.5 million print run were small.

According to the political consultants, the governor's team was especially effective in its use of the voters' "sound-bite" attention span: namely, the first two minutes of a TV or radio show. First Deputy Governor Andrei Kosilov, who served as Sumin's campaign manager, followed a simple tactic in his numerous appearances: ceaselessly repeating the same message throughout a 10-minute broadcast. The governor also made a big impression on local voters by flying in a helicopter to the most inaccessible parts of the oblast.

The complaints of three other candidates against Sumin's use of these administrative resources were not effective because all they brought the opposition was an additional 50 minutes of air time one week before election day.

The professionalism of the political consultants themselves jumped an order of magnitude since the 1996 gubernatorial elections. Following the State Duma elections of 1995 and 1999, Chelyabinsk has about 10 teams that provide professional election services. Local consultants cost one-tenth of what their counterparts charge in Moscow and the capital-based groups were not popular in this election season. The candidates preferred local spin-doctors,

especially those who had done well in the 1999 State Duma elections. Consultants from Perm and Yekaterinburg also found clients. - Olga Smirnova in Chelyabinsk

### **TATARSTAN ELECTION BASED ON QUESTIONABLE ELECTORAL LAW.**

Tatarstan President Mintimer Shaimiev is among 19 candidates who have announced that they will participate in the republic's 25 March presidential elections. He is strongly favored to win a third term, even though this time, and in contrast to the past, he is participating in a contested election. Of course, despite the large field, Shaimiev does not face any serious competitors. His most famous opponents are State Duma deputies Ivan Grachev and Sergei Shashurin. Only 4-5 of the 19 candidates are likely to collect the 50,000 signature required to win a spot on the ballot.

Shaimiev's main problem is a 2 February court ruling about the republican electoral law and decisions likely to be adopted in the future. The Tatarstan Supreme Court declared unacceptable the electoral law's requirement that a candidate must speak both Russian and Tatar. In effect, this requirement excluded a large group of people who only speak Russian.

The Tatarstani legislature decided not to protest the court's ruling. However, by changing the electoral law now, it effectively changes the "rules of the game" after the electoral process is already under way. Officially, the elections began in December when the legislature set the date for the elections.

Another problem is that, in the opinion of Shaimiev's opposition, the legislature itself does not have the right to adopt new laws or amend old ones, because it is illegitimate. Several days ago, the Russian Supreme Court ruled that the law on electing deputies to the republican legislature violated the Russian constitution because it allowed people working in the executive branch to hold seats in the legislature. The electoral law effectively violates the division of power. In the December 1999 legislative election, more than 50 urban and rural mayors won seats in the republican parliament. Even the republican prime minister and presidential chief of staff are members. The opposition claims that these people do not deserve seats and that without them, there is no quorum. Thus, there will be many ways to question the legitimacy of the Tatarstani presidential elections. - Midkhat Faroukshin in Kazan

### **BUDGET ISSUES**

**TVER BUSINESS GROUP SEEKS TRANSPARENT OBLAST BUDGET.** In marking his group's third anniversary, Tver Union of Industrialists and Entrepreneurs President Sergei Potapov declared once again that he was not happy with the relationship between the oblast administration and local business. He argued that Tver business people should actively work to get the authorities to adopt decisions that will stimulate the oblast economy, rather than waiting for the politicians to act themselves. Accordingly, he argued that the business group needs to play a larger role in politics (*Veche Tveri*, 3 February).

There are currently four businessmen in the Tver legislature. Recently, Deputy Aleksei Andreev, the head of the firm Andreev-Soft, proposed at a legislative meeting that the oblast post its budget on an Internet site. However, the majority of legislators, who have ties to the administration, did not support this suggestion. The members of the Union believe that this

example is characteristic of the legislature's decision-making, and the only way to change the situation is to elect legislators who are independent of the oblast administration. In addition to making the budget more transparent, the deputies hope to put all oblast purchases up for open bidding, thereby stimulating the oblast economy.

The Union reelected Potapov as its president and approved his plan to include the organization in a new political party called Developing Entrepreneurship (*Pazvitie predprinimatelstva*). Party leader Ivan Grachev recently described the Tver branch as one of the party's best. - Boris Goubman in Tver

**ARKHANGELSK BUDGET MORE TRANSPARENT, MORE DEPENDENT ON MOSCOW.** For the first time in the post-Soviet period, Arkhangelsk's executive and legislative branches agree on the key priorities for the regional budget. This year's budget is radically different from past budgets. First, according to new federal legislation, the road and ecology funds have been transformed from off-budget funds to regular components of the budget. Thus, the revenue side of the budget jumped from 2.735 billion rubles to 7.170 billion rubles. The size of the deficit remains the same at 7.8 percent.

Second, budgetary funds will be spent only through a treasury, replacing a system which transferred money directly to the municipalities. Despite this change, the system of inter-budgetary relations in the region remains the same. Municipal budgets should not have deficits greater than 27 percent after the money has been redistributed inside the oblast, except in the cities of Arkhangelsk, Onega, and Kotlas. The cities of Koryazhm and Novodvinsk usually have surpluses and are expected to share some of their funds with other cities.

In the coming year, the oblast will receive more money from the federal government than it earns on its own. In 2001, it should receive 2.948 billion rubles from the federal government, while its own tax revenue will be 2.203 billion rubles. As a result, the oblast will continue to lose its independence, according to Aleksandr Ivanov, the chairman of the oblast legislature's budget committee. In 2000, the oblast's income was greater than its federal subsidies, providing some hope that the region could wean itself off of the subsidies. However, as in the past, the oblast administration is not making a concerted effort to free itself of its dependence on the center.

During his first four-year term Governor Anatolii Yefremov emphasized various medium and long-term plans for the region. This year there is not even any money for the Nyuksenitsa-Arkhangelsk gas pipeline. There is only money to pay off 150 million in credits given last year to build the pipeline.

The main battle in the budget is the line for supporting the oblast government itself. In 201, these expenses are 246 million rubles, about 80 million more than last year's 167 million. Of the 246 million, the executive branch gets 218 million, while the legislative branch gets only 28 million. - Tatyana Barandova in Arkhangelsk

## **LOCAL GOVERNMENT**

**AYATSKOV MAKES MOCKERY OF SARATOV LOCAL GOVERNMENT.** The scandals surrounding the mayoral elections in Balakovo, Saratov Oblast's second largest city,

demonstrate the ability of oblast officials to overturn elections in Russia and the extent to which some governors will go to in order to suppress local government. In elections held in December 2000 and January 2001, Mayor Aleksei Saurin was seeking a second term. However, he had come into conflict with Governor Dmitrii Ayatskov. There are two theories about the cause of the dispute. One was that Saurin had appealed to Presidential Representative to the Volga Federal District Sergei Kirienko to appoint a chief federal inspector who would be critical of Ayatskov. However, the appeal was unsuccessful since Kirienko appointed an Ayatskov ally to the post. A second theory is that Saurin had refused to provide free grain to the so-called "governor's fund" and then buy grain from the pro-gubernatorial Volga Grain firm at prices three times the market level.

As the conflict grew more intense, Saurin decided to change the city charter to have direct mayoral elections. Earlier the members of the city council had chosen one of its members as the mayor. The old system was easier for the governor to manipulate because he only had to influence the members of the council to pick his candidate and did not have to become involved in public politics. Saurin preferred to face an election because he was certain that the city residents would support him. Moreover, Saurin claimed that he had information showing that Ayatskov had falsified the March 2000 gubernatorial elections in which he won a second term (*Reporter*, 25 January).

In the wake of Saurin's accusations, the oblast authorities shut off heat and electricity to Balakovo. The residents understood the political purpose of the blackouts and many buses filled with angry citizens went to Saratov to protest, but the authorities ignored them.

After this incident, the oblast authorities did everything they could to drive a wedge between Saurin and the Balakovo's enterprise directors. Soon the directors stopped supporting him. This was an important step because the members of the precinct electoral commissions were appointed through the enterprises and losing influence over the enterprise directors definitely hurt Saurin's ability to ensure a fair election.

Despite everything, Saurina won 74 percent of the vote in the second round of the elections on 14 January. However, the electoral commission decided to declare the results invalid because it had only received ballots from 70 percent of the participants. The commission set new elections on 8 April.

After the election results were known, Ayatskov tried to fire Saurin, citing a presidential decree issued on 27 June. However researchers discovered that this decree had nothing to do with firing mayors and the governor quickly withdrew his action.

Then in a rushed action, the governor forced the Balakovo city council to elect a mayor from its ranks even though the city charter called for direct popular elections. The council elected Valentin Timofeev. Despite objections that the electoral process was still under way, the obedient deputies amended the city charter. Now there are essentially two mayors in Balakovo: Saurin has not conceded and is now renting office space in one of the local palaces of culture, while the "official" mayor has occupied the mayor's office.

The local chapter of Otechestvo has sharply denounced Ayatskov's actions, accusing him of crudely intervening in the electoral process. The party claimed that Russia had a "dictatorship of power" in place of the promised "dictatorship of law." Rather than making sure

that the elections were conducted legally, the executive branch simply intervened to make sure that a convenient candidate was elected.

Additionally, 317 members of the State Duma voted to petition the General Procurator, Federation Council, and Supreme Court to overturn Ayatskov's actions in Balakovo. Central Electoral Commission Chairman Aleksandr Veshnyakov has also brought the matter to the attention of President Putin. - Yuliya Yeliseeva in Saratov

## **TRANS-FRONTIER COOPERATION**

**KURSK SETS UP BORDER WITH UKRAINE.** After the collapse of the Soviet Union, Kursk Oblast became one of Russia's border regions. The process of establishing the new state border with Ukraine has been going on for tens years now, and the end is not yet in sight. In 1992, the CIS countries established the principle of transparent borders, which meant no borders in practice from 1992-3. More recently, a real border has started to take shape between Russia and Ukraine. The problem of demarcating the border, which stretches for more than 2,000 kilometers, is one of the most difficult questions in Russian-Ukrainian relations.

Demarcation work has gone on since April 1998. According to the Ukrainian Foreign Ministry, the two sides have agreed on 1,300 crossing points, while discussions of an additional 200 sites are on-going ([http://www.korrespondent.net/display\\_print.php?arid=8047](http://www.korrespondent.net/display_print.php?arid=8047)). The points which have not been agreed upon are located in Russia's Rostov Oblast and Ukraine's Lugan and Donets oblasts.

In December 2000, the Commission on Demarcating the Border held its tenth meeting in Kiev. Of the five Russian regions bordering Ukraine, only Kursk Oblast has a permanent representative to the group. The other oblasts (Belgorod, Bryansk, Voronezh, and Rostov) are only represented by members of the working group (<http://online.sovtest.ru/citynews/?27606>).

The 245 km of the Ukrainian border that run through Kursk has largely been defined, though some problems remain. For example, in south-western Kursk, the Bryansk-Vorozhba railroad crosses the border three times in 18 kilometers. Ukraine's high customs duties on importing sugar beets make it too expensive to bring the beets to the Tetkin Sugar Factory from nearby farms. In many cases, the border goes through cities and even divides private landholdings. The Tetkin Bread Factory has buildings on both sides of the border, complicating the life of its management. Usually such arguments are resolved by trading parcels of land along the border. However, at the December meeting, the Ukrainian side did not agree with Russian proposals to swap land. As a result, the Kursk plant owners continue to pay rent to their Ukrainian neighbors.

The next commission meeting will be in March, but that does not mean that the existing problems will be solved. For three years, the two sides have fruitlessly discussed the question of providing free border crossing for residents of the border region. Often the oblast and local government are more interested in having the border and customs services work well than is the federal government. Thus local authorities commonly provide necessary services to the border and customs services even though they should be supplied from federal funds.

The Ukrainian border also brings a lot of crime into Kursk Oblast. The most common problem is the illegal imports of weapons and drugs. Many illegal immigrants go through Ukraine

to Poland, Hungary and Western Europe. Asian immigrants often enter Russia from Ukraine. During the first nine months of 2000, 750,000 people passed through the Kursk Oblast transit points. More than half a million of them were foreigners. The authorities detained 3 people with false documents and another 230 who had documents that were not in order. Additionally, they apprehended 58 illegal immigrants and 113 trying to cross the border between authorized check points. - Sergei Sarychev in Kursk

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### **Russia's Fate Through Russian Eyes: Voices of the New Generation**

*Edited by Heyward Isham with Natan M. Shklyar*  
*Introduction by Jack F. Matlock, Jr.*  
*Westview Press, 2001; 429 Pages; 0-8133-3866-2; \$30.00; hc*

"*Russia's Fate Through Russian Eyes* makes an important contribution to the West's understanding of the profound disorientation which the political, economic, and social upheavals have had on the lives of ordinary Russian citizens. These essays by rising young leaders of the post-Soviet generation, as yet largely unknown in the West, speak with unusual candor of the frustrations and deprivations, the loneliness and yearning for leadership that pervade all regions and walks of life. Heyward Isham has provided valuable insight into the issues that must be faced by the architects of Russia's future."

-- Henry A. Kissinger

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-- In "**Preserving the Culture, Modernizing Education**," Vladimir Mirzoev, resident director of the Stanislavskii Drama Theatre, discusses the central, subversive role of theatre in Soviet times and the paradoxical "cultural wasteland" created by the rapid transition to free speech and capitalism.

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*Heyward Isham, the editor of Russia's Fate Through Russian Eyes, is a thirty-five-year veteran of the U.S. Foreign Service. He served as political and economic officer in Berlin, Moscow, and Hong Kong prior to his appointment as Ambassador to Haiti. A long-time Russophile who has followed the country closely since his first posting to Moscow in the 1950s, Ambassador Isham is a recognized expert on post-Communist societies in Europe and Asia and samizdat (underground Soviet literature). Ambassador Isham, who served as editor of Remaking Russia: Voices from Within, (ME Sharpe 1995), is currently Vice President of the EastWest Institute, New York.*

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**CENTER-PERIPHERY RELATIONS**

**PULIKOVSKII TAKES CHARGE IN PRIMORSKII KRAI.** After Primorskii Krai Governor Yevgenii Nazdratenko resigned on 5 February, his team lost power on 13 February when Acting Governor Valentin Dubinin accepted the resignations of six of the 12 deputy governors. Dubinin became acting governor in place of Konstantin Tolstoshein on 9 February. Now Presidential Representative to the Far Eastern District Konstantin Pulikovskii has effective control of the region.

Pulikovskii met with all of Nazdratenko's deputies and asked them all to submit their resignations, Dubinin said. The acting governor said that he was also ready to resign but Pulikovskii did not ask him to. The fate of the six remaining deputy governors will be determined later. Now the number of deputy governors will drop from the 13 employed by Nazdratenko to eight. The governor's staff will also be reduced.

Pulikovskii will monitor all of the new krai leader's actions. He has assigned four of his aides to help the acting governor. They will sequentially "provide advice and recommendations

to Dubinin," according to Gennadii Apanasenko, the first of Pulikovskii's deputies to stay in the krai. Pulikovskii's main offices are in Khabarovsk.

Pulikovskii said on 13 February that "I am carrying out the functions for the representatives first described by the president when he initially gathered us together. In Primorskii Krai, this includes personnel questions so that an efficient team manages the krai."

Observers now expect changes among the heads of the federal agencies in the krai. When asked if there would be changes in the "power ministries," Apanasenko answered that they were in the works.

At the moment, Pulikovskii does not control the city of Vladivostok. Mayor Yurii Kopylov, a close ally of Nazdratenko, did not show up to a meeting with the acting governor to discuss the city's relations with krai energy providers. "Every morning he says that he will pay everyone. However, the energy providers' accounts remain empty," Dubinin said.

Pulikovskii now plans to visit the krai regularly until he is sure a good team is in place. On 12 February, an hour before Pulikovskii arrived, Nazdratenko flew to Moscow. According to the media, he plans to meet with the president to discuss an offer to work in the capital. Pulikovskii said, "I know that Nazdratenko sought a meeting with the president, but yesterday evening I talked with [Presidential Chief of Staff Aleksandr] Voloshin and there was no information about a meeting. I don't know why he went to Moscow." - Oleg Zhunusov in Vladivostok

### **POLTAVCHENKO SETS UP ECONOMIC COUNCIL THREATENING**

**INTERREGIONAL ASSOCIATIONS.** On 9 February, Presidential Representative to the Central Federal District Grigori Poltavchenko conducted the first meeting of the Central Federal District Council. The council was established last December to develop concrete economic programs for the 18 regions that make up the district. At Poltavchenko's suggestion, Orel Governor and Federation Council Speaker Yegor Stroeve was elected chairman of the council. Stroeve is already chairman of the Black Earth Association.

Observers view the council's creation as an attempt to set up an alternative to the Black Earth and Central Russia interregional economic associations. The council and the associations address the same issues. However, the council, working under Poltavchenko's aegis, would be subject to greater federal control than the associations, which were horizontal alliances among neighboring regions, rather than a top-down structure organized by Moscow. When asked specifically if the new council would duplicate the work of the associations, Poltavchenko said, "Either we will work out a mechanism for cooperation, or there will be no need for the associations." (<http://www.itar-tass.com/russ/newsdir.htm>) He said that the decision would be up to the governors in the district.

All of the regions in the district face severe problems in their industrial and agricultural sectors. Only Moscow and Moscow Oblast are exceptions. The district was the only one of Russia's seven to show an increase in crime during the first nine months of 2000. Stroeve called on the regions to work together to solve their problems.

Poltavchenko's assistant on economic issues, Vasilii Kichedzhi, suggested setting up an investment agency for the district. The agency would be a non-profit partnership between the 18 regions and Sberbank, Vneshtorgbank, and Unified Energy Systems as well as other potential

investors. Kichedzhi said that he had already reached an agreement with these groups. The governors want the agency to focus on generating domestic investment for the region. Many governors believe that the regions are not able to perform these tasks by themselves. Moscow Mayor Yurii Luzhkov said that he would set up an information center in the capital to advertise the products produced in the central district that currently do not reach a large audience. Luzhkov said that Moscow would also contribute 250 million rubles to the investment agency.

Luzhkov argues that the members of the agency's board of directors should be determined proportionally by the size of the contributions each region makes to it. Other governors reject this idea, charging that Muscovites would dominate the agency's management under such a system. Apparently, Luzhkov is pursuing a strategy by which Moscow will increase its political standing in the council, but share some of its economic resources with the neighboring regions.

Another issue that aroused heated discussion was the plan to restructure Svyazinvest, the telecom giant that provides phone service through regional subsidiaries, into seven larger stock companies (one each in each of the federal districts). Advocates of the reform believe that the company's division into more than 80 units makes it unattractive to investors. However, if the parts were brought together to form larger companies, there would be greater investor interest in the resulting conglomerations. In the Central Federal District, the Moscow Oblast company Elektrosvyaz would be the basis upon which the 18 existing regional companies would be merged. Ultimately the new company would serve an area stretching from Yaroslavl and Kostroma in the north to Belgorod and Voronezh in the south.

The governors opposed the reorganization plans, pointing out that the regional Svyazinvest companies now contribute significant sums to regional budgets. If the regional companies are unified into a larger company, it is not clear where the tax revenue would go, and regional budgets are likely to suffer. Shareholders in the current regional companies are also concerned about how their stock will be converted into shares in the larger company, fearing that they will lose some of their current value. Additionally, Stroevev and Luzhkov warned about the monopolization of the telecom market. - Sergei Sarychev in Kursk

## **GOVERNORS' ELECTIONS**

**1999-2001 ELECTIONS BRING NEW GENERATION OF LEADERS.** The conventional wisdom proclaims that incumbents were the main victors in the gubernatorial elections held between 1999 and 2001. While many current office holders did win another term, a more striking result is that the elections brought to power a new generation of rulers in many regions.

In the cycle of gubernatorial elections that took place from December 1995 through early 1997, the fight was generally between two teams: the presidential administration and Gennadii Zyuganov's Popular Patriotic Front. Each side kept score of the results, as if the elections were a sporting event. The elections that took place from December 1999 through the beginning of this year were completely different: nobody kept score, and it was often hard to tell who was playing on which team. Despite this difference, the current elections have much in common with the elections of four years ago.

Many analysts looking at the 1999-2001 elections have pointed to the success of the incumbents. They often won by manipulating regional laws and deploying various administrative means. In fact, many governors have survived. In 1996, about half the incumbent governors who faced the voters lost their elections, while only a third did so in the most recent cycle. In 1996, many of the incumbents were governors who did not have much experience contesting direct elections and often were not the most powerful or influential people in their regions. Now more seasoned and battle-hardened leaders have held onto their positions.

However, the elections did not become less competitive this time around. In the 1995-1997 elections, the victor had to win more than 50 percent in 68 percent of the elections. Four years later, the winner had to take an absolute majority in 63 percent of the elections. In 1995-1997, a runoff was required in 30 percent of the elections, while one took place in 25 percent in the recent round of elections. The number of candidates participating in the elections actually rose from 5.1 to 6.2 over the four years. The number of "effective candidates" (a measure indicating how many candidates had a realistic chance of winning) stayed approximately the same, at about 3.0.

Some figures do suggest that the recent elections were less competitive and that the voters had no real alternatives. The number of elections where the winner beat his nearest competitor by more than 50 percent rose from 16 to 27 percent. In these cases, the victor essentially had no realistic competition. Likewise, the share of elections where the winner had a substantial, though not overwhelming, lead grew from 25 to 50 percent. In these elections, the number of effective candidates was between 2 and 3. Most likely, these victories are not the result of the absolute power of the governor, but the completely rational decision of competing elite groups to sit out elections when the incumbent seems invincible and wait until the next elections when the incumbent or his successor is in a weaker position.

It is also possible to say that the renewal of the regional elite in these elections was no less significant than in the elections held four years ago. Of the 34 cases when new leaders came to power in 1995-97, 14 were actually the return of former elites, namely former heads of the Communist-era obkoms, ispolkoms, and oblast soviets, or governors who had been fired. In the latest round, of the 20 new regional leaders, only one (Tambov's Oleg Betin) is a former governor and one is the former chairman of a regional legislature (Kamchatka's M. Mashkovtsev). Thus, this time as four years ago, about 20 new people came to power without experience at the top of the regional Olympus.

The 1995-1997 elections did not bring a new generation to power. Then only 17 of the 34 new governors were younger than the incumbents they defeated. Generally a 49-year old replaced a 51-year old. In the 1999-2001 elections, the new governors are clearly younger. Only 2 of 20 new governors are older than the men they replaced. The new governors are generally well experienced at 48, but they are often replacing men older than 60. The average age of the exiting incumbents was 58.

Although overlooked by many analysts, the replacement of the "old guard" is one of the key results of this electoral cycle. Between the defeats of Vladimir Khubiev in Karachaevo-Cherkessiya, who had been at or near the top of his republic since 1979, and Gennadii Nedelin in the Taimyr Autonomous Okrug, in power since 1971 (as deputy chairman and then chairman of the ispolkom), a whole group of Soviet managers who came to power in the early

perestroika period stepped down: Aleksandr Ryabov, Vladislav Tikhomirov, Nikolai Kondrateko, Valentina Bronevich, Yurii Goryachev, Ivan Shabanov, and Vladimir Biryukov (who became second obkom secretary in 1977). This generation defined what it was to be governor in 1996 and, not surprisingly, the governors elected Yegor Stroev, obkom first secretary since 1985, to the position of Federation Council chairman. Of this group, now only Astrakhan Governor Anatolii Guzhvin and the soon-to-be-re-elected Anatolii Belonogov in Amur remain.

The next generation of governors, who came to power right around 1990, between the Soviet era and the beginnings of reform, came through the '99-'01 elections without any losses. However, their turn to step down will likely come in the next cycle of elections in 2003-5. Although many of these governors fought for the right to contest a third term, many are likely to lose their next elections anyway. - Aleksei Titkov in Moscow

**CHIEF INSPECTOR ENTERS EVENK GUBERNATORIAL RACE.** Chief Federal Inspector for the Evenk and Taimyr Autonomous Okrugs Yevgenii Vasilev announced on 7 February that he would run in Evenk's 8 April gubernatorial elections. Vasilev announced his candidacy despite the fact that the Presidential Representative to the Siberian Federal District Leonid Drachevskii has a policy that none of his staff members should run in elections since it gives the voters the impression that the Russian president supports their candidacy. Accordingly, Vasilev has submitted his resignation.

In the Tyumen Oblast gubernatorial elections, Sergei Sobyenin, then a deputy to Presidential Representative to the Urals Federal District Petr Latyshev, won the election even though Putin had explicitly supported incumbent Governor Leonid Roketskii.

Vasilev will face Boris Zolotarev, who is backed by the YUKOS oil company, the largest company operating in the region and the main employer. Incumbent Governor Aleksandr Bokovikov has already announced that he will not seek reelection. - Maksim Shandarov in Novosibirsk

## **INTERREGIONAL RELATIONS**

**OIL POLITICS SHAPES KOMI'S REACTION TO THE RE-ELECTION OF NENETS GOVERNOR.** Because they share the Timan Pechora Basin with its valuable natural gas and oil deposits, the recent gubernatorial elections in Nenets Autonomous Okrug have had a big impact on the political processes and economic development of Komi Republic. The very fact that Komi leader Yurii Spiridonov participated in newly re-elected Nenets Autonomous Okrug Governor Vladimir Butov's 27 January inauguration suggests that and differences the two leaders had in the past, have now been set aside. While both governors now claim that such differences never existed, they in fact remain clear and important.

Komi observers believe that Butov and his opponents, -- who were funded by LUKoil, which sought to replace Butov with a candidate more to its liking -- spent tens of millions of dollars on the campaign. Butov's opponents assembled a large team of PR specialists from Moscow, St. Petersburg, Komi and numerous other regions to work against the incumbent.

LUKoil believed that Butov was blocking the advance of its corporate interests in the region (*Komsomolskaya pravda. Respublika Komi*, 2 February 2001).

While Butov is effectively at war with LUKoil, Spiridonov has been working with Russia's largest oil company (*Molodozh severa*, 1 February). Thus, in his campaign material, Butov described LUKoil's work in Komi as an "occupation" of the republic, charging that Komi was a "reservation" and that Spiridonov was a "puppet" in the hands of the "oil mafia." Another reason for the differences, according to the paper, is that ethnic Komi outnumber Nenets in the Nenets Autonomous Okrug. Ethnic Komi made up the largest group in the okrug legislature, including Speaker V. Vyucheiskii, and this legislature constantly criticized Butov's management. Butov tried to pass off this criticism as coming from the Komi and therefore irrelevant. His administration also supported the activities of local Nenets nationalists, who agitated for electing ethnic Nenets, claiming that they had a greater claim to the tundra and its resources than the Komi.

Most of Butov's allies have been with him since the days when he was a small businessman. Now they monopolize all spheres of businesses that bring in revenue into Nenets, but they do not have the resources to develop the oil and gas deposits. The governor's people allot control of the deposits to their friends: both locals and obscure oil companies from Kalmykiya, whose President Kirsan Ilyumzhinov is friends with Butov. Ultimately, some believe that the governor will privatize the entire province, which is capable of producing 40 million tons of oil a year.

Developing the reserves in the Nenets Autonomous Okrug and Komi must be done together. The process requires the participation of Butov, Spiridonov, and LUKoil President Vagit Alekperov. Butov is extremely unpredictable in his behavior and the problems he creates could hurt the Komi economy. In the Komi gubernatorial elections later this year, a candidate could try to score points against Spiridonov by running an anti-LUKoil campaign. Such a campaign would be politically destabilizing, especially since the stakes are much higher in Komi than in Nenets.

From the point of view of investors in the region, Butov's victory is not a positive sign, as development requires better cooperation between the two governors. But the problems remain monumental. KomiTEK provides one third of the tax revenue to the Komi budget, but its main field is in Nenets territory. The Nenets leadership believes that the money generated from this deposit should go to Nenets. Komi's politicians will have to work hard to retain this income in the coming years. - Yuri Shabaev in Syktyvkar

## **PATTERNS OF REGIONAL DEVELOPMENT**

**IRKUTSK GOVERNOR, LEGISLATURE BATTLE OVER BUDGET.** Irkutsk Governor Boris Govorin and the regional legislature are locked in battle over the oblast budget. The fight has become so nasty that the governor now refuses to participate in a conciliatory commission designed to resolve their differences.

Irkutsk's discussion of the 2001 budget was delayed because of the long-running battle over the appointment of the regional legislature's speaker last year. Ultimately, the governor lost this conflict and the opposition was able to win the speakership on 25 December (see *EWI*

*Russian Regional Report*, 10 January). This year the regional legislature rejected the governor's proposed budget and sought to negotiate with the administration in a conciliatory council that was to meet on 7 February. However, the governor charged that the deputies' objections to his budget were "baseless" and refused to send delegates to the meeting. Members of the legislature warned that if the governor did not nominate negotiating partners by 14 February, they would appeal to the regional procurator.

After hearing reports from the governor's Main Financial Administration and the regional Audit Chamber, the regional legislators decided that the governor's budget vastly underestimated the revenues the region would earn in 2001. The governor's team has argued that the budget is based on realistic figures. It believes that regional enterprises will make far smaller profits in 2001 than they did in 2000. The reasons behind this downturn are higher energy costs and a ruble exchange rate that is not favorable for exporters. Additionally, the governors' supporters point out, most taxes are now collected in the form of real money as opposed to vekselns and mutual debt swaps. As a result, tax collection rates appeared to be higher in the past than they are today. Despite these arguments, the deputies believe that Irkutsk Oblast's mayors have underestimated the income from their regions. They also complained that many enterprises declared bankruptcy as a tactic in avoiding tax payments.

The legislature and the governor are also wrangling over the date of the next gubernatorial elections. The governor wants to move these elections up to April from July, the current date. He also wants to reduce the length of the actual campaign from 90 days to 70 days. Additionally, the governor advocates changing the electoral law so that the candidate who scores at least 25 percent in the first round of voting when there is a minimum 25 percent turnout will win. The current law requires that the winner take more than 50 percent in the first round or face a run-off that pits the two top vote-getters against each other. Such provisions would make it easier for the incumbent to win, and the legislators have yet to accept them.

Meantime, on 5 February, the Supreme Arbitration Court ruled that Irkutsk would own a 15.5 percent stake in Irkutskenergo and have the right to two board members. The oblast had been fighting the federal government for control over a 40 percent state-owned stake, seeking 20 percent for the oblast. In the past, the oblast lacked access to Irkutskenergo's financial data, but its board members will now have this information.

### **FEDERAL CRACKDOWN SEEKS TO ROOT OUT CORRUPTION IN MARIJ EL.**

Under former Marij El President Vyacheslav Kislitsyn, the republic was notorious for the corruption of its top leadership. Now federal authorities and Kislitsyn's successor Leonid Markelov, elected in December, are trying to make a clean sweep.

In the run-up to last year's election, Presidential Representative to the Volga Federal District Sergei Kirienko ordered a complete audit of the republic's top officials. According to Kirienko deputy Valentin Stepankov's October 2000 report, the situation was "much more serious and worrying than investigators anticipated." The investigation found that Kislitsyn had sanctioned many of the most egregious crimes. Russian law enforcement agencies have been digging deep into Kislitsyn's political legacy and thus far have managed to pin down one of the republic's pivotal figures during the pre-election period: former Chairman of Marij El's Central Election Commission Yuri Petrov.



The procurator took legal action against Petrov in October, just two days before the republic's State Council election, charging him with taking bribes. Petrov was then in charge of personnel issues in President Kislitsyn's administration. He had allegedly received a Volga-3110 car from regional businessmen in exchange for preferential treatment. Agents searched Petrov's office and apartment. Subsequently, Petrov resigned from his position, claiming poor health. On 12 February investigators arrested Petrov and placed him in a Nizhnii Novgorod jail. The practice of jailing suspects outside their home region is a normal in the federal battle against organized crime.

The seriousness of the situation in the republic has prompted the new republican president to start a thorough investigation of his predecessor's activity. Markelov fully agrees with federal inspectors that the republic is in deep crisis. The republic's consolidated debt is more than \$714 million--nearly 10 times the size of the republic's \$78.57-million 2001 budget. Markelov blames the current problems on the unbridled corruption that flourished under his predecessor. Ironically, the former president used to employ the local law enforcement agencies in order to carry out his illegal activities. His staff included nearly a dozen people with criminal records. This mafia-like community would block any attempts by the local opposition to criticize the situation.

Markelov emphasizes that he is not happy that he must begin his term by prosecuting his predecessor. Nevertheless, he says he feels an obligation to return assets misappropriated by Kislitsyn's allies to the republic. For instance, Kislitsyn's brother still owes almost \$180,000 to a local bakery. And he is not the only one.

Markelov, who views economic revival and the creation of a favorable investment climate in the republic as his priority, stressed in a 10 February press conference that it would have been impossible to remove Kislitsyn from office if federal authorities had not given all candidates an equal chance in the elections. - Viktor Pershin in Nizhnii Novgorod

**NIZHNI'S ECONOMIC PROBLEMS POSE DANGERS FOR SKLYAROV REELECTION BID.** With gubernatorial elections scheduled for June, political life in Nizhnii Novgorod is coming to a boil. The region is deeply involved in a debate about whether it makes sense to set up a government at the oblast level that would be analogous to the government at the federal level. The system would create two separate structures in the executive branch: the governor's office and the government. Although the idea has long been under discussion, its recent appearance has clear political implications.

Mayor Yurii Lebedev, a political opponent of Governor Ivan Sklyarov, proposed this idea in a 31 January address to members of the regional Legislative Assembly. The mayor suggested that Governor Sklyarov was not really up to his job and that he needed help. Lebedev claimed that the government was necessary because of the difficult financial situation in the region. The region has an annual budget of \$78.57 million. However, it owes the federal government \$17.9 million and has liabilities to all international and domestic creditors of \$714.29 million.

The Federal Audit Chamber has just launched a thorough investigation into the execution of the 1999 regional budget, acting on a request from 120 State Duma members. This audit adds further uncertainty to the outcome of the gubernatorial election, as results will only be

announced near election day. The local press emphasizes that the region is on the Audit Chamber's priority list, joining such poverty- and crime-stricken territories as Dagestan and Kalmykiya.

The share of taxes collected in the region that goes to the regional budget has been gradually shrinking. In 1999, for example, the region retained 52 percent of taxes collected on its territory, while the remaining 48 percent went to the federal budget. In 2000 the regional share shrank to 48 percent. In 2001 the oblast is expected to receive only 40 percent of all taxes collected locally.

Mayor Lebedev claims that the governor needs a new institution to help him carry out his duties and to possibly relieve him of some of them. Sklyarov often travels to Moscow, and in his absence the administration's activity slows considerably. Under Lebedev's plan, the chairman of the regional government will replace the governor while he is out of town. The government will also handle day-to-day economic affairs, allowing the governor to focus on political and strategic issues.

A clear-cut division of power will be necessary to ensure that the new body does not simply duplicate what the governor does. The mayor does not foresee any additions to the oblast administration staff as a result of the restructuring. At present the region already employs 13,000 government officials, a figure many criticize as too large.

Legislative Assembly Chairman Anatolii Kozeradskii supports Lebedev's proposal, which he says will lead to more effective decisions and responsible officials.

With all key players on the local political arena talking about the issue, Sklyarov could not but decisively step in to join the widespread debates. On 12 February he endorsed the idea that the regional Legislative Assembly consider this proposal. He stated that the governor would have the power to appoint the regional prime minister, with the approval of a majority of the legislature. The prime minister would have to secure the governor's support for his appointments to the Cabinet. Key officials in charge of economic, financial and property-related affairs would also have to win the approval of the Legislative Assembly. The government would serve the same term as the governor, resigning upon the election of a new governor. The governor could fire his government, but only after winning approval from at least two-thirds of regional legislators.

Vice-Governor Alexander Batyrev said that the regional government could be established within three months. Candidates for oblast prime minister are already under consideration. - Victor Pershin in Nizhnii Novgorod

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## **Russia's Fate Through Russian Eyes: Voices of the New Generation**

*Edited by Heyward Isham with Natan M. Shklyar*

*Introduction by Jack F. Matlock, Jr.*

*Westview Press, 2001; 429 Pages; 0-8133-3866-2; \$30.00; hc*

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*Heyward Isham, the editor of Russia's Fate Through Russian Eyes, is a thirty-five-year veteran of the U.S. Foreign Service. He served as political and economic officer in Berlin, Moscow, and Hong Kong prior to his appointment as Ambassador to Haiti. A long-time Russophile who has followed the country closely since his first posting to Moscow in the 1950s, Ambassador Isham is a recognized expert on post-Communist societies in Europe and Asia and samizdat (underground Soviet literature). Ambassador Isham, who served as editor of Remaking Russia: Voices from Within, (ME Sharpe 1995), is currently Vice President of the EastWest Institute, New York.*

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## BREAKING NEWS

**PUTINS SACKS SAMOILOV.** President Vladimir Putin fired Sergei Samoilov as the head of the Presidential Administration's Territorial Department on 16 February (press.maindir.gov.ru). Samoilov's dismissal was apparently due to Kremlin's unclear stance during the numerous gubernatorial elections that took place last fall (*Segodnya*, 17 February). In most of those elections, the Kremlin did not decisively back one candidate. Samoilov had held his job since August 1996.

Putin replaced Samoilov with Andrei Popov and appointed Aleksandr Kosopkin as the head of the Main Department on Domestic Policy. Popov is close to Deputy Presidential Chief of Staff Vladislav Surkov, who is considered one of the Kremlin's toughest managers, according to *Kommersant Daily* (17 February). Putin apparently cut

the staff of the Territorial Department by 40 people, most of whom will be transferred to the staff of the seven presidential representatives to the regions.

The removal of Samoilov and the transfer of some of his staff members was a clear victory for the seven representatives. Samoilov had fought their attempts to increase their power. After his firing, Samoilov warned that the representatives would soon seek to take additional power from the Moscow-based presidential administration.

Although Samoilov is now gone, the representatives now face new challenges. Presidential Representative to the Volga District Sergei Kirienko's staff described the personnel reshuffle as a victory for Surkov, who now controls the political and regional departments within the administration. The representatives will have more difficulty dealing with him as the main curator for the regions than they did with Deputy Presidential Chief of Staff Aleksandr Abramov, who will now organize the work of the State Council. On 30 Putin put the seven representatives directly under Chief of Staff Aleksandr Voloshin, and Surkov is considered Voloshin's right hand man (see *EWI Russian Regional Report*, 31 January).

Overall, Putin's reorganization created a system of checks and balances, on one hand strengthening the Moscow-based presidential administration, while, on the other, strengthening his seven representatives in the field.

## **CENTER-PERIPHERY RELATIONS**

### **POST-NAZDRATENKO RESIGNATIONS CONTINUE IN PRIMORSKII KRAI.**

Primorskii Krai Procurator Valerii Vasilenko resigned his position on 19 February, according to his press secretary Elena Parkhomenko. She did not give a reason for the resignation.

In the past, former Governor Yevgenii Nazdratenko's opposition has repeatedly criticized Vasilenko for not taking action against the authorities. During the court case over the contract killing of Primorrbyprom General Director Andrei Zakharenko, the defendant accused Vasilenko of participating in the criminal battle to take over the largest fish processing plant in the krai. The defendant said that he acted under Vasilenko's leadership and with his support.

Last week, the newspaper *Svobodnyi golos* published by State Duma Deputy Viktor Cherepkov included transcripts of a tape recorded telephone conversation between Nazdratenko and Vasilenko in which the two discussed their cooperation and mutual dislike of Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii. As a federal official, Vasilenko is supposed to represent Moscow's interests in the region, not those of the governor. In the recording, Vasilenko told Nazdratenko that Pulikovskii had sent him an anonymous denunciation of the krai administration. Vasilenko informed Nazdratenko that he told Pulikovskii that Russian law forbid him from investigating anonymous denunciations. However, Pulikovskii allegedly insisted that he proceed with the investigation. The Russian authorities have since changed the law, making it legal to investigate such anonymous denunciations.

Vasilenko apparently resigned when he was in Khabarovsk speaking to his superiors. For the resignation to take effect, General Procurator Vladimir Ustinov must accept it, but so far he has asked Vasilenko to keep working. Cherepkov has claimed that Vasilenko has close ties with Ustinov.



Meanwhile, Acting Governor Valentin Dubinin is preparing to reduce the administration staff, removing 200 bureaucrats from 62 departments. The krai administration currently employs 1,200. The streamlining will reduce the 64 current administrative divisions to 48. Dubinin warned that he would make such cuts immediately after he took over the krai leadership on 9 February. Dubinin has already overseen the resignations of Nazdratenko's six top deputy governors (see *EWI Russian Regional Report*, 14 February).

The energy situation has apparently improved in the region since the beginning of the month. According to the local civil defense and emergency situations staff, all krai apartments now have light and only 26 buildings, housing 1,500 individuals, are without heat.

Additionally, local media have cited unconfirmed reports that President Putin offered Nazdratenko the position as head of the State Fishing Committee. The opposition in Primorskii Krai is outraged about this possibility. Primorskii Krai Duma Member Yurii Rybalkin said, "The person who destroyed the krai economy should not have any management position." Rybalkin said that in 1992, fishing provided 40 percent of the krai budget. By 1998, under Nazdratenko's leadership, this figure had dropped to 4.7 percent. Rybalkin claimed that the size of the catch had dropped only 10 percent during the period and that exports had increased from 30 to 80 percent. He claimed that money generated from the fishing sector had been directed into the black market and away from state coffers.

Nazdratenko supporters, such as the chairman of the Primorskii Fishermans' Trade Union Vladimir Nagorny, said that "Nazdratenko always fought against policies that hurt the fishing industry, foreign fishing in the Okhot and Bering seas, selling the Kurile Islands to the Japanese, and auctioning off fishing quotas." Pulikovskii, however, denounced the krai's fishing policy for handing out quotas on the basis of political loyalty rather than economic rationality.

On 19 February, the Krai Duma set the governors' elections to replace Nazdratenko for 27 May. - Oleg Zhunusov in Vladivostok

**IN BOLSHOI URAL, SUMIN SEEKS TO BRING GOVERNORS CLOSER TO PRESIDENTIAL REPRESENTATIVES.** At the meeting of the Bolshoi Ural Interregional Association in Chelyabinsk on 16 February, Chelyabinsk Governor Petr Sumin tried to reconcile Sverdlovsk Governor Eduard Rossel and Bashkortostan President Murtaza Rakimov with Presidential Representative to the Ural Federal District Petr Latyshev and the representative to the Volga District, Sergei Kirienko. Despite the meeting's ostensible focus on economic issues, there was a strong undertow of political tension. The meeting was reminiscent of last year's gathering in Bashkortostan where Rossel and Rakhimov sharply criticized the federal authorities. That meeting was supposed to take place in Chelyabinsk, but Sumin, who was seeking reelection on 24 December, did not want to anger the federal authorities before the voting in his region. Sumin did not attend the December meeting. Now that the elections are over, Sumin welcomed the rebellious Ural elite to his region. However, Sumin did not join the opposition to Putin's reforms. Rather, at his urging, the association appealed to Latyshev and Kirienko for better cooperation.

Rossel, the president of the association, said that his overtures to Latyshev and Kirienko had met with silence. Rossel claimed that the jobs of the presidential representative and governor did not overlap. But his assertions that he was not in conflict with the federal authorities did not ring true since later in his talk he said that the representatives were unjustifiably trying to take on additional powers. The governors believe that Latyshev is indifferent to the association's work or even disapproves of it. Sumin is working to bring the two sides together.

Thus on the eve of its tenth anniversary, the association is facing a potentially serious split. The divide goes beyond the fact that several regions traditionally regarded as belonging to the Urals ended up in the Volga Federal District established by Putin (Bashkortostan, Udmurtiya, Perm, Orenburg). Rossel and Sumin have given up the hope that Putin will redraw the boundaries of the federal districts to include more Ural regions in the Ural Federal District. The victory of Latyshev's former assistant, Sergei Sobyenin, in the Tyumen Oblast gubernatorial elections is also a key factor in the association's disunity. Earlier the resource-rich Khanty-Mansi and Yamal Nenets autonomous okrugs, which are part of the oblast, had announced their intention to join the association. Following Sobyenin's victory, however, they are no longer interested in doing so. In fact, Tyumen Oblast sent a very low level delegation to the meeting in Chelyabinsk, when governors represented most other regions.

At the end of the meeting, the governors left the future of the association undefined. Continuing in its present form will be very difficult for the association. The governors' club has changed dramatically after the elections in Tyumen, Orenburg, and Perm. The new leaders there are in no hurry to back the triumvirate of Rossel-Sumin-Rakhimov. There is also not a new leader who could unite the various Ural regions around a new platform. Latyshev might be such a leader, as Sumin was trying to indicate to his colleagues. However, the other governors have yet to agree with Sumin or are simply waiting to see how events develop. - Igor Stepanov in Chelyabinsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**THREE TYUMEN GOVERNORS START TO COOPERATE.** On 15 February, the three Tyumen governors met within the framework of their Governors' Council and signed a socio-economic cooperation treaty that will better coordinate the activities of Tyumen Oblast, and the Khanty-Mansi and Yamal Nenets autonomous okrugs, which are located on oblast territory. Governors Sergei Sobyenin, Aleksandr Filipenko, and Yurii Neelov also jointly reviewed the results of oblast-wide programs in 2000 and discussed financing for 2001. This type of cooperation marks a new stage in the oblast's development since previously Filipenko and Neelov had been at war with former Tyumen Oblast Governor Leonid Roketskii. Sobyenin defeated Roketskii in the oblast's 14 January gubernatorial elections with support from the okrugs.

After the meeting, the three governors announced that their new cooperation removed the need to create a State Council of Governors. They decided to leave the status of the Governors' Council unchanged. However, the governors created an executive arm for the council that would carry out oblast-wide programs using resources from all three regions.

Sobyenin said that the oblast's resources should be used to develop productive enterprises that would generate tax revenue in the poorer, southern part of the oblast. Then the southern part of the region would no longer have to seek funds from the energy-rich northern okrugs. Yamal Nenets Governor Neelov said that his region would invest in housing to be built in Tyumen because many of the northern residents, mostly natural gas field workers, wanted to have housing in the more southern oblast capital.

The governors said that it did not make sense to adopt a federal law defining the relationship between all of Russia's okrugs and the regions of which they are a part. Rather, they proposed developing a federal law to deal specifically with Tyumen and promised to make their suggestions known shortly.

Russia has 10 autonomous okrugs of which only one (Chukotka) is a fully independent region. Several poor okrugs would be happy to join the oblast on whose territory they are located. Rich okrugs, however, are more interested in winning their independence. - Sergei Pushkarev in Yekaterinburg

## **GOVERNORS' ELECTIONS**

**TATARSTAN RACE SET.** The Tatarstani Central Electoral Commission has ruled that five candidates will participate in the republic's 25 March presidential elections. The candidates are incumbent President Mintimer Shaimiev, State Duma deputies Ivan Grachev and Sergei Shashurin, Second Secretary of the republican Communist Party Robert Sadikov, and First Deputy Mayor of Zelenodolsk Aleksandr Fedorov. Fedorov's candidacy is to ensure that there will be at least two candidates in the race in case Shaimiev's real opposition withdraws. Russian law requires that elections have more than one candidate.

No one doubts that Shaimiev will win. The newspaper *Zvezda vostoka* (15-21 February) predicted that he would score a 85 percent majority. However, there is a considerable protest vote in the region. The Communists hope to take 20-30 percent and some of the ethnic Russian population will vote against Shaimiev.

Well-placed sources claim that the president and his staff are nervous about the elections despite the weak competition. Shaimiev is now unusually active in traveling across the republic. While claiming that he wants clean elections, Shaimiev is clearly using the resources of his office to support his campaign. He has ignored the law requiring him to campaign only during non-business hours.

The opposition in Kazan has just published a book called *Osobaya zona: vibory v Tatarstane* which shows that the results of all the elections held in the republic during the last ten years have been falsified. Hopefully, 25 March will be different. - Midkhat Faroukshin in Kazan

## **LOCAL GOVERNMENT**

**ULYANOVSK CITY SEEKS NEW FUNDING SOURCES.** The adoption of the second part of the Russian tax code in 2000 significantly reduced the tax income of Russia cities. Now urban centers like Ulyanovsk must actively seek new sources of income.

Ulyanovsk First Deputy Mayor Viktor Moiseev said that he was ready to intensify efforts to collect back taxes that now total 400 million rubles, about half of the city's annual budget. Similar efforts have been tried before but without success. Now the city will work with enterprise directors, encouraging them to sign agreements with deadlines for paying their debts. If this voluntary system does not work, the city officials threatened the enterprises with court cases and bankruptcy.

The Aviastar aircraft maker and the Ulyanovsk Automobile Factory (UAZ) owe the most: 70 million rubles and 16 million rubles respectively. Recovering the Aviastar debt is considered hopeless, but Moiseev believes that it will be easier to collect from UAZ since Severstal, one of Russia's three largest steel makers, recently bought it.

Because the city no longer receives housing taxes, VAT, and sales tax as a result of the new tax system, Ulyanovsk depends on the effective use of its property. A major problem is that many owners of private buildings do not use them and thus avoid most taxes.

The city's financial planners estimate that the city loses 175 million rubles a year in the way that it taxes retail trade. However, the artificially low tax rate does not translate into lower prices for consumers. The mayor hopes to correct this law.

At the end of January, Mayor Pavel Romanenko raised the prices residents pay for municipal services. The price for hot water went from 5 to 30 rubles a person, while heating went from 35 kopecks to 2.5 rubles per square meter. After numerous public protests, the hikes were partially rescinded. Hot water will cost 20 rubles a person and heat, 1.2 rubles a square meter. Accordingly, the average person's payment will go up 35 percent rather than 60 percent. Thus the city will pay for 48 percent of the cost of municipal services rather than the previous 60 percent. The reduced city contribution is possible because Governor Vladimir Shamanov promised to subsidize heating from the oblast budget. The mayor blamed the high prices on the high cost of energy.

According to Ulyanovskenergo, the city's municipal system owes 1.8 billion rubles in back payments for energy use. In February, the city has only paid for 8 percent of its energy usage. The company claimed that it was effectively providing energy to the city for free, drawing on its own resources.

City housing officials believe that the budget will pay for 441 million rubles for the housing system at a time when its debts are 3.3 billion rubles. Thus, most of the expenses will not be covered. Accordingly, the mayor's offices has divided price hikes into two steps. The first took place on 1 February. The next hike will occur on 1 October, when the next heating season begins. - Sergei Gogin in Ulyanovsk

**ELISTA CITY COUNCIL ELECTS MAYOR.** On 9 February the Elista City Assembly (Kalmykiya) reelected Radii Burulov as the city's mayor. According to the city charter, the mayor is simultaneously the head of the Assembly as well.

The Assembly was elected on 4 February in a campaign that pitted the republican authorities against the opposition, largely represented by the Yabloko party. The authorities registered candidates in all 11 districts, while the opposition succeeded in only eight. None of the opposition candidates won office. From the so-called "soft opposition," only one candidate won, the head of the local Soyuz pravykh sil, Natalya Manzhikova. Candidates loyal to the authorities won all the remaining seats.

The mayoral election was much more exciting than had been anticipated. In Elista, the Assembly chooses the mayor from among his members, rather than having a direct popular vote. Unexpectedly Vyacheslav Kuyukinov nominated himself as a candidate. He is the general director of the Kurer company, a conglomerate that has interests in communal services, transportation, hotels, and gas stations. Kuyukinov had never opposed the city authorities before.

Ultimately, 8 of the 11 deputies voted for Burulov. However, it is clear that the political divisions within the Assembly are more complicated than it initially appeared after the overwhelming victory of the "party of power."

In fact, scandal has surrounded Burulov since the election. Just before election day, falsified ballots were found in the precinct where he votes and the procurator has opened an investigation into possible vote tampering. On election day itself there was a fist fight among election observers and members of the electoral commission at one of the polling places. Although Burulov won 45.5 percent of the vote, more than the combined total of his three competitors, the events cast a shadow on the legitimacy of his election.

Judging by the first steps of the assembly, the authorities' control over the city legislature does not appear to be monolithic. While the authorities managed to defeat the radical opposition, they may now face a split within their own ranks. - Vladimir Volgin in Elista

## **TRANS-FRONTIER COOPERATION**

### **RUSSIAN, UKRAINIAN BORDERS DISCUSS SETTING UP EUROREGION.**

On 16 February the foreign ministers of Russia and Ukraine met in Kharkov to discuss questions of cross-border cooperation. During the meeting the ministers met with governors of border regions from both countries. The Ukrainian participants included executives from Donetsk, Zaporozh, Lugan, Suma, Kharkov, and Chernigov oblasts, as well as the Crimean Autonomous Republic. The Russian side included governors from Kursk, Tula, Bryansk, Belgorod, Voronezh, Rostov, and Krasnodar.

The main goal of the meeting was increasing the level of bilateral border cooperation between the two countries, intensifying trade, and expanding production cooperation, according to the Ukrainian authorities ([www.ufs.kiev.ua/news](http://www.ufs.kiev.ua/news)). In 2000 trade between the border regions grew 80 percent and reached \$1.5 billion. Border trade accounts for one fifth of overall trade between Russia and Ukraine, which grew 18 percent in 2000 and reached \$8.5 billion. The level of border trade is particularly impressive since none of the regions are heavily involved in the oil and gas sector. Belgorod is one of the leaders on the Russian side, since it is home to more than 500 enterprises with Ukrainian investment. Rostov has about 100, and Voronezh, 50.

However, all is not well in this sector. Although Russian and Ukrainian regions have signed about 250 cooperation agreements, the majority of them are not currently functioning ([www.ufs.kiev.us](http://www.ufs.kiev.us)). The border regions are expected to become models for inter-regional trade between other Russian and Ukrainian regions, so there is increased interest in them.

Russian Foreign Minister Igor Ivanov made an extremely optimistic speech about the prospects for cross-border trade ([www.ln.mid.ru](http://www.ln.mid.ru)), noting the general move toward a

"Europe of the regions" across the continent. Both Ukraine and Russia have participated in some of the 75 existing Euroregions. Russian regional and local authorities participate in the Kareliya, Baltika, and Saule Euroregions, while Ukrainian authorities participate in the Carpathian, Bug, and Neman regions.

There is currently no such region on the Russia-Ukraine border even though there are good pre-conditions for establishing one. The close physical proximity, historic trade, and humanitarian contacts, and the high level of mutual dependence in production and infrastructure make cooperation important for both states. Russia sees this cross-border trade as achieving its goal of strengthening the CIS.

The governors turned out to be more practical than the ministers and took the first concrete steps in further developing cooperation. The leaders of the Ukrainian Donets, Lugan and Kharkov oblasts and the governors of Belgorod and Rostov signed a memorandum on joint action to utilize the water basin of the Northern Donets, which flows through all of the territories. The regions plan to create a joint commission on improving the ecological health of the basin at the gubernatorial or deputy gubernatorial level.

The Russian governors who participated in the meeting said one of the major problems was the lack of sufficient legislation on trans-frontier cooperation. A significant step forward would be the Russian parliament's approval of the European Framework Convention on Border Cooperation. Russia signed the agreement in November 1999. Once the treaty is ratified it will become part of Russia's legal base and significantly improve the legal environment for cross-border cooperation in Russia. - Sergei Sarychev in Kursk

## **BOOKS WORTH READING**

### **WHY DO RUSSIA'S REGIONS HAVE DIFFERENT POLITICAL REGIMES?**

Vladimir Gel'man, Sergei Ryzhenkov, Michael Brie, *Rossiia regionov: transformatsiya politicheskikh regimov* [Russia of the regions: the transformation of political regimes] Moscow: Ves mir, 2000.

Since the collapse of the Soviet Union in 1991, the 89 constituent regions of the Russian Federation have developed widely different political regimes. In some, a single leader is able to dominate the scene so decisively, including the manipulation of elections, that he can effectively rule through personal ties with other politicians and businessmen. In other regions, several actors compete by a set of formal rules to determine who will be the leader. In *Rossiia regionov*, Vladimir Gel'man and his colleagues wrestle with explaining why some regions have somewhat more democratic regimes and some have less democratic systems.

The authors look in depth at six regions: Saratov, Nizhnii Novgorod, Volgograd, Ryazan, Ulyanovsk, and Tver. While these regions hardly represent the diversity of Russia's 89 constituent parts, they provide an interesting lens to view regional political development. By examining their history from the late Soviet period through the middle of 1999, Gel'man develops some ideas about political change in general.

All six of the regions started with similar regimes in the late 1980s. By the summer of 1999, three had new political regimes in place and three still faced uncertainty in that no new political regime had replaced the old one that had been destroyed. Gel'man ranks the regions in terms of level of democratization by placing Volgograd at the top, Nizhnii Novgorod and Ulyanovsk at the next level down, then Ryazan and Tver, with Saratov at the bottom. The key yardsticks are the competitiveness of the actors and the importance of formal political institutions (meaning well defined and fair rules of the game).

At first glance, such a ranking can seem rather arbitrary. But this is in fact a very sophisticated book. It lays out the cases systematically, making it possible to compare across regions, identifying similarities and differences.

Gel'man's ranking is counter-intuitive and differs greatly from the usual wisdom about Russia's regions. The book argues that Volgograd, with its Communist governor and Communist-dominated legislature, is more democratic than, say, Nizhnii Novgorod, where the "wunderkind" Boris Nemtsov was once governor. The analysis makes clear that the battle between governor and mayor in Volgograd creates a situation in which formal institutions matter and have been more resilient than in Nizhnii, where an elite agreement limited the level of democracy under Nemtsov.

In the concluding chapter Gel'man develops a two-fold explanation of regional political change that emphasizes the importance of the Soviet legacy and the character of the transition for explaining the appearance of different regimes in the Russian regions. The Soviet heritage determined the potential framework of possible transitions, while the character of the transition shaped its main specifics. The important aspects of the Soviet legacy are the region's economic system (whether primarily agricultural or more balanced with industry) and the resources available in the region, a feature that, of course, was determined before the Soviet era. Thus, agricultural dominance in Saratov Oblast and the inability of the urban elites to break free (the absence of a rural-urban divide) set the basis for the rise of Governor Dmitrii Ayatskov's authoritarian style regime.

In terms of the character of the transition, Gel'man points out that a strategy of compromise among the key actors in the destruction of the old regime combined with observation of formal institutions could lead to the establishment of a stable regime with many political players. However, this did not happen in any of the cases under study.

Gel'man's conclusions are sensible and it is hard to find fault with them (though sometimes the character of the transition variables seem to serve simultaneously as cause and effect). Along the way, he offers numerous insights on a variety of subjects. He maligns the much-maligned "Transitologists." In his view, this school of thought seemed to view political change much the way Hollywood designs movies. The old regime fell apart, transition ensued, the inevitable result was democracy, and everyone lived happily ever after. Gel'man makes clear, however, that democracy is not the only outcome and in many cases, political systems live on with continuing uncertainty. Despite its criticism of transitology, this book builds on the work of this school rather than dismissing it altogether in favor of a new approach.

One interesting methodological question the book raises is whether it makes sense to apply theories of regime change developed to explain processes at the national level to sub-national entities. After all, what happens at the regional level is often determined by factors at the national level. Gel'man's answer is that national governments are likewise

subject to exogenous international influences, so there is not really that much difference between national and sub-national governments. This is an interesting argument, but the federal government still plays more of a role in regional regimes than external factors do at the national level.

Since the period covered in this book (through the middle of 1999), the federal government has made a concerted effort to strengthen its position over the regions. Some might use this evidence to say that Gel'man's point no longer holds valid. However, except in the most extreme cases (such as Primorskii Krai), President Vladimir Putin seems to be allowing regional leaders to rule their regions as they see fit. In this sense, Putin is not addressing one of Gel'man's key findings. Gel'man argues that the main danger for Russia is not that it will disintegrate, but that there will be increasing differentiation among the regional political regimes. He warns that Moscow could lose control over the legitimate use of force to regional leaders. Thus, Moscow's future could be that of Bogota, where political and/or criminal groups beyond the reach of the national government and each other control significant parts of the country outside the capital's borders.

Unfortunately, the audience of the book will likely be limited to scholars since it relies heavily on the esoteric language of political science to explain the nuances of regional political life. Gel'man is looking for the causes that can explain different outcomes. Pinpointing the differences takes him and the diligent reader into a thicket of jargon that will be somewhat forbidding to anyone unfamiliar with the political science literature on regime change. Thus, Saratov is a "monocentric, uncompetitive regime in which informal institutions dominate." In other words, one person holds all the power, there is no effective opposition, and the leader rules through a system of buying allies largely by trading favors. Journalists, of course, would make more of the fact than this book does that during the 1970s most of this process took place in the sauna.

Overall, this book is a somewhat difficult read, but one that has tremendous insights. For regime change theorists, Gel'man tweaks the existing theories to bring them into better line with Russian reality. For those primarily interested in understanding political development in the Russian regions, Gel'man provides a useful framework for telling the story of political change during the last 15 years. The case studies are the most coherent histories of the regions that have come along yet. - Robert Ortung

## **SOMETHING COMPLETELY DIFFERENT (FOR THE RRR, ANYWAY)**

### **A CULTURAL HISTORY OF PERM**

By Petr Kozma, EastWest Institute, Moscow

Modern Perm Oblast lies on land that was once known as the "Urals Babylon." Numerous tribes lived on the land and legend has it that even the prophet Zarathustra, the founder of Zoroastrianism, was born in this region. Because of this past, Perm has always attracted mystics and their followers. People interested in the supernatural gather in the eastern part of the oblast, where UFOs are often sighted. Many believe that humans will be able to communicate with the cosmos from this place. During the 18th century, a



theory circulated that Perm was the location of the legendary country of Biarmia, described in ancient Scandinavian sagas as where the Vikings went to trade and hunt.

Perm is the only city in the world that has a period in Earth's history named after it. The geographer Sir Roderick Murchison named the last of the six periods in the Paleozoic Era the Permian Period in 1841 after a tour of Imperial Russia. The period began 290 million years ago and lasted for 45 million years.

For many centuries Perm was a place where political exiles were sent. The exiles fortified the land with culture, and helped build its schools, libraries, and hospitals. Prisoners of all variety were sent here. In the pre-revolutionary period, Klement Voroshilov, who rose to become the nominal Soviet president at the end of the 1950s, was exiled to the city of Cherdyni. During the Stalinist era, the poet Osip Mandelstam served time in the same place.

### **The First Russians in the Area**

The word "Perm" first appeared in the 12th century in the Primary Chronicle, the main source describing the early history of the Russian people. The Perm were listed among the people who paid tribute to the Rus. A Finno-Ugric people, the Perm are the ancestors of the modern Komi (for whom the Komi Republic, just north of Perm, is named). Around this time, the land around the Kama River gradually began to be called Perm the Great.

The origins of the word "Perm" remain obscure. Most likely, the word came from the Finno-Ugric languages and means "far land" or "flat, forested place."

The Novgorodian traders were the first to show an interest in Perm. Starting from the 15th century, the Muscovite princes included the area in their plans to create a unified Russian state. During this time the first Russian villages appeared in the northern part of the current oblast. The first industry to appear in the region was a salt factory, which developed on the Usolka river in the city of Solikamsk (which means Kama salt). This region was known for its pristine natural beauty and, before the 1917 revolution, particularly its tasty grouse (*Ryabchik* in Russian). In his verse, the proletarian poet Vladimir Mayakovskii considered this bird an essentially bourgeois food.

Christianity came to the Perm lands in the middle of the 15th century. Today some of the best pieces in the Perm Art Gallery are the unique collections of wooden sculptures of Christ and other biblical figures. The Orthodox Church preserved the ancient traditions of the local tribes who prayed to wooden idols by endowing them with a basis in the Christian faith.

### **The Founding of Perm**

The first Russians settled in what is now the city of Perm in 1723, when Peter the Great ordered the construction of a copper factory at the site. Perm became the capital of the Ural region in 1781 when Catherine the Great reformed the territorial structure of the country. At her command, a special commission studied the Ural region and determined that the best place for such a capital would be at the crossroads of what is now the Trans-Siberian Railroad, running east-west and the Kazan line, running north-south. Here a new

city was built on what was essentially open land. Catherine decree that the city would be named "Perm."

St. Petersburg and Perm are the only two cities in Russia that were built from scratch according to a plan. Both cities have streets laid out along straight lines. Perm's first governor-general, Yevgenii Kashkin, drew up the plan for Perm and the first governor, Karl Moderakh, transformed the drawings into a city. The construction of the main part of the city extended during the course of the nineteenth century. The contemporary writer Andrei Pecherskii noted in awe that Perm "is built even more correctly than New York and impresses any visitor with the straightness of its streets." In 1908 Perm was listed as one of the ten most livable European cities. The czars engaged Moderakh to rebuilt Moscow after it had been destroyed by Napoleon's troops in 1812. He also built the Fontanka Canal in St. Petersburg and the fountains at the Peterhof Palace just outside of St. Petersburg.

More connects St. Petersburg and Perm than their similar origins. During the Second World War, almost all of Petersburg's leading composers, writers, and artists were evacuated to Perm. The Mariinskii (Kirov) company presented its ballets there. Sergei Prokofiev wrote music. In an unheated Perm hotel, Aram Khachaturian composed "Dance with Sabres." Today the Perm Ballet School is one of the best in Russia and is on a level with St. Petersburg's. Many of the Perm Theater operas and ballets have become significant events in Russia's cultural life.

Perm has always been a center of culture. Thus it is no surprise that Catherine created a coat of arms for Perm of a bear, representing unspoiled nature, and a Bible, symbolizing culture and enlightenment.

### **Perm During the Communist Revolution**

Through the end of the nineteenth century, Perm was the center for Russia's mining industry. Workers smelted iron, steel, and tin. The region was also a key supplier of copper and produced a quarter of Russia's salt. Kizel provided coal. Prospectors in the Ural Mountains also found gold and platinum.

Toward the turn of the century, the majority of metallurgical factories turned to machine building. Foreign direct investment increased dramatically. In August 1878, the railroad arrived and now the city lies on the main track connecting Moscow with Siberia.

Perm had been the capital of the Central Urals for the 150 years before the 1917 revolution. Its domain included such cities as Yekaterinburg, Nizhnii Tagil, Shadrinsk, and Solikamsk. Many writers who visited commented on the "Perm spirit" and the sense of pride Perm citizens felt for their city. Pecherskii claimed that Perm was a "Russian version of China" since "it considered itself better than all other cities and fought for its place in the world." Anton Chekhov set his play "The Three Sisters" in "a provincial city like Perm."

The great impresario Sergey Diaghilev was born and raised in Perm at this time. His "Russian Seasons in Paris" went on to become a major event in world culture. The inventor of the radio, Aleksandr Popov, graduated from the local seminary. The nobel-prize winner Boris Pasternak included Perm in his great novel *Doctor Zhivago* as the city of Yuryatina.

Perm opened the first university in the Urals in 1916. Some of the best professors from Petersburg and Tartu taught there during their evacuation during the First World War.

Perm is generally stable and peaceful, so the shocks of 1917 did not reach it right away. They also did not have the same bloody results that they did in Petrograd. Soviet power was established in nearby Yekaterinburg on 26 October, one day after the revolution in Petrograd. Perm tried to distance itself from these excesses and did not share the revolutionary enthusiasm of its neighbor. Residents supported the more moderate parties. The local officials and intelligentsia generally voted for the Cadets, the party that stood for the establishment of a west European style democracy in Russia.

The Bolsheviks finally took power in Perm only in December. Even then, the Reds had to threaten the city that it would receive no firewood if it did not succumb to the Soviets. For a city where winter temperatures often reach to minus 30 centigrade, this was a serious concern.

The Bolsheviks did not forgive the residents of Perm for their resistance to the revolution. They also did not forgive the warm welcome Perm gave Admiral Aleksandr Kolchak, the commander of the white forces in the Civil War, in 1918. Thus in the beginning of the 1920s, after the founding of the USSR, the new rulers of the country moved the capital of the Urals region from "bourgeois" Perm to "proletarian" Yekaterinburg (which was renamed Sverdlovsk). As a result, Perm became an ordinary provincial center, although it still had a university and opera that residents of Yekaterinburg could only envy. One British visitor during this era described Perm as a "Urals Cambridge." In 1938, the Urals Oblast was divided in half and Perm became the capital of an oblast that was only one-fourth the size of the czarist-era Perm Guberniya.

### **Post-Soviet Perm**

Perm's desire for stability and moderation made the region seem like a "political swamp" during the democratic reforms of the 1990s. There were no intense social conflicts or strikes. Nevertheless, Perm was always among the regions that supported the democratic movement. In the 1999 national parliamentary elections, Sergei Kirienko's Union of Right-wing Forces, whose platform sought to continue the economic and political reforms of the 1990s, won a majority of the votes in the region. At the same time the Communists never played much of a role. While the Communist Party is the biggest voter-getter among all Russian parties nationally, it was only fourth in Perm.

### **Perm's Industry**

During the twentieth century, Perm experienced a period of rapid economic growth. In the 1930s, Soviet leaders built one of Europe's largest chemical and non-ferrous metal centers (focusing on nitrogen and potassium, titanium and magnesium) in the city of Berezniki. Among the people who built this center were the parents of Russia's first president, Boris Yeltsin. Yeltsin grew up here and graduated from the local high school.

During the Second World War more than 120 factories were moved to Perm Oblast and continued to work there after the fighting ended. Chemicals, non-ferrous metallurgy, and oil refining were the key industries after the war. In the forestry sector,

Perm boasted Russia's largest cellulose and paper plant, which became Europe's largest wood producer. Other factories produced aircraft engines, telephone equipment, ships, bicycles, and cable. A Perm press produces about 70 percent of Russia's currency and stamped envelopes. A river fleet, 13 train stations, and two airports connect Perm to 64 cities.

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### **Russia's Fate Through Russian Eyes: Voices of the New Generation**

*Edited by Heyward Isham with Natan M. Shklyar*

*Introduction by Jack F. Matlock, Jr.*

*Westview Press, 2001; 429 Pages; 0-8133-3866-2; \$30.00; hc*

"*Russia's Fate Through Russian Eyes* makes an important contribution to the West's understanding of the profound disorientation which the political, economic, and social upheavals have had on the lives of ordinary Russian citizens. These essays by rising young leaders of the post-Soviet generation, as yet largely unknown in the West, speak with unusual candor of the frustrations and deprivations, the loneliness and yearning for leadership that pervade all regions and walks of life. Heyward Isham has provided valuable insight into the issues that must be faced by the architects of Russia's future."

-- Henry A. Kissinger

In this ground-breaking work, twenty-eight young Russian intellectuals -- representatives of a new generation who came of age during and after the fall of the Soviet Union -- record the hopes, fears, and triumphs of recent years. Their "reports from the field" form a mosaic of professional and personal impressions, recollections, and recommendations bearing on Western policies as well as domestic priorities.

As witnesses to Russia's troubled, episodic, and contradictory transformation, the contributors have much to tell the West -- particularly those observers who tend to deprecate the importance of Russia as a nation following the collapse of the USSR.

It is unfortunate but true that multiple stereotypes about the sources of Russian conduct continue to pervade the global political debate and shroud that country's very real accomplishments in recent years. These personal histories offer a much more complex -- and ultimately heartening -- picture than the one the average Western newspaper reader is accustomed to seeing. For example:

-- In "**Reshaping the Russian State**," Professor Yurii Plyusnin recounts the results of his 19 sociological expeditions into the Russian countryside in the 1990s. His goal: to examine the "internal" responses of average Russian citizens to sweeping external reforms.

-- In "**Striving Toward Rule of Law**," founding president of the Russian Union of Young Lawyers Vladislav Grib analyzes the slow but steady process of judicial reform and the moral compass of young Russian lawyers.

-- In "**Civil Society Building Blocks**," Nadezhda Azhgikhina, prominent journalist and feminist thinker, illuminates the contradictory historical and cultural forces that have shaped today's burgeoning Russian feminism.

-- In "**Preserving the Culture, Modernizing Education**," Vladimir Mirzoev, resident director of the Stanislavskii Drama Theatre, discusses the central, subversive role of theatre in Soviet times and the paradoxical "cultural wasteland" created by the rapid transition to free speech and capitalism.

### ***What do reviewers have to say about Russia's Fate Through Russian Eyes?***

"...The contributors to this sturdy anthology are members of the post-Stalinist generation born in the '50s or early '60s who have attained success in various fields in post-Soviet Russia. The insights that they offer into these times are fascinating..." (*Civilization, October-November 2000*)

"A thoughtful anthology, presenting a plurality of views and explorations of the tumultuous first decade of democratic Russia. EastWest Institute Vice President Isham... has assembled a muscular array of 26 contributors, ranging from academics to entrepreneurs, each distinctly Russian in outlook.... These essays contain much that runs counter to accepted notions of Russian malaise and entropy... Similar recent anthologies have attempted to wrestle with the post-Communist chimera, but they usually were confined to economic or political analysis. While Isham includes much of both, he provides some refreshingly unorthodox commentary... A sober, comprehensive volume that variously provokes unease or reassurance, but ought to have something for all interested readers." (*Kirkus Reviews, January 15, 2001*)

*Heyward Isham, the editor of Russia's Fate Through Russian Eyes, is a thirty-five-year veteran of the U.S. Foreign Service. He served as political and economic officer in Berlin, Moscow, and Hong Kong prior to his appointment as Ambassador to Haiti. A long-time Russophile who has followed the country closely since his first posting to Moscow in the 1950s, Ambassador Isham is*

*a recognized expert on post-Communist societies in Europe and Asia and samizdat (underground Soviet literature). Ambassador Isham, who served as editor of Remaking Russia: Voices from Within, (ME Sharpe 1995), is currently Vice President of the EastWest Institute, New York.*

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**BREAKING NEWS**

**NAZDRATENKO NAMED HEAD OF STATE FISHERIES COMMITTEE.** On 24 February, President Vladimir Putin appointed former Primorskii Krai Governor Yevgenii Nazdratenko head of the State Fisheries Committee, a move that gives credence to rumors that Putin had to strike a deal with Nazdratenko to gain his agreement on 5 February to resign as governor of Primorskii Krai and pledge not to run in upcoming elections. Putin reportedly offered Nazdratenko the position during their 14 February meeting (*Kommersant-Daily*, 26 February).

Reaction in Moscow was uniformly negative. *Vremya Novostey* reported on 26 February that Minister for Economic Development and Trade German Gref was categorically opposed to the appointment. Gref's ministry is working with the State Fisheries Committee to organize the auctions for fish quotas, a policy which Nazdratenko opposed vociferously as governor of Primorskii Krai. Prime Minister Mikhail Kasyanov is believed to have approved the appointment reluctantly and to have supported another candidate for the position, Acting Chairman Aleksandr Moiseev.

According to a 24 February report from *polit.ru*, Nazdratenko's supporters claim that the former governor has the necessary experience for the job, but his more numerous critics



note that it is more likely that his appointment will compound the corruption endemic to the fishing industry. According to Presidential Representative to the Russian Far East Federal District Konstantin Pulikovskii, anyone in the government who thinks that Nazdratenko is the right individual to rejuvenate the ailing Russian fishing industry, is mistaken (*The St. Petersburg Times*, 27 February).

## **CENTER-PERIPHERY RELATIONS**

**PUTIN BUMPS SHAIMIEV FROM STATE COUNCIL AGENDA, FOCUSES ON LOCAL GOVERNMENT, LAND.** In organizing the February State Council session, President Vladimir Putin showed that he was not ready to listen to what the governors have to say. Tatarstan President Mintimer Shaimiev was supposed to present a document he had developed on the division of power between the center and the regions to the State Council Presidium at its 20 February meeting. However, Putin only allowed him to make a short announcement about how work is proceeding without discussing any of the content in the report.

The presidential administration decided to block Shaimiev's talk after reviewing the document that he had prepared. In it, Shaimiev suggested ending the practice of joint management between the federal and regional governments. The current Russian constitution now assigns many functions to such joint control, leaving it unclear who is really in charge. Shaimiev suggested clearly dividing all powers and laying this division out in treaties signed between the central government and the regions. Shaimiev also suggested radical changes to Russia's legislative process. He proposed that all members of the Federation Council should have a "delaying veto" on any bill they did not like. If one representative did not like a piece of legislation, the law-makers would have to review it again. State Duma Member Sergei Popov (Yabloko) argued that such a procedure sought to "pull apart" the Russian state.

The presidential administration covered up the decision not to give the floor to Shaimiev by claiming that the Council had to address the issue of land reform instead. However, it is obvious that the administration did not want to give legitimacy to Shaimiev's position advocating the transformation of Russia from a federation into a confederation, a move that would require substantial changes in the Constitution. The Kremlin officials felt that they had made so many concessions to the regional leaders in the last few weeks, for example, allowing many, including Shaimiev, to run for a third term, that it was not necessary to provide such a "bully pulpit" as well. Eventually, the State Council will have to address this topic, but clearly the tone of Shaimiev's document will change.

Accordingly, the State Council Presidium focused on the other scheduled issue of local government. Former Tyumen Governor Leonid Roketskii, who remained in the State Council on the basis of a special presidential decree, presented a document that essentially sought to strengthen regional governments at the expense of local (municipal) governments. However, Putin spoke out strongly in favor of local governments. The president said it was necessary to give local government a greater share of the overall tax revenue than they currently receive, particularly in terms of the taxes on property, land, real estate, and retail trade (sales tax). Putin also said that it would be important to increase local government's share of several federal taxes,

which would be directed straight to local budgets. Apparently, as a result of his recent trip to Siberia, Putin has asked himself how local governments can carry out their responsibilities for providing housing and municipal services if the federal government is taking up all of the country's financing. Putin's statements were an unpleasant surprise for Prime Minister Mikhail Kasyanov and his cabinet since they had fought with great difficulty in 2000 to gain greater federal control over taxes that had previously gone to the regions and cities. Thus, the government must now rework the second part of the tax code, which was adopted last year. On the other hand, Putin said that local governments faced no obstacles beyond "bureaucratic sluggishness." Thus Putin effectively suggested that the governors could intervene in local government if the mayors could not deal with their problems themselves.

Meeting on 21 February, the State Council itself examined the issue of land reform. Putin ordered Kasyanov to discuss land reform with the regions by 20 March. Subsequently, he has to present a draft land code to the government by 20 April and submit it to the Duma by 1 May, so that it could adopt a land code by the end of the spring session. The Russian legislature began considering the current draft in 1994, but has not been able to adopt it. The main hang-up is whether to allow buying and selling of agricultural land. This question will not be included in the new legislation that Kasyanov will submit to the legislature. In essence, Putin proposed that the federal government adopt a framework law and then allow the regions implement their own policies. Thus, each region will be able to determine whether land can be bought and sold, procedures for renting, and who will be able to buy land and on what terms. Thus, the federal government would allow the regions to either permit the sale of land or forbid it altogether. While this policy will not give Russia a unified legal system, observers believe that it is the only way to deal with the land issue now. Many critics have argued that Putin and the government are moving too slowly on reform in general and they are eager to make some progress in specific areas such as land reform.

In the near future, Putin will introduce new members of the presidium, whose membership changes every six months. Putin is personally choosing the new members. - Pavel Isaev in Moscow

**IRKUTSK GOVERNOR CAREFUL ON LAND SALES.** Upon returning from the 21 February State Council meeting, Irkutsk Governor Boris Govorin said that policy on land reform had to be weighed carefully. "The ability to own land led to a class of farm laborers. We know that the peasants who currently work the land do not have the money required to buy it. Thus, in order to continue their business they must go into debt to the owner, usually under very difficult conditions." - Teleinform in Irkutsk

**PROCURATOR SUMMONS SMOLENSK GOVERNOR FOR QUESTIONING ON CRIME LINKS.** The presidential administration's Main Oversight Department has determined that "The scale and character of organized crime in Smolensk Oblast presents a real threat to the security of the population and the state agencies working in the region," Chief Federal Inspector for Smolensk Oblast N. V. Rudak announced on 22 February. "Federal laws and other normative acts to deal with these problems are not be applied in a reliable way," he said

*(Rabochii put, 23 February)*. The Main Oversight Department has been conducting an investigation of the region for the last year.

Smolensk Procurator Ye. A. Agarkov said at the same press conference that "Governor Aleksandr Prokhorov had been questioned several times and now the investigation has turned up several pieces of evidence and facts that give us the right to call him in for further questioning." Agarkov also said that soon charges of abuse of office would be filed against former Deputy Governor Yu. A. Bolbyshkin.

Additionally, the procurator announced they investigators had made no progress in determining who was behind a series of contract killings in the oblast, which included the assassination of Kristall diamond factory General Director A. I. Shkadov. The case has been covered widely in the region. The procurator complained, however, that his office did not have the resources to bring the perpetrators to justice. Additionally, the procurator has no leads in determining who killed the well-known Smolensk journalist and businessman S. S. Novikov or Chairman of the oblast administration's Committee on Social Security I. I. Safonov.

The only case where there has been some movement was the murder of Bakhus General Director S. A. Kolesnikov, where four suspects have been arrested. Chief Federal Inspector Rudak argued that Kolesnikov would be alive if the Smolensk Oblast leadership had demonstrated the political will to deal with the conditions, which led to his demise. The representatives of the federal law enforcement agencies said that they were seeking the support of the Smolensk governor in their activities, but noted that "this political will has been lacking until now."

The federal law enforcement officials also were angered by the draft 2001 Smolensk Oblast budget. They claimed that it proposes spending one fifth of the oblast's revenues on its public officials. The projected cost of supporting these officials is 220 percent more than it was in 2000. So far the oblast legislature has adopted the budget in the first of the three required readings. - Arsentii Ledovskoi in Smolensk

**FEDERAL INSPECTOR OFFERS TO WRITE ECONOMIC PLAN FOR NEW NIZHNI GOVERNOR.** Chief Federal Inspector for Nizhnii Novgorod Oblast Sergei Obozov has offered to prepare an economic program for the region's next governor who will be elected later this year. So far, neither of the announced candidates, incumbent Governor Ivan Sklyarov and Entrepreneur Andrei Klimentev (who had been elected mayor of Nizhnii Novgorod but then was disqualified because of his criminal record) has a clearly defined economic program. There are no economists among the other potential candidates.

Obozov believes that he can prepare a competent program that would be suitable no matter who wins the race. Presidential Representative to the Volga Federal District Sergei Kirienko discussed the idea with Minister for Economic Development and Trade German Gref, who proposed engaging the experts at his Center for Strategic Planning.

Many members of the oblast's Legislative Assembly support Obozov's initiative. Politicians seeking office at a time when the region does not have enough money to meet its needs and is running a deficit are not interested in any realistic economic programs. Such a program would inevitably include unpopular measures. Implementing them would likely violate the promises a candidate made during the campaign. Thus, Obozov supports the creation of an

oblast level government, which could implement such a program independently regardless of the election results.

With this initiative, Kirienko and Obozov seek to make the oblast's leadership independent of its voters. The thrust of their plan suggests that the oblast should be run like an enterprise with an effective manager. One problem with the analogy, however, is that a manager can get rid of redundant or unqualified staff to make his enterprise more efficient. However, the governor cannot deal similarly with the local population. - Yurii Rodygin in Nizhnii Novgorod

## **PATTERNS OF REGIONAL DEVELOPMENT**

### **BUDGET DEPENDENTS GAIN CONTROL OF ULYANOVSK CITY COUNCIL.**

Ten months after the Ulyanovsk City Duma was disbanded, the city once again has a legitimate legislature. Following new elections, the most striking feature of the new body is that a majority of the 15 members are teachers (5) and doctors (4), i.e. professionals who receive their salaries from the city budget. Most likely this situation will make it difficult for the city Duma to approve the unpopular measures, which the mayor must adopt given the crisis the city faces in providing municipal services and its huge debts to its energy providers.

This problem already became apparent in the first Duma session held on 26 February. The Duma extended until 1 June access to free public transportation for the city's pensioners even though the mayor had proposed abolishing this benefit in favor of targeted aid. The current members of the Duma were elected on the wave of protests against unpopular increases in the fees charged for municipal services, which the mayor had adopted to ensure heating supplies through the end of this winter. The current body lacks lawyers and economists and is made up of low-paid city employees. Thus, at a minimum, it will take them a considerable amount of time to develop an approach for increasing budget revenue rather than simply spending funds which do not exist. - Sergei Gogin in Ulyanovsk

## **NUCLEAR ISSUES**

### **CHELYABINSK DIVIDED OVER NUCLEAR WASTE IMPORTS AS**

**NEIGHBORS PROTEST.** In December 2000, the State Duma approved a bill in the first of three readings that would allow Russia to import and process foreign nuclear waste, earning up to \$20 billion (see *EWI Russian Regional Investor*, 24 January). Many regional leaders have spoken out against this law, fearing that it would have terrible ecological consequences for the country. Some industry experts have played down this danger. The only Russian enterprise that could store and gradually process the material is Chelyabinsk Oblast's Mayak plant.

At the 22 February session of the Chelyabinsk legislature, Mayak General Director Vitalii Sadovnikov, one of several oblast legislators who represent the nuclear industry, called on his colleagues to speak out against the opposition to the project. He said that several regional legislatures had sent protest letters to the Russian president asking him to reevaluate the program. Orenburg Oblast legislators warned that the program threatened Russian security. Legislators in Bryansk, Kemerovo, and Sakhalin have called for banning the import of any radioactive material into Russia. Sadovnikov said that Chelyabinsk should protest these actions,

pointing out that everyone will have to take into account the opinion of representatives of the region where the nuclear waste would actually be stored.

Sadovnikov warned that by delaying a decision on the issue, Russia was losing out in the processing market to British and French companies. He claimed that the German and Finnish markets were already lost, the Hungarian and Czech markets were almost lost, but held out hope that Russia could still work in Bulgaria and Ukraine. However, to compete, he claimed, Russia needs to adopt a federal law.

Sadovnikov's appeal did not win unanimous support from the Chelyabinsk legislature. In the past, Mayak paid 12.5 percent of the hard currency it earned from processing such fuel to the oblast, which used the funds to buy imported medical equipment and pharmaceuticals. Additionally, Mayak could use an additional 12.5 percent of the revenue for its own needs. Now the federal government will take all of the income for itself. Under these conditions, many in Chelyabinsk are asking: why should the region take such risks if it will not even be paid?

Additionally, Deputy Dmitrii Meshkov pointed out that the adoption of the federal law could lead to the import of 20,000 tons of spent nuclear fuel, which could present a considerable risk to the local population. Mayak is only capable of processing 150 tons a year and it must also deal with the 50 tons that come from domestic nuclear power plants and nuclear submarines. During 1999 and 2000, Mayak only processed 120 tons each year. Mayak Deputy General Director Yevgenii Ryzhkov pointed out that in principle Mayak could process 400 tons a year. However, the question of where and how all the material would be stored remains unanswered.

The deputies had fewer objections to Sadovnikov's proposal to resume construction on the South Urals nuclear power plant after an 11-year hiatus. Seventy percent of the deputies are industrial managers who are now facing higher energy prices and would benefit from new sources of cheaper energy. However, the project is most likely not feasible since it will require \$1.5 billion in investment and a minimum of 8 years of intensive work. Several other regions like Voronezh, Saratov, and others are also seeking federal funding for similar construction projects.

Since many of the Chelyabinsk legislators believe that importing the nuclear waste and finishing construction on the nuclear power plant would turn Chelyabinsk into a "nuclear dump," the legislature decided to set up a commission to study the problem and present several possible solutions. The legislature also decided to set up a council of experts to examine the issues. - Igor Stepanov in Chelyabinsk

## **TRANS-FRONTIER COOPERATION**

**DAGESTAN SEEKS MORE TIES WITH AZERBAIJAN; HAS NONE WITH GEORGIA.** The issues of cross-border trade and improving the activities of the customs services within Russia and its neighbors are a top priority for Dagestan. Although Dagestan borders on Azerbaijan and Georgia, it currently only conducts cross-border business with Azerbaijan. According to the residents of Dagestan's Bezhtin Raion, which borders on Georgia, relations ended in the early 1990s, when the newly forming Georgian state expelled the Kvarel Avars living in the country. Now it is possible for Dagestanis to visit relatives in Georgia, but there is little discussion of trade since Georgia has nothing to offer on the Dagestani market.

Azerbaijan, by contrast, has long been the home of many Dagestanis and is relatively well off. However, cross-border trade has been a long saga of conflict at the Yarag-Kazmalyar checkpoint. This place is often called the "golden bridge" thanks to the bribery required by the customs agents and border guards on both sides of the border. The crossing has long been a headache for Dagestanis and residents of neighboring regions who depend on it for trade.

The checkpoint, built in 1992, is known for its slow service. Often large trucks wait many hours before crossing even when they have perishable cargo such as persimmons. The Dagestani Independent Drivers' Union has long protested the way its members are treated. From December 1994 to September 1996, the Russian government limited traffic from Georgia and Azerbaijan, fearing that those entering the country wanted to help the Chechens in their war against Russia. In 1995 Isalmagomed Nabiev, the head of the drivers' union, presented considerable evidence of bribe taking among the Dagestani customs services and border guard division. The agents responded by pointing out that the truckers committed many technical violations crossing the border and the post's ability to deal with the traffic was inadequate. The union lost several court battles in which it sought to improve conditions. In September 1998 approximately 350 drivers held several protests, which threatened to hurt the republican economy. After this action, the Dagestani government eliminated many of the private contractors that were extracting many of the bribes, allowed only the customs and border guard service to work the border, and lowered the customs fee to a maximum of 0.15 percent of the value of the goods being transported.

Dagestan sends Azerbaijan meat, vegetables, butter, flour, sugar, and domestic appliances. In return, Azerbaijan sends greens, mandarins, pomegranates, figs, flowers, and inexpensive textile products. Following the closure of the Makhachkala airport during the last 18 months, Turkish textiles, leather goods, and sweets arrive via Baku.

Border trade employs hundreds of residents of the border region. Often tourists or small traders who do not want to stand in the hours-long lines pay locals 30 rubles for a taxi service that takes them across the border without having to stop for an inspection. There are also a large number of cafes and other services around the transit post.

The border guards point to their various successes in keeping "undesirables" out of Russia. For example, they claim to have captured two Chechens with healing gunshot wounds, a large sum of money, and Wahabbi literature. The shuttle traders also appreciate the Russian border service because its members make it possible for anyone to cross the border for a fee and prevent Dagestani bureaucrats from charging even more. - Zaira Magomedova on the Dagestani-Azerbaijani border

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## PATTERNS OF REGIONAL DEVELOPMENT

*After securing the resignation of Primorskii Krai Governor Yevgenii Nazdratenko, the Kremlin now must try to win the election of a loyal ally who can also make the region's energy system work effectively. However, nearly one month after Nazdratenko left office, the race is wide open and it is not even clear which candidate the Kremlin supports. The race will be a test of the Putin administration's ability to influence events on the ground beyond removing a few officials.*

**GUBERNATORIAL RACE TAKES SHAPE IN PRIMORSKII KRAI.** On 6 March State Duma member Viktor Cherepkov announced his intention to stand in the gubernatorial elections set in motion when Primorskii Krai Governor Yevgenii Nazdratenko resigned following a presidential phone call on 6 March. The elections are set for 27 May. Cherepkov is the first of the most serious candidates to announce his intention to run. Other potential candidates include Nazdratenko, Admiral Igor Kasatonov, Krai Duma Speaker Sergei Zhekov, and Deputy Presidential Representative to the Far East Federal District Gennadii Apanasenko.



Nazdratenko retains significant influence in the region. Krai Duma member Vladimir Gilgenberg believes that "it is enough for Nazdratenko to point to the most odious figure, and that person will be elected. The system of power that Nazdratenko built over eight years remains in place and its supporters want to maintain the status quo. Therefore they will do anything to elect the right person."

Despite comments like this, Nazdratenko's current power over the krai remains unclear. On one hand, his people still control the majority of local governments in the region. On the other hand, by taking his new job as head of the fishing ministry, Nazdratenko has limited his options somewhat. Additionally, some believe that Nazdratenko resigned because the federal authorities threatened to reveal the illegal business activities of his young sons, who were working under the protection of their father.

Nevertheless, Nazdratenko will participate in the krai elections. He will likely back Krai Duma Speaker Sergei Zhekov, who announced his plans to run in the race on 6 February, the day after Nazdratenko resigned. However, Zhekov is not an obvious winner and he is a relatively obscure politician in the region. He only became speaker of the krai legislature with the support of Nazdratenko, who was locked in battle with the previous chairman of the regional legislature, Sergei Dudnik. Zhekov could benefit from the use of powerful administrative resources, which have remained in Nazdratenko's hands thanks to the former governor's positioning of many people who remain in the krai leadership.

The candidate backed by the Kremlin also hopes to benefit from the use of such administrative resources. However, it remains unclear whom the Kremlin will support in the race. Admiral Kasatonov has claimed that the Kremlin backs him. He intends to arrive in the region on 11 March, but has little chance of success without the strong support of an active Moscow patron. He is relatively unknown in the region, has little direct experience working there, and possesses little time to make a name for himself. In fact, the krai legislature set the elections as early as possible to prevent outsiders like Kasatonov from launching an effective campaign. Moreover, there are many unpopular figures among his closest associates. His campaign manager is the former commander of the Pacific Fleet, Admiral Khvatov, who was fired after a scandal following sailors' death from hunger on Russkii Island. Cherepkov had worked at that time to defend the sailors. Another of Kasatonov's assistants is Igor Lebedinets, who once served as first deputy governor, but was dismissed when he claimed to have won the governorship for Nazdratenko and then sought the seat for himself.

Apanasenko has many of the same weaknesses that Kasatonov does. While Kasatonov has spent many of the past years working in Moscow, Apanasenko served as an assistant to Khabarovsk Krai Governor Viktor Ishaev. He is only a serious contender if the Kremlin backs him. He was supposed to meet with the president during the first week of March, but so far there has been no positive news from the Kremlin. Apanasenko is now avoiding journalists, helping to fan rumors that he does not have the president's backing. He obviously has the support of Presidential Representative in the Far East Konstantin Pulikovskii, suggesting that there are numerous splits within the Kremlin staff and that different factions are supporting different candidates in the race. This practice was common during the gubernatorial elections that took place last fall.

Several observers claim that the lack of a clear favorite in the race and the formation of a weak team around the Kremlin's ostensible candidate of Admiral Kasatonov is not the results of mistakes made by the presidential administration, but part of a subtle strategy by Chief of Staff Aleksandr Voloshin to remove Pulikovskii. Voloshin's support for Nazdratenko in the past is well known and Voloshin would clearly benefit from the election of a Nazdratenko ally. He would have a friend as the new governor and an excuse to replace Pulikovskii with his own person. Several weeks ago Putin signed a decree making the presidential representatives directly subordinate to Voloshin as chief of staff (see *EWI Russian Regional Report*, 31 January). - Oleg Zhunusov in Vladivostok

## **CENTER-PERIPHERY RELATIONS**

*President Putin had hoped to bring regional laws into line with federal laws by the end of 2000. However, the problem is much more complicated than the president initially assumed and opposition from key governors is not subsiding.*

**ROSSEL, LATYSHEV CONTINUE FIGHT.** Sverdovsk Oblast Governor Eduard Rossel continued to denounce Putin's federal reforms, this time in an interview with *Izvestiya* on 27 February. Noting that he was rereading the memoirs of Nazi military commanders, Rossel said that the Nazis had employed a system similar to the presidential representatives that Putin established, but had abandoned it because it created "chaos in the management of the state." Rossel argued that the president has all power in his hands and does not need representatives. He said that General Procurator Vladimir Ustinov would be sufficient to bring local laws into line with federal norms. Rossel criticized Presidential Representative to the Urals Federal District Petr Latyshev for "baseless and senseless" actions.

The previous week, Latyshev laid out his views and activities in an interview with *Uralskii rabochii*. He said that some progress had been made in bringing regional laws in line with federal ones, but that considerable amounts of work remained and that the question would be one of the most important issues in 2001. His focus is not only on laws, but sub-legal agreements as well. Thus, he noted that 92 percent of the municipal charters in the Ural Federal District violate federal law. Additionally, 48 of the 67 agreements signed between federal agencies and regional executive branch agencies violated federal laws. Latyshev said that his powers were growing in this regard because he not only is coordinating the harmonization process, but is setting up a mechanism to prevent such problems from occurring in the future. The federal authorities will have a big job in examining the legality of regional activities if they try to keep up with regional actions on a real time basis. - Sergei Pushkarev in Yekaterinburg

## **POLITICAL PARTIES**

*With the State Duma once again considering a no confidence vote in the government and potential early parliamentary elections if Putin disbands the Duma instead of sacking his prime minister, political party leaders are ratcheting up their efforts to win support across Russia's regions. While the parties on the right-wing section of the political*

*specturm, Grigorii Yavlinskii's Yabloko and Boris Nemtsov's Union of Right-Wing Forces, have tried to build some regional alliances with each other, they remain two very separate entities. As reports from Saratov and Irkutsk show, Yavlinkii continues to lay out a consistent opposition program, while Nemtsov hopes to attract new votes by practical accomplishments. The leaders have very different prescriptions on such key issues as defense reform.*

**IN SARATOV, YAVLINSKII LAYS OUT OPPOSITION TO PUTIN.** In an interview with Saratov journalists last week, Yabloko leader Grigorii Yavlinskii denounced President Vladimir Putin for working to set up a bureaucratic police state in which the "dictatorship of the law" is turning into "terror of the law". Yavlinskii charged that the federal government is not seeking serious solutions for the country's economic problems. To the contrary, he alleged that Putin is benefiting from the currently high oil prices and trying to make quick money by storing nuclear waste (see *EWI Russian Regional Report*, 28 February).

Drawing a sharp distinction with the president's goals, Yavlinskii believes that today the highest priority is to create a stable investment climate. "We must continue to cut taxes. We are satisfied that our policies essentially have been implemented. Although we called for a 10 percent flat income tax, a 13 percent tax was implemented. The social taxes are not as low as we would like, but at least they now have a regressive scale. This is important, but we need an additional mechanism, which we have already developed and proposed, to gradually will bring the black market into the legal sphere. Our position is that the parliament should quickly adopt a moratorium on increasing taxes." In addition, Yavlinskii and his team continue to work for improvements in the law on production sharing agreements.

Yavlinskii believes that there are sufficient funds in the current budget to carry out real military reform. He said that 3 percent of the GDP (20 billion rubles) would be sufficient to quickly reduce the military to 850,000 soldiers. He believes that the armed forces should be formed on a professional basis and that the draft should be abolished. No less than 8.5 billion rubles could be set aside for increasing combat readiness.

He said that Putin had some positive features. First, citizens now have the feeling that the new authorities have a goal and are seeking results. Second, the president has launched an unprecedented dialogue with all political forces. But this tendency could also be a weakness. He accused Putin of simultaneously moving in different directions, combining the most diverse approaches and views. Despite the fact that Putin has outlined his goals, little is being accomplished or the achievements turn out to be something that was not desired. Yavlinskii labeled Putin's policy a course aimed at the creation of a "bureaucratic police state" in Russia.

Yavlinskii saw signs of a developing police state in Putin's inability to accept criticism. Accordingly, Putin is actively putting pressure on the media, using crude blackmail against journalists at all levels, from NTV at the federal level to journalists working at the local level.

Second, Yavlinskii noted that Putin appears to have complete control of parliament, which easily adopts any decision proposed by the authorities. He achieved this control by forging a strategic alliance with the Communist Party at the beginning of 2000, giving it control over key posts in the lower house. On the basis of recent statements by the administration, Yavlinskii saw indicators that the Kremlin is beginning to regret this decision.

Third, Yavlinskii argued that the new law on political parties, which the State Duma is currently considering, would allow the law enforcement authorities to intervene in the internal affairs of parties.

Yavlinskii claimed that the authorities were not destroying democratic and civil institutions, but were turning them into subdivisions of a secret, hidden state corporation. This system limits criticism and forces all behavior into strict corporate limits. The more solid the corporate state, the lower the level of criticism and the greater the opportunity for bureaucratic and police tyranny. "The gist of the police state is that the state places the citizen under the unmonitored power of the bureaucrat. Then the dictatorship of the law, which we heard about a year ago, turns into what we are observing now: the terror of the law."

Yavlinskii was evasive in answering questions about Putin's reform of the federal system. Instead, he stressed the need to strengthen local government and particularly its financial independence. He said that he would work to create a stable tax base for local government.

Yavlinskii stated that federal reform is absolutely necessary. He said that the situation in Primorskii Krai demonstrated the inability of the presidential representatives to resolve practical questions. Removing the governor was an accomplishment. But it would be more of an accomplishment to actually change the situation. Yavlinskii claimed that the seven presidential representatives to the regions are doing little.

In Yavlinskii's view only direct elections to the upper house Federation Council will allow the national parliament to work effectively. He argued that the current system of appointing representatives does not encourage confidence because the system will not work effectively.

Yavlinskii also criticized Putin for giving in to the demands of loyal governors who wanted the right to stand for a third term. He cited this as an example of "political reaction."

Yavlinskii said that he would like to forge a coalition with the Union of Right-Wing Forces (SPS), noting that the two main obstacles blocking such a right-wing coalition were no longer in effect. The question of supporting Boris Yeltsin became irrelevant when Putin was elected on 26 March 2000. The debate over the correctness of the economic policy pursued in the 1990s was ended on 17 August 1998. Nevertheless, Yavlinskii said the SPS must decide how it will become a strong party. "In any case, we [Yabloko] will remain a self-sufficient and independent party." - Yuliya Yeliseeva in Saratov

**IN IRKUTSK, SPS LEADER NEMTSOV BUILDS PARTY WITH INTERNET CENTER.** Union of Right-Wing Forces (SPS) leader Boris Nemtsov visited Irkutsk on 1 March, seeking to build his party through practical actions. He opened a new Internet center with 20 computers connected to the international network. The center will give local young people greater access to the Internet. Dozens of high schools across Russia already have access to the net thanks to the party program. "Young people are the future of Russia and they are our voters," Nemtsov claimed.

The next stop in a busy day was a visit to a clinic that treats children with cerebral palsy by letting them ride on horses. The SPS bought five horses for the clinic and provided them with food. The clinic is the first of its type in Russia, though similar treatments are apparently used in Western Europe.

In visiting Vladislav Pozdnyak, the mayor of Shelekhov, a satellite city of Irkutsk, Nemtsov focused on the question of local government finances. This particular city is doing well because it has an aluminum plant, which is increasing its output. However, among Russian cities overall, it is the exception rather than the rule. Nemtsov said that he did not support Putin's policy of concentrating all financial resources in Moscow. Nemtsov also denounced attempts to have mayors of cities with populations larger than 50,000 people appointed rather than elected. "Cities will be in a complete mess as soon as mayors are appointed," he said.

Addressing a congress of entrepreneurs, Nemtsov said that small businesses with a turnover less than \$10,000 a year should not pay any taxes. He also called for reducing licensing requirements currently placed on businesses. Nemtsov even proposed setting up a guest book at each firm in which visiting bureaucrats would write the time and length of their visit and what they did so that these visits could be kept to a minimum. He also jokingly suggested that the bureaucrats also should list how much of a bribe they took. In a meeting with party members, Nemtsov called for making the tax system more transparent and more effective in encouraging entrepreneurship.

On Chechnya, Nemtsov said that the president should declare the break-away region as an eighth federal district and name a non-Chechen "governor-general" there who would be responsible for both military issues and the reconstruction of the republic. He argued that Moscow was now giving its designated leader in the region, Akhmad Kadyrov, \$500 million. Inevitably the money will disappear and the Kremlin will have to send a commission in the summer to find out where it went. Nemtsov accused Kadyrov of being involved in kidnapping people in the first Chechen war.

On military reform, Nemtsov proposed reducing the term for draftees from two years to six months. He argued that this step would encourage everyone to serve and eliminate hazing. The six month universal service would identify who could best serve longer on a contract basis. Nemtsov claimed that the reform would cost 18 billion rubles, less than half of what is being spent on the Chechen campaign.

Nemtsov criticized Putin for unpredictability and inconsistency in conducting economic and political reforms. "The action of our president depends on the time of day. First he 'fires' Primorskii Krai Governor Yevgennii Nazdratenko, then he appoints him minister for the fishing industry. The tragedy of Putin is that he lacks a strategy and a team." - Teleinform in Irkutsk

## **POLITICAL ECONOMY**

*While Putin has substantially reduced powers wielded by Boris Berezovskii and Vladimir Gusinskii, the two most prominent of the so-called oligarchs, his government seems to be working closely with the others. In Chelyabinsk, for example, the federal authorities are helping aluminum magnate Oleg Deripaska build his growing automotive empire.*

**CHELYABINSK'S SUMIN WORKS WITH OLIGARCHS AFTER GOVERNMENT PHONE CALL.** Chelyabinsk's largest enterprises always have tempted Russia's most prominent businessmen. Iskander Makhmudov has sought to control the giant Magnitogorsk Metallurgical Combine and Mechel (the Chelyabinsk Metallurgical Combine); the Trans World

Group fought for the Chelyabinsk Electro-Metallurgical Combine; and the Alpha group battled for the Zlatoust Metallurgical Plant. Recently, Siberian Aluminum's Oleg Deripaska expressed an interest in the Urals Automobile Factory (UralAZ). Since all of the above enterprises are controlled by local business elites (with the exception of Mechel, which is owned by the Swiss Glencore), the battle over redistributing property has raged between those interested in protecting local ownership and outsiders.

Governor Petr Sumin, who played an important, though not always decisive role, had to maneuver between the two groups with their strongly-held, but differing, interests. The oblast authorities have helped lift the Chelyabinsk Tractor Factory, UralAZ, and the Zlatoust factory out of crisis. They has also supported Mechel and Elctro-Metallurgical Combine through their difficulties. Over the last two years, output has increased 14-16 percent a year, making the properties more desirable.

During last year's gubernatorial elections, Sumin changed his usual tactics and staunchly defended local interests while criticizing the Russian oligarchs who sought to work in the region. His goal was to paint himself as a local patriot, while tarring his opponents with the implication that they supported the outsider oligarchs. Partly through these tactics, Sumin won 60 percent of the vote.

However, Sumin's denunciations also have their downside because they frightened off all investors, not only the oligarchs. The flow of investment into the region, while never great, has dried up. It was clear that Sumin needed to signal to outsiders that it was acceptable to invest again and locals had to be willing to share their property to attract needed capital.

On 28 February, Sumin made the signal. He told journalists that Deripaska had approached the Russian government with the idea of creating a holding company that would include UralAZ. Prime Minister Mikhail Kasyanov gave his approval. After that, Sumin stated, he received calls from the government asking him to meet with Deripaska. Sumin said that he would set up such a meeting for later this month. Deripaska already has bought stakes in the Gorkii Automobile Factory (Russia's second largest) and the Pavlovo Bus Factory. - Igor Stepanov in Chelyabinsk

## **TAX ISSUES**

*The second part of the Russian tax code, which came into effect at the beginning of this year, has had negative consequences in particular regions. In Kalinin grad, it drove up the price of locally produced goods by 20 percent during January. These adverse effects were only ended when the executive branch issued a new interpretation of the law, removing a new import tax. In Ivanovo, the new tax policies continue to threaten the depressed region's crucial textile industry.*

**IVANOVO SEEKS RELIEVE FROM NEW TAX CODE.** The Ivanovo Oblast legislature has asked Prime Minister Mikhail Kasyanov and the Russian parliament to amend the second part of the tax code, adopted in 2000, to restore the right to import cotton from non-CIS foreign countries without paying value-added tax. Ivanovo is one of Russia's poorest regions and the new taxes could make the situation even worse.

Imported cotton is the main raw material for Ivanovo's numerous textile mills and the cost of the imported cotton makes up most of the the final product cost. Often foreign firms import the cotton to Ivanovo for processing and then export the final goods for sale on the foreign market. The additional 20 percent VAT increases the cost of the final product and reduces the competitiveness of the product. Enterprises now require additional funds to function effectively. Since most of the enterprises already owe large sums to the state and energy providers, the tax rate increase will wipe out the benefits of the growth witnessed in 2000.

The problem will be worse after 1 July, when the VAT also will be applied to cotton imported from the near abroad. This cotton is generally used to meet orders from the Defense Ministry, Ministry for Internal Affairs, and other military and law enforcement agencies. - Anna Semenova in Ivanovo

## **LOCAL GOVERNMENT**

*Across Russia, regional governments are seeking to expand their financial control over local governments. Tver is no exception. Here the city government cannot provide basic services to the population, partly because its money is siphoned off to corrupt middlemen. The regional government wants to take over, but it is not clear that simply centralizing power will improve the situation.*

**TVER GOVERNOR PROPOSES DECLARING CAPITAL BANKRUPT.** Tver Deputy Governor Aleksandr Zatvan has proposed declaring the city of Tver bankrupt and imposing "external management" on it. The oblast claims that the city cannot carry out its duties because it is not able to pay for energy and heat supplies, thereby causing enormous difficulties for local enterprises and residents. The oblast has decided to impose external monitoring on the city's budgetary flows to track the money that leaves city coffers and often ends up in the hands of intermediate agents rather than with energy providers. With this goal in mind, the oblast wants to transfer 155.6 million rubles earmarked for energy use from the city budget to the oblast budget (*Veche Tveri*, 28 February).

According to Zavan's analysis, the city's debts to Tverenergo and Tverregiongaz are growing constantly. In February, the debts climbed to 90 million rubles from 43 million in January. The city's overall debt is now 127.7 million rubles. Tver Mayor Aleksandr Belousov had asked that the debts be restructured, leading the oblast administration to act.

Before last year's mayoral elections, Belousov feared that the city's hot water would be turned off, ruining his chances for reelection. Accordingly, he signed an agreement with the electricity monopoly Unified Energy System that he would do the impossible: make current payments on time and pay off the city and oblast debt within 18 months. The oblast administration refused to sign a similar agreement. Before the election, the mayor believed that he had no choice but to sign the agreement, but now he must pay for this deal.

The oblast's threats have no basis in Russian law, since there are no provisions for declaring a municipality bankrupt. However, if it were possible to declare a city bankrupt, and then declare a region bankrupt, then the Tver precedent could have enormous implications for the way the country is governed. - Boris Goubman in Tver

## **TRANS-FRONTIER COOPERATION**

*Increased trade could help border regions flourish. For many reasons, that is not happening on Volgograd's border with Kazakhstan. Now nationalist politicians, with backing from the Orthodox Church, are seeking to use the influx of non-Russian migrants to make the borders even less porous..*

### **VOLGOGRAD SHOWS LITTLE INTEREST IN TRADE WITH KAZAKHSTAN.**

Although Volgograd Governor Nikolai Maksyuta is developing active ties with the relatively distant Belarus, his region has little official contact with its eastern neighbor Kazakhstan. Contacts with Kazakhstan have not developed in the last 10 years, while Maksyuta has twice visited Belarus and hosted the Belarusian president. Maksyuta even turned down an invitation to attend the inauguration of Kazakhstan President Nursultan Nazarbaev. Volgograd and Belarus officials support the expansion of contacts, including the creation of an office to support trade that has proven to be unprofitable. Business with Kazakhstan is based only on the shuttle trade of border zone residents. Moreover, while the Russian-Kazakhstan border is the main entry point for Central Asian drugs into Russia, this problem receives little public attention.

During the December 2000 gubernatorial campaign, second place finisher Oleg Savchenko actively exploited the themes of international relations and migration to the region. He charged that the Maksyuta's incumbent administration did not pay attention to the existing ethnic problems in the region. Savchenko's themes attracted allies in the Russian Orthodox Church and some high-level officials in the Volgograd church appeared in Savchenko's ads. However, Savchenko's criticisms of the Chechen and other diasporas in Volgograd was too strong for public opinion at large. Locals prefer to see themselves as a "crossroads of civilizations" which has never been an arena for ethnic conflict.

Savchenko did not disappear from local television screens after he lost the election. The media holding company he created during his gubernatorial bid continues to criticize the regional authorities. Additionally, church authorities are now making more political statements, a practice they had refrained from in the past. For example, Metropolitan German recently called for restoring and building new Orthodox churches in the region, using a rather unusual rationale. He argued that "our oblast is on the front, Chechen bombs explode on our streets, killing people, and this is serious." Restoring the a prominent local cathedral "will be visible to all and they will know that Russian people, Orthodox Christians live here."

He also pointed out a "no less serious condition" in the flight of ethnic Russians from the Volga area and their replacement by ethnic Kazakhs. "To prevent Russians from leaving the border region, it is necessary to build churches, so that priests could carry on their work of enlightenment and heads of administrations would activity implement patriotic tasks. ... We should restore the Aleksandr Nevskii Cathedral ... The people need a symbol explaining who the land belongs to. Not Kazakhstan, not Chechens, but us Russians."

Transforming the "crossroads of civilizations" into a bastion of ethnic Russian influence on the edge of south-east Europe will not increase the oblast's ability to make money, but it fits



well into a project to restore "national consciousness" as defined by the right-wing conservative faction of the new Russian authorities. - Ivan Kurilla in Volgograd

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## BREAKING NEWS

**PUTIN APPOINTS NEW STATE COUNCIL PRESIDIUUM.** On 12 March President Vladimir Putin appointed the new members of the State Council Presidium. The members of the body are rotated once every six months. While the first group of seven governors included some of the most power regional leaders in the country, the new group is largely made up of second-level regional leaders. They are:

Jewish Autonomous Oblast Governor Nikolai Volkov

Kareliya Government Chairman Sergei Katanandov

Kabardino-Balkariya President Valerii Kokov

Yaroslavl Governor Anatolii Lisitsyn

Omsk Governor Leonid Polezhaev

Bashkortostan President Murtaza Rakhimov

Khanty-Mansii Autonomous Okrug Governor Aleksandr Filipenko

The previous presidium consisted of:

Moscow Mayor Yurii Luzhkov

St. Petersburg Governor Vladimir Yakovlev

Tatarstan President Mintimer Shaimiev  
Dagestan head Magomedali Magomedov  
Tyumen Governor Leonid Roketskii  
Tomsk Governor Viktor Kress  
Khabarovsk Governor Viktor Ishaev

The members of the presidium meet with the president once a month and are put in charge of a key policy area. In the last group, Ishaev presented an alternative plan for Russia's strategic development to the year 2010, and Yakovlev worked on the country's symbols. Shaimiev was in charge of a plan on how to divide power between the different layers of government in Russia, but never had the opportunity to present the results of his work to his colleagues (see *EWI Russian Regional Report*, 28 February). The Kremlin has said that the old groups will continue working and that new ones, yet to be defined will appear soon (*Izvestiya*, 14 March).

**FIRST FACTION APPEARS IN FEDERATION COUNCIL.** On 12 March, Federatsiya held an organizational meeting meant to bring together 80 (according to *Izvestiya* or 92 according to *Nezavisimaya gazeta*, 14 March) members of the national parliament's 178-member upper chamber, the Federation Council. Until recently, the body consisted of governors and regional legislative chairmen who had taken pride in not being divided into factions. Thanks to Putin's reforms, the body increasingly consists of appointed representatives from the two regional branches of power, and they are seeking more explicit forms of factional organization. The appointed members will replace the governors and regional legislative chairmen completely by 1 January 2002. Among the first tasks for the group will be changing the Federation Council's by-laws to make factions legal.

Commentators have described Federatsiya's operating style as "collective and anonymous" and "secretive." The faction is expected to work in close coordination with the presidential administration and vote according to the Kremlin's preferences. In the past, the Federation Council's committees shaped how members voted. Now Federatsiya seems to want to take on that role.

## **GOVERNOR'S ELECTIONS IN PRIMORSKII KRAI**

*Despite acquiring the ability to fire governors on 1 February, President Vladimir Putin decided to remove Primorskii Krai Governor Yevgenii Nazdratenko by phoning him and asking him to resign. To entice Nazdratenko out of his office, Putin made offered him a lucrative position in the federal government. This transaction demonstrates Putin's weakness in relation to the governors, Nazdratenko's continuing influence in his region, and the fact that the much vaunted "executive vertical" Putin sought to establish is not working yet.*

*Now two candidates have formally declared that they are standing for election as governor of Primorskii Krai on 27 May and that they have Kremlin support. However, this "support" actually means "non-interference." President Vladimir Putin is not backing anyone actively, he simply is not preventing them from running. This failure to*

*identify a candidate further demonstrates the Kremlin's inability to manage events on the ground. It also may symbolize the Kremlin's recognition that it has little influence in the region after Nazdratenko has spend many years demonizing Moscow in the minds of the Primorskii electorate.*

**TWO CANDIDATES CLAIM KREMLIN SUPPORT (OF QUESTIONABLE VALUE).** On 12 March Admiral Igor Kasatonov arrived in Vladivostok and announced that he had met with President Putin and that Russia's leader backed his candidacy for Primorskii Krai governor. In reaction to rumors that the Kremlin was backing other candidates in addition to him, Kasatonov declared, "First, Nazdratenko said that, not Putin. Second, the Kremlin is always right." Kasatonov referred to some reports that former Governor Yevgenii Nazdratenko had said that Putin was backing First Deputy to the Presidential Representative to the Far Eastern Federal District Gennadii Apanasenko.

Kasatonov's supporters argue in his favor claiming that he is a local son who is also a first class manager. However, while Kasatonov studied and served in the navy as a young man in the region, he has spent most of his professional career elsewhere. If elected, Kasatonov said that his priorities would be to "create a legal field and develop a development program for the krai, at a minimum for five years." He said that he would draw on a team of specialists in all areas of the economy. His reason for running: "I was born, lived, studied, and served in Primorskii Krai. I was ashamed for many years to hear that Primorskii Krai was a collapsing region. I want to help my native region with my experience, knowledge, strength, and mind."

On the same day that Kasatonov arrived, Apanasenko also announced that he had won the president's agreement for his candidacy and that he would run with the support of the presidential administration. "As a civil servant, I was obliged to inform the president about my intentions," he said. "I was invited to meet with him after meeting with the deputy chief of staff and the chief of staff of the presidential administration. The president asked about the situation in the krai. I explained what we had done, about the political situation after the governor's resignation and the departure of several key figures from the administration. He also asked how I see the campaign, about my impressions of the economic situation in the krai, and how I compare it with other regions. He asked whether I was a Primorskii person or a Khabarovsk person. I described my career history. At this meeting, there was no indication that I should participate in the elections. The president did not say anything like that. But I told him that I intend to run. He did not forbid me from doing this. If he had forbid me, and he could do that, or if he had given me a different task... But no such conversation took place, therefore I believe that I received his agreement."

Thus two candidates now claim to have access to the administrative and popular support of the Kremlin. However, it remains unclear just how useful this federal support will be in the campaign. Bureaucrats at all levels are careful not to spoil their relations with the president. However, Nazdratenko demonized the Kremlin in the minds of local voters during his time in office and it is not clear if having Kremlin backing now would help or hurt a candidate. - Oleg Zhunusov in Vladivostok

## **CENTER-PERIPHERY RELATIONS**

*Ever since Putin created the seven new federal districts and appointed representatives to them, these seven officials have sought to increase their powers. In particular, they want to control, not just monitor, the money that flows between the federal and regional governments. However, the presidential administration, ministries and governors have blocked this expansion of the power of the presidential representatives. Now some like Georgii Poltavchenko and Sergei Kirienko are seeking allies among the State Duma deputies in an attempt to increase their power (Kommersant-Daily, 7 March). They will need expanded leverage to force regions like Sakha to bring their laws into line with federal norms.*

### **POLTAVCHENKO ALIGNS WITH DUMA DEPUTIES AGAINST GOVERNORS.**

At an 8 March press conference, State Duma Deputy Aleksandr Chetverikov announced that he and several other Duma members from Kursk Oblast backed the formation of an inter-party Duma group uniting members elected from the Central Federal District. He said that both the legislators and Presidential Representative to the Central Federal District Georgii Poltavchenko were interested in the new initiative. The deputies only have limited opportunities to lobby the interests of their individual regions and believe that uniting in a large group will increase their influence. Poltavchenko is interested because he can expand his influence in the legislature without having to wait for Putin to enlarge his powers by decree.

The deputies hope that the presidential representative will help them enhance their positions. Many Duma members have strained relations with the governors from their regions. In Kursk Oblast, for example, of the five local Duma members, only Obkom First Secretary Nikolai Ivanov has close ties to Communist Governor Aleksandr Mikhailov. The remaining four, Aleksandr Chetverikov (independent), Vladimir Bykov, Aleksandr Fedulov (both Yedinstvo), and Vitalii Gukov (Otechestvo-Vsya Rossiya), all intend to join the new group. These legislators complain that they do not have the ability to monitor the implementation of decisions and seek to expand their powers. They believe that the alliance with the presidential representative will increase their power in relation to the governor. Such a balance of power suits Poltavchenko, who has no interest in strong, independent governors. Overall, the cooperation between the representative and Duma members should be mutually advantageous.

OVR's decision to cooperate with Poltavchenko is much more surprising than the pro-Kremlin Yedinstvo's. State Duma member Georgii Boos explained his position in a statement to Strana.ru ([www.strana.ru](http://www.strana.ru)). He said that strengthening the power hierarchy means that the representatives must have money, cadres, and a "stick." Boos said that representatives could receive money if his proposals for the 2002 budget are adopted to establish a consolidated federal district budget. Today the representatives have considerable political leverage, but little administrative influence. Boos, an ally of Moscow Mayor Yuri Luzhkov, claims that if federal transfers are not distributed through the regions as they are now, but through the federal districts, then the governors will be dependent on the presidential representatives. Boos's motivations are clear: Luzhkov is trying to win Poltavchenko as an ally and seeks to increase his power, so that Poltavchenko can help improve his strained relations with the federal authorities.

Luzhkov was Putin's most serious rival in the run-up to the December 1999 State Duma elections.

Nikolai Ryzhkov will most likely be the head of the new deputies' group. Poltavchenko proposed his candidacy and almost all the deputies supported it.

Poltavchenko called on the State Duma deputies to help bring regional laws into line with federal norms. Poltavchenko claimed that his office had found more than 2,000 regional laws in violation with federal norms and has brought more than 80 percent of them into conformity. Nevertheless, Poltavchenko said that it was "too soon to speak of a unified legal space." - Sergei Sarychev in Kursk

### **SAKHA REMAINS DEFIANT IN OPPOSING CONSTITUTIONAL CHANGES.**

Following the 10 March session of the Sakha parliament's lower house, observers are considering the possibility that the republic will lose both its constitution and legislature. At the session, the legislators refused to make amendments to the republican constitution to rewrite article 5, which gives the republic ownership over its land and natural resources in violation of federal law. The deputies also sought to preserve the republic's sovereignty. Both of these features of the republican constitution violate federal norms. Several legislators openly called for preserving the existing constitution and said that the federal officials should worry about the fact that it does not conform to federal norms. Some are saying: "We will not voluntarily reject the Constitution." "Let them disband us."

The vast majority of deputies admit that the constitution must be brought into line with federal norms. They also understand that the republic's constitution has to be a coherent document, not a collection of articles that contradict each other and will inevitably be declared illegitimate by the courts. But even among this group, there are some who are preventing this harmonization process from moving forward by pushing for Sakha to keep its control over republican property.

Both houses of the Sakha parliament will now discuss the document in a joint session. Hopefully the legislators will take into account the republic's interests rather than just narrow group interests. - Oleg Yemelyanov in Yakutsk

### **POLITICAL PARTIES**

*On 14 October 2000, regional leaders of the radical nationalist Russian National Unity effectively removed leader Aleksandr Barkashov from the party and set up Russkoe vozrozhdenie, which aims to win representation in the State Duma. The leaders of the new group rejected the concentration of organizational power in Barkashov's hands and the party's association with fascism and political extremism (NTV, 14 October 2000). They also accused Barkashov of no longer leading the party and of engaging in "eastern occultism." According to a member of the party from Chelyabinsk, the party newspaper had stopped coming out and many military and law enforcement officers had left its ranks (Zlatoustovskii rabochii, 28 October 2000). While seeking to work within the system, the goals of the new movement remain unchanged from its predecessor. Barkashov*

*advocated "cleansing Russian land" of "non-Russian nationalities" (Kommersant-Daily, 23 September 2000).*

*The RNE faced difficulties since Moscow Mayor Yurii Luzhkov won a court case against it in February 1999, thereby preventing the group from holding meetings in the capital. Our report from Saratov suggests that the RNE may be making a comeback by reinventing itself.*

**SARATOV'S RADICAL NATIONALISTS SWAP RNE FOR NEW IMAGE.** Grigorii Trofimchuk, the leader of the Saratov Oblast branch of Aleksandr Barkashov's radical-extremist Russian National Unity (RNE) party, has announced that he has disbanded his party branch. However, he has not renounced his political convictions or desire to take power. They will be realized in a new party, which will register on the basis of the Russian political-social movement Russkoe vrozhdzenie, which the Saratov RNE will join. Trofimchuk claimed that Russkoe vrozhdzenie will fight a civilized battle for the interests of ethnic Russians and for Russian and Orthodox cultural values.

"We are rejecting all the negative features that were associated with the image of the RNE, while preserving all the positive things that have been done until now," Trofimchuk said. In particular, he will seek to consolidate society on the basis of Russian national values. The new party will purpose the same goal as the old one: grouping together all active Russian national-patriotic organizations.

The RNE appeared in Saratov Oblast when Trofimchuk quit Vladimir Zhirinovskiy's Liberal Democratic Party of Russia and set up the Saratov branch of the RNE. The most active RNE branches were in Balakovo, Rtishchev, and Saratov, with about 100 members. Trofimchuk boasts of his organization's tight discipline and claimed that he could gather 1,000 supporters within an hour. Members must obey party leaders, carry out their orders, support the appropriate political views, be in good physical shape, and renounce the use of alcohol and drugs. The anti-alcohol and drug requirements have won the group some popularity among the local population. Members organize athletic events for young people.

On 20 July 2000, Trofimchuk managed to unite Saratov's three largest and most active opposition groups (not including the Communist Party) into the Union of Patriotic Forces (*Obereg*). Besides the RNE, this group included the Saratov City Cossack Society (headed by Ataman Andrei Fetisov) and the Saratov City Union of Battle Solidarity. Alliance leaders say that their group numbers 10,000 members. If one takes into account that the Cossacks include family members in their estimates and the Union of Battle Solidarity includes 1,500 participants, then the number is realistic.

The RNE had some ties to local officials. At the beginning of 2000 the RNE was included in the Saratov Oblast Duma's Societal Committee on Issues of Legality. Before that, Trofimchuk claimed that he was invited into the Saratov mayor's social-consultative council.

After Barkashov was excluded from his own movement in October 2000, the radical nationalists decided to change their tactics. Mostly they stopped using the most offensive symbols, such as the black uniforms, a logo that looked similar to a swastika, and a stiff-arm, right-handed salute like the one Hitler employed. However, the goals and tasks remained the same.



The oblast's executive and legislative authorities have not taken any measures to oppose the activities of the nationalist groups. The governor's societal chamber has not made any statements either. The local press only describes actions taken by RNE activists. - Yuliya Eliseeva in Saratov

## **POLITICAL ECONOMY**

*Despite running his recent re-election campaign on an anti-oligarch platform, Chelyabinsk Governor Petr Sumin is opening his region to investment from some of Russia's largest magnates. Federal pressure is a key impetus.*

**CHELYABINSK'S SUMIN MOVES CLOSER TO OLIGARCHS.** Chelyabinsk Governor Petr Sumin met with Russian Aluminum head Oleg Deripaska on 7 March to discuss Deripaska's interest in purchasing the Ural Automotive Factory (UralAZ) as part of his growing automotive empire, which already includes Nizhnii Novgorod's Gorkii Automotive Factory (see *EWI Russian Regional Report*, 7 March). According to the local press, Deripaska expressed his readiness to invest billions of dollars in the development and modernization of UralAZ and increase employee salaries 2.5 times. Now the average employee earns 2,500 rubles a month (less than \$100).

Deripaska praised the plant's current external manager Valerii Panov and expressed his readiness to work with the enterprise's current leadership. The oblast leadership has conditioned Deripaska's purchase of the plant on Panov's continued tenure. As the next step, a working group under the aegis of the oblast administration and including delegates from Deripaska's company will meet to discuss the deal. Panov will participate in the group.

The oblast administration is now ready to sign a deal with Deripaska on one of the most important enterprises in the region. Deripaska described the situation in the region as "nomenklatura capitalism." He had in mind the close ties between the local business and political elites. One of the features of nomenklatura capitalism in general, and in Chelyabinsk in particular, is that the local elite behave like a weather-vane when the wind is blowing from the center. Deripaska's project has the support of the Russian prime minister and government, which for an old Communist Party leader like Sumin is more important than public opinion. In general there is no opposition to Deripaska's working in the region. In fact, Sumin would have more difficulty explaining how he let this opportunity get away than he would allowing the oligarch to work in the region. - Igor Stepanov in Chelyabinsk

## **LOCAL GOVERNMENT**

*In many regions the federal government has sought to force regional governments to give more power to local governments. The federal government sometimes sees local government as an ally against the governors. The regional governments naturally resist these federal efforts and try to maintain tight control over local governments. Our report from Kalmykiya shows that the region is developing new ways to fend off federal pressure. Despite the high level political scrutiny, in economic terms federal policy has*

*been a disaster for local governments, as Tver's continuing struggles to increase its revenue attest.*

**KALMYKIYA SEEKS TO WEAKEN FEDERAL PROTECTIONS FOR LOCAL GOVERNMENT.** At its 1 March meeting, the Kalmykiya legislature debated a bill on registering local government charters that would transfer this right from the republic's Justice Ministry, which recently became a regional branch of the Russian Justice Ministry, to the legislature's staff. To take on this new responsibility, the legislative staff would have to set up a new department on local government. Backers of the idea claimed that it would "allow the creation of the necessary legal, organizational, and material conditions for the development of local government" (*Izvestiya Kalmykii*, 6 March).

However, the new republican procurator, Nikolai Khazikov was not convinced. He denounced the idea, pointing out that it would give the legislature's staff inappropriate powers. A presidential decree requires that the regional branch of the Justice Ministry register local government charters, after subjecting them to expert legal analysis.

The procurator and Deputy Konstantin Maksimov, the former speaker of the republican parliament and former member of the Federation Council, suggested adopting the bill in draft form and then reworking it. But the majority of the deputies voted to adopt the bill as a law. Accordingly, now a republican organization can register local government charters in Kalmykiya rather than a federal agency as required by federal norms.

The vote shows that the republican parliament is not prepared to accept all the recommendations of the new procurator. In the area of public authority, the regional leadership is not willing to leave local government outside of its guardianship. - Vladimir Volgin in Elista

**TVER ENTERPRISES SKIP PAYING CITY TAXES.** Since the adoption of the second part of the Russian Tax Code last year reduced overall income for Tver city, Mayor Sergei Isaev hoped that revenue from the income tax would pay for city services (*Veche Tveri*, 6 March). However, many important Tver enterprises do not pay this tax into city coffers on time. Thus, for example, the Tver Railroad Car Factory has not provided income from this January, to say nothing of previous years. Its debt is now 13 million rubles, enough to pay for half of the money owed to city doctors and teachers. The factory actually is paying its employees on time, but does not send the tax money to the city. Rather, it is using the money illegally for its own needs (*Afanasii birzha*, 2-7 March). Overall the city is owed 100 million rubles. A city commission is planning to force enterprises to set up a schedule to pay their debts by 15 March and then force them to stick to it. If they fail to pay, they will face criminal charges.

The mayor has decided to take such harsh measures knowing that the local teachers and doctors are facing dire circumstances. School teachers just started to receive their January salary last week. Some of them are threatening to launch a hunger strike. - Boris Goubman in Tver

## **EXPERT ANALYSIS**

## **REGIONAL ELITES AND THE FEDERAL GOVERNMENT: CONFLICT OR COMPROMISE?**

by Natalya Lapina

MOSCOW -- Almost a year has passed since the federal authorities launched their campaign to reform federal relations in Russia. Since then the unimaginable has happened: the influential regional leaders, who recently sought to dictate to the Kremlin, essentially adopted the new rules of the game, submissively left the political stage, and agreed to give more economic resources to the center. There are several explanations for this behavior: the regional leaders' fear of the federal authorities, their desire to avoid investigations into their activities, and the regional elections in the fall of 2000. However, the main reason that the regional leaders did not put up much opposition in 2000 was that they realized that sooner or later the federal authorities would have to work with those who make policy on the ground. They turned out to be right since the federal government adopted a much more cooperative tone with the regions in the fall and winter of 2000 and 2001.

From the beginning, there were two tendencies that called into question the Kremlin's ability to implement its plans. First, it was clear that the Kremlin did not have enough levers to make all regions implement the new legislation in a uniform manner. Second, the interaction of the center and the regions demonstrated that the regional elite still is able to block the implementation of new federal laws.

These tendencies appeared most clearly in the process of bringing regional laws in line with federal standards. The regions broke into two groups. The first group, including many of the ethnic Russian regions and the republics that are usually loyal to Moscow, simply made the necessary changes. One of the first regions to bring its laws in line was Chuvashiya, in a clear symbol of reconciliation by a leader, Nikolai Federov, who had been the most consistent critic of Putin's reforms. The second group forced the Moscow authorities into a series of negotiations that are continuing today. This group includes regional leaders who often fought with the federal government while maintaining a strong position in their own regions. Examples of this second group are Sverdlovsk Oblast, Tatarstan, and Bashkortostan.

In Tatarstan and Bashkortostan, the leaders say that they are adopting the necessary reforms, but in fact have forced the Kremlin into a prolonged series of discussions. In the fall of 2000 Bashkortostan adopted a constitution that removed some conflicts, but far from all of them. Tatarstan has put off all agreements until after President Mintimer Shaimiev wins reelection on 25 March. The center had to make several concessions to win the republican presidents' loyalty, such as adding pages to republican citizens' passports in the titular language of the republic. However, the republican leaders still stand by their declarations of sovereignty, even though these violate federal norms. The center realized that it was easier to adopt a law in Moscow than implement it in the regions.

The cycle of governors' election in the fall of 2000 turned out to be equally difficult. At the beginning of its federal reforms, the federal government wanted to put in place a set of governors that would implement its plans. The federal authorities were extremely active in the campaigns and the seven presidential representatives were charged with tracking the campaigns

and identifying violations. Other central agencies also participated, including the Security Council, individual ministries, and financial-industrial groups that were either controlled by the federal authorities or working closely with them.

Despite this active role, the Kremlin had no overall strategy and the various pieces of the federal government did not work together. In fact, different agencies often supported different candidates. Overall, the Kremlin did not succeed in putting in place a new generation of governors (for a somewhat different view, see *EWI Russian Regional Report*, 14 February). Of the 44 governors up for election over the last year or so, 29 were reelected and only 9 were defeated. Since December 1999, the Kremlin failed to determine the outcome of elections in key regions such as Moscow city, St. Petersburg, and Moscow Oblast. In regions with powerful leaders, such as Samara and Krasnodar, the Kremlin had to go along with the governor's preferences. Even Primorskii Krai Governor Yevgenii Nazdratenko, who "voluntarily" resigned, quickly obtained a powerful job in Moscow.

The elections showed that the regional elite remains an extremely stable influence group. In those regions where the elites are consolidated, and the leader is popular, the federal authorities have difficulty changing the situation. This reality limits the center's ability to compel the regions to take actions opposed by the regional authorities. Moreover, many regional leaders have their own supporters in the center who will not allow their regional allies to be bullied.

A year of reform has shown that the center can do a lot, but it cannot change the balance of power in society. The federal authorities could not subordinate the regional leaders to their will nor could they change the make-up of the regional elite. Thus, after first attacking the rights of the regions, the federal authorities now have to move onto a second phase in which they will establish a new compromise. The last compromise gave the regional leaders freedom of action in exchange for political loyalty. The new compromise proposes that the main subject of the political game will be federal powers.

The new system of federal relations limits the powers of the regional elites, but does not eliminate them as an independent elite group. The federal authorities cannot simply get rid of the governors since they must work with them to run the country. In recent months, the federal authorities have been ready to compromise with the regional leaders. This compromise is most clearly symbolized by the federal government's decision to allow the governors to serve a third and, in some cases, even a fourth term. Now the regional elite is seeking a law providing retirement guarantees to former governors.

Despite the federal authorities' current willingness to compromise, several issues remain open. First, it is not clear how long-term and stable the federal government's willingness to compromise is. Second, the federal government still lacks a coherent strategy toward the regions and it is not yet apparent what the future direction will be. Third, the federal authorities themselves are not monolithic. The presidential administration handles political issues, the economic ministries are led by liberals, and the law enforcement agencies are grouped around the Security Council. Federal policy depends on which group dominates.

Federal reform is long overdue in Russia. The main goals are correct: establishing a unified legal and economic space and strengthening central authority. However, there are serious limitations. Strengthening central authority does not provide for developing real democracy and

federalism in Russia. The center criticizes the regions for excessive independence rather than for the establishment of authoritarian regimes. The development of genuine federalism in Russia will have to wait for a new generation.

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## OVERVIEW

### HOW EFFECTIVE ARE PUTIN'S FEDERAL REFORMS?

by Robert W. Orttung

The general consensus among Russia and Western observers is that President Vladimir Putin's reforms of the federal system have not been very effective. Numerous essays in the Russian and Western press have come to this conclusion and the sense of failure is quickly becoming pervasive. Thus, an *Izvestiya* (20 March) correspondent started a recent interview with Presidential Representative to the Central Federal District Georgii Poltavchenko by asking him to explain the poor performance of the reforms.

To date, Putin's main accomplishment has been a change in atmosphere. During the late 1990's, there was a prevailing sense that the Kremlin was no longer in charge and that the governors were free to do as they wanted. Today, no governor openly opposes the president or his policies; in fact, everyone declares that he is loyal to the president. Beyond the atmospheric changes, the changes to the tax code have centralized control over a greater share of the country's tax revenue. The impact of these reforms remains unclear, but the federal government now determines the distribution of a larger share of Russia's tax revenue than it did in the past.

Beyond these substantial victories, the successes have been meager. As Poltavchenko points out, no one today seriously discusses the possibility of the country falling apart. However,

this scenario was unlikely even before Putin came to power. Putin's removal of the governors and regional legislative chairmen from the Federation Council was offset by his decision to hand them the ability to appoint their own replacements. Moreover, the State Council, a consultative body consisting of the president and governors, has been active, giving the governors a national platform in place of the Federation Council. Last summer, Putin also won the theoretical ability to fire governors. However, in practice he chose not to use this power against Primorskiï Krai Governor Yevgenii Nazdratenko and instead offered Nazdratenko a lucrative Moscow position to secure his resignation and commitment not to participate in the elections called to replace him.

The key element of Putin's federal reforms was the creation of seven federal districts and the appointment of presidential representatives to them. The purpose of the new districts was to fight corruption and bring regional laws in line with federal legislation. Putin assumed that serious economic reform would be impossible without first establishing an effective state. The reforms have not achieved this goal.

Some problems were obvious from the start. In establishing the institution of the seven presidential representatives, Putin did not make clear exactly what their functions would be. Consequently, like any self-interested bureaucratic player, the representatives sought to increase their amorphous mandate by seeking real power, particularly control over the money flows in their districts. However, the representatives quickly came into conflict with other agencies within the Russian state, including some elements of the presidential administration, the economic ministries, and the governors. Rather than creating a clear chain of command, the new system merely set in play various power battles among the different players. While the representatives seemed in the ascendancy during the second part of 2000, Putin clipped their wings on 30 January when he formally subordinated them to his chief of staff, Aleksandr Voloshin (see *EWI Russian Regional Report*, 31 January).

Now that the representatives have been in office for the better part of a year, journalists are beginning to take a critical look at their accomplishments. *Nezavisimaya gazeta* has already published analytical profiles of two of the seven representatives. The portrait of President Representative to the Volga Federal District Sergei Kirienko paints him as a power-hungry schemer who is using his new job mainly as a way to build his own political base (*Nezavisimaya gazeta*, 12 March). The author sees Kirienko's new think tank as producing documents that contain "nothing new." According to article, Kirienko is seeking to grab power from the governors, take over the distribution of federal funds, and impose order on regional budgets, but is constrained in his ability to achieve these goals and is increasingly frustrated. In Siberia, Leonid Drachevskii is starting out slowly, but is gradually gaining respect. Nevertheless, his sole accomplishment to date, according the paper's analysis, is to have become a darling of the local press (*Nezavisimaya gazeta*, 14 March).

The representatives constantly boast about the numerous regional laws they have now brought into conformity with federal norms. However, the numbers the representatives cite are probably about as meaningful as Soviet era crop statistics. While some compliant regions have made the necessary changes, the usual suspects such as Tatarstan, Bashkortostan, and Sakha remain defiant on key issues. Even Adygeya recently held an election in which the electoral law violated key federal norms (see related article in this issue). Despite his accomplishments in this



area, Poltavchenko recently admitted that it was "too soon to speak of a unified legal space." (*EWI Russian Regional Report*, 14 March).

A major problem during the Yeltsin era was that the governors were able to win the loyalty of federal agencies working at the regional level. The representatives have sought to address this problem by setting up federal district councils of key federal officials (the regional heads of the Federal Security Service, Ministry of Internal Affairs, etc.) to work with them. They have also made a few personnel changes to ensure that the federal officials will actually act against legal violations by the regional leaders. Although regional procurators have stepped up their activity in pointing out legal violations, it remains unclear how much of an impact these changes have had. Even in poor regions dependent on federal subsidies like Adygeya, the regional elite do not seem overly concerned about the procurator's complaints.

Perhaps the most obvious failure of Putin's first-year federal policies was the federal government's inability to shape the outcome of the more than 50 gubernatorial elections that have taken place since December 1999. If Putin wanted to make fundamental changes in the relationship between the federal and regional governments, he would have done well to change the make-up of the regional elite. In fact, the Kremlin's ability to secure victory for the candidates of its choice turned out to be rather limited. Most likely Putin fired Sergei Samoilov, the former head of the presidential administration's Territorial Department, for his failure to ensure more Kremlin victories in the regions. Samoilov's dismissal is striking because of the few people Putin has fired to date.

Though Putin scored a symbolic victory by forcing the governors out of the Federation Council and depriving them of a national stage, most governors were able to compensate by strengthening their positions in their home regions. In the string of elections that took place from December 1999 through January 2001, two-thirds of the governors were able to hold on to their seats or designate a successor (for an excellent overview of the gubernatorial elections, see *NG Stsenarii*, 14 March).

What is the source of the governors' strength? First, strong governors have been able to block the rise of any serious opposition candidates from among local politicians. Second, the governors in office now, in contrast to the Yeltsin appointees who ran in 1996, have considerable experience in public politics and had to win an election to secure their current office. Third, the governors have by now mastered the use of the so-called "administrative resources," the mechanisms which make up the arsenal of their power on the ground. These weapons include extensive control over the regional media, power over municipal authorities, and extensive influence in regional electoral commissions.

Finally, a key source of the governors' power is their relationships with regional, and increasingly, national business. Where the local political and economic elite is united, the Kremlin and wealthy outside business interests can rarely dislodge the governor. Outside candidates generally lose if they do not have key local supporters. The Kremlin learned this lesson in Kursk, where it was able to oust Governor Aleksandr Rutskoi, but could not replace him with the candidate it supported. There, the local elite almost uniformly opposed Rutskoi, but supported a Communist alternative rather than the Kremlin's candidate.

By backing the incumbent governor in his reelection bid, business interests can gain considerable influence and lucrative benefits. This is the case for example in Volgograd, where

LUKoil backed the sitting governor during his recent campaign and is now collecting on this support by placing its person in the governor's cabinet as deputy governor in charge of the energy sector (see related article in this issue). LUKoil is one of the largest enterprises in the region and is seeking close ties to the governor to ensure a favorable tax and business environment. Siberian Aluminum helped Aleksei Lebed win in Khakasiya and benefits from his support in return. In the cases where business interests backed opposition candidates, the candidates generally lost.

The oligarchs are now discovering the importance of having regional bases, regardless of their current standing vis-a-vis the Kremlin. Major firms that do not have good ties to Putin, such as LUKoil which supported Moscow Mayor Yuri Luzhkov before Putin's rise, are now strengthening their position by building regional bases with incumbent governors where the company has major interests. Oligarchs who have close ties with Putin are using their Kremlin access to build their own empires. For example, Russian Aluminum's Oleg Deripaska recently used his ties in the Russian government to win the Chelyabinsk governor's support for his purchase of a local automotive factory (see *EWI Russian Regional Report*, 14 March).

Businesses are competing directly in elections and the battle is over the control of property. "Some are trying to get more while others are trying to hold on to what they have," according to an analysis in *Vechernyaya Perm* on 1 March. In fact, according to this interpretation, the battle for property is transforming into a battle for territory. With Roman Abramovich as Chukotka's governor, his Sibneft undoubtedly will secure the rights to develop the region. In several regions, Sibneft has backed one candidate while LUKoil supported another. For example, in the Nenets Autonomous Okrug, Sibneft backed Governor Vladimir Butov against LUKoil's attempts to put its own man in this position. The companies also supported opposing candidates in Perm and Volgograd. The battle in the Evenk Autonomous Okrug is between candidates backed respectively by YUKOS and Slavneft. Even in a relatively developed region like Irkutsk, aluminum magnates are calling the shots in this year's gubernatorial election. Such oligarchs are popular among voters because people expect the authorities to provide them with stable jobs and incomes. Who better to do that than successful businessmen?

The current period of open confrontation between the governors and the Kremlin is concluding. The Kremlin has recognized the governors' power in their own regions by allowing them to seek a third and, in some cases, fourth term. For Putin to implement his economic plans he must work with the governors, most of whom will be in place for another 4-5 years.

The twenty new governors elected in this election cycle provide clues to how future center-periphery relations will evolve. Newly elected Perm Governor Yuri Trutnev perhaps best represents the face of this new group. Trutnev was elected to office even though Putin supported his opponent. Nevertheless, Trutnev is not anti-Putin. He is a pragmatic businessman who has made clear his loyalty to the president. Such loyalty is not uncritical, however. For example, he has blasted the Russian government for not doing enough to improve business conditions in the country. He argued that last year's tax cuts were too small. According to his figures, enterprises still pay about 70 percent of their profits in taxes, leaving too little to invest in improved production lines. He wants to bring the overall tax rate down to about 30-35 percent (*Novyi kompanon*, 27 February). Governors like Trutnev will avoid the brand of open

confrontation still practiced by Sverdlovsk Governor Eduard Rossel. However, they will still bargain just as hard for their region's interests.

While Putin's reforms have won a superficial loyalty from the governors and increased central control over tax revenues, they have left significant power in the hands of the regional executives. In many cases, the governors have used this power to block Putin's attempts to establish a uniform system of laws across the country. Moreover, these governors are strengthening their alliances with regional and national business interests, thereby increasing the number of resources they can use against the federal government. Given the Kremlin's inability to change the make-up of the regional elite, Putin's institutional reforms to build a more powerful central state will have difficulty moving forward. To push ahead with economic reforms he will now have to enter a long series of negotiations with the governors.

## **CENTER-PERIPHERY RELATIONS**

**ADYGEYA ELECTIONS VIOLATE FEDERAL LAW.** Adygeya's 4 March elections to its republican legislature, based on an electoral law that flagrantly violated federal norms and had been declared unacceptable by the Russian Supreme Court, demonstrated that the Russian state lacks a mechanism for effectively intervening in regional processes. In this case, the federal government was unable to force regional officials to carry out the law and suppress lawlessness. The failure to enforce the law raises the question of whether Moscow has the political will to do so. These elections demonstrated that the local elite still controls the process of defining its membership. They also demonstrated the low effectiveness of Moscow's regional policy. The elections showed that Moscow was not prepared to implement its "dictatorship of law" and that, as in the past, it would preserve special relations with various titular elites. These are the very policies that have threatened the disintegration of the Russian legal system.

In November 2000 the Adygeya State Council adopted President Aslan Dzhарimov's amendments, transforming the republic's unicameral legislature into a bicameral one. Under the new system, members of the lower house are elected from similar-sized single-mandate districts, while members of the upper chamber are elected from three-mandate districts that correspond to the republic's internal administrative boundaries.

In violation of federal law, the number of voters in the three-mandate districts varied sharply. Federal law allows the number of voters across districts to vary by 10 percent (and 30 percent in extreme cases). The differences in district size in Adygeya varied by a factor of 10, with one deputy representing 2,500 voters in Adygeisk and 40,000 in Maikop.

Dzhарimov sought this system to ensure that a majority of ethnic Adygeis would be elected to the upper chamber. Although Adygeis make up only one quarter of the overall population, the district system gives the areas where they live much greater representation than the geographically compact groups of non-Adygeis.

The Union of Adygeyan Slavs protested the law because they felt that ethnic Adygeis held a disproportionately large share of offices in the republican government. The Adygeya constitution claims that the executive and legislative branches should be formed on the basis of equal representation for Adygeis and non-Adygeis. However, in March of this year, the republican Supreme Court ruled this clause illegal.

The opposition challenged the electoral law in the republican Supreme Court. However, this court ruled that the law did not violate federal norms. However, on 15 February, the Russian Supreme Court overturned the lower court decision and ruled that the law could not be implemented. Dzharimov responded by claiming that "the Russian Supreme Court ruling does not affect the current campaign in Adygeya. We will amend our law later, for the next elections." (*Sovetskaya Adygeya*, 17 February).

On 2 March, the Adygeya procurator sent a letter to the republican president, parliament, and electoral commission chairman asking them to prevent the illegal elections from taking place. However, the elections went ahead on schedule. Turnout was 49 percent and ethnic Adygeis won a majority of the seats.

The story did not end there. A suit has been filed with the republican Supreme Court asking it to declare the elections invalid and to punish the republican leaders who violated the rights of their citizens and did not carry out the decisions of the Russian Supreme Court. The procurator general is also expected to take action.

A commentator for the pro-Kremlin web site *strana.ru*, Andrei Yegorov, declared that "such open violation of the country's laws is not common in Russian practice. This case is perhaps the most serious challenge to the Kremlin and its policy of 'gathering the Russian lands' in the last year." - Oleg Tsvetkov in Maikop

**KAZANTSEV PUSHES POLITICAL, ECONOMIC INITIATIVES.** On 16 March Presidential Representative to the Southern Federal District Viktor Kazantsev opened the first exhibition of agricultural products of its kind in Krasnodar. The show presented the products of 400 enterprises from the 12 regions in the district. More than 200 contracts were signed during the show. Kazantsev said that the point of the show was "to see what is being done in neighboring regions."

Kazantsev criticized agricultural producers for paying more attention to foreign ties in the past than to domestic ones and encouraged greater cooperation among firms in southern Russia. He said that the Russian government is currently approving a plan for the district's social and economic development from 2002 to 2006.

First Deputy Agriculture Minister Anatolii Mikhalev said that large modern holding companies should form the base of the agricultural sector in the south. He said that the State Council supported such a plan. In terms of land reform, Kazantsev declared that "somewhere it is possible to sell land, but for the south of Russia, this would be like death" (*Krasnodarskie izvestiya*, 17 March). Krasnodar Governor Aleksandr Tkachev holds similar views. He pointed out that the krai has a law on land use that outlaws land sales.

Additionally, on 16 March Kazantsev met with the leaders of ethnic Slavic societies working in his district. Most of the speakers who addressed the gathering claimed that ethnic Russians are the main link bringing other ethnic groups together and that they are now vulnerable. The groups complained about the laws of ethnically-defined republics and the special rights of titular peoples (see related story about Adygeya in this issue). The forum decided to create a coordinating council of Russian societies under the aegis of the presidential representative's staff. - Ariadna Popova in Krasnodar

## **LATYSHEV SUPPORTS REGIONAL BANKS OVER MOSCOW COMPETITORS.**

During a recent meeting between Urals bankers and Presidential Representative to the Urals Federal District Petr Latyshev, Chief of the Urals Federal District Department for Socioeconomic Development Viktor Basargin announced that Latyshev and his team would support regional banks in their competition with Moscow-based banks. The economic crisis of 1998 demonstrated that credit organizations in the Urals are quite stable and reliable, with much of their work involving small and medium businesses. In contrast, Basargin pointed out, Moscow banks often speculated in government bonds.

The Expert Consultative Council on the Development of the Financial Sector and Investment, which will operate under Latyshev's aegis, will serve as a tool to protect the interests of Urals-based banks. Managing Chairman of Sberbank's Urals Affiliate Vladimir Cherkashin said that a plan for the council's operation is now being drafted as is a list of important problems facing the Urals banking system.

Over the course of the meeting, bankers prepared a short-list of suggestions on how to amend legislation regulating the financial sphere. The council plans to consider a number of investment projects, which Urals banks could finance. During his recent visit to the region, US Ambassador to Russia James Collins praised both the Urals Federal District's investment climate and recent and upcoming changes to its financial legislation.

One of the most important issues facing regional banks today is the creation of a mortgage system. In the opinion of Deputy Oblast Construction Minister Anatolii Vasilev, without participation from the Central Bank it will be impossible to organize such a system, as commercial banks work with short-term funds, and an annual interest rate of 28 percent would make it incredibly expensive to purchase living space. Vasilev noted, however, that no Central Bank representatives were present at the two all-Russia conferences on mortgages he had attended.

Construction of an 100-apartment residential building in the region currently costs 40 million rubles. Last year, 635,000 square meters of residential housing were built in Sverdlovsk Oblast -- a third of the amount built in 1987. Building may pick up quickly if and when an insurance company specializing in residential construction is founded in the region. Sverdlovsk Oblast Government Chairman Aleksei Borobev has announced plans to create such a company. He says that the government is developing a mortgage credit program to be funded by banks, local companies, and the oblast budget. Work on the project will be finished by the end of the month.

While the Sverdlovsk Oblast banking system continues to develop, Sberbank, by far Russia's largest bank, also is restructuring. Following a resolution passed in November 2000, the number of regional Sberbank affiliates dropped from 69 to 17. The Sverdlovsk, Chelyabinsk, Bashkortostan, and Kurgan banks have been replaced by the consolidated Urals Sberbank of Russia. Former Yekaterinburg Sberbank staff are now part of Urals Sberbank's team. In line with its development strategy from now until 2005, Sberbank will optimize its affiliate network, strengthen its work with corporate clients, and increase its participation in state investment programs. The bank's leadership believes that this structural reorganization will allow

the new territorial banks to work more efficiently in credit dealings with industrial, agricultural, and trade industries and develop new banking technology. - Sergei Pushkarev in Yekaterinburg

## **GOVERNORS' ELECTIONS**

**ON EVE OF AMUR ELECTIONS, PULIKOVSKII DISTURBED BY CHINESE INFLUENCE IN FAR EAST.** Presidential Representative to the Far East Federal District Konstantin Pulikovskii is disturbed by what he sees as the increasing influence of Chinese citizens on the domestic political situation in his district. "A lobbying practice of sorts by ethnic and even inter-ethnic clans has taken root in Amur Oblast. Our friends and neighbors, the Chinese, have been very influential here. It's very important to them that the governor be someone they like, someone who would support their sales markets and their interests in the production sphere," Pulikovskii alleged during a recent press conference in Vladivostok. In making these remarks, Pulikovskii continues a campaign tradition among politicians in the Russian Far East who seek political capital in warning of a generalized Chinese threat.

Amur Oblast will elect its governor on 25 March. Pulikovskii noted that the "highly politicized" situation in the region has led candidates to engage in mud-slinging and legal violations.

Pulikovskii visited Amur Oblast in the beginning of March, where his deputy, Amur Oblast Chief Federal Inspector Valentin Voshchevoz, is running for governor. During his visit, Pulikovskii was careful to state that neither he nor the president supported any particular candidate.

Surveys indicate that incumbent Anatolii Belonogov leads the pack, despite all the criticism he has faced recently. Critics score Belonogov for not making better use of the region's border with China. On the Chinese side of the Amur, residents have turned the village of Heihe into a large, modern city by utilizing revenue from the border tax (60 yuan per passenger). Amur Oblast, which in turn collects 80 rubles per border crossing, has had no equivalent successes. Furthermore, residents say a friend of the governor personally profits by taking the revenue from one of the border crossings.

Critics also blame Belonogov for the Argo system, which was created with his direct participation. The Argo system is an effective monopoly of state enterprises that purchase agricultural products from local producers at extremely low prices, robbing them of their profit and forcing them into bankruptcy.

Belonogov's strongest rivals are State Duma Deputy Leonid Korotkov and Bureiskii Raion Chief Pavel Shtein, but even top political experts have difficulty pinpointing how these two candidates differ significantly from the incumbent. - Oleg Zhunsov in Vladivostok

## **BIG BUSINESS IN THE REGIONS**

**HAS LUKOIL'S PROGRESS IN THE NORTH BEEN HALTED?** On 9 March a committee of experts recommended that the Russian Ministry of Natural Resources and the Nenets Autonomous Okrug government award the rights to extract oil and gas from the Val Gamburtsev deposit in the Timan Pechora region to the Northern Oil (Severnaya neft)

company. The deposit has reserves of 192 million tons. Among the participants in the competition were such major oil companies as LUKoil, Rosneft, Surgutneftegaz, Sibneft, Bashneft, and Inzerneft (a subsidiary of YUKOS). The politics of the deal have attracted much more attention than the economic resources at stake.

Most importantly, Northern Oil has the backing of the Komi leadership, which is using it to balance the increasing power of LUKoil. In contrast to other companies, Northern Oil manages its own pipelines and does not depend on LUKoil, which controls the main pipeline and has several times tried to use access to this transportation link as a way to pressure smaller competitors (see *EWI Russian Regional Investor*, 14 March).

The political authorities in Usinsk, the capital of Komi's oil producing region, have made clear that they do not want LUKoil to monopolize production in the region. Usinsk Mayor Feliks Markov never tires of pointing out that the region's small companies pay 2.5 times as much tax as LUKoil and that the oil giant is removing a considerable amount of the region's oil production from its tax base. Northern Oil also has joined this campaign. The company's president, Aleksandr Samusev, told *Rossiskaya gazeta* that even though LUKoil produces several times as much oil as Northern Oil, Northern Oil pays 60-70 percent as much in taxes. Additionally, LUKoil subsidiaries, Nobel Oil and KomiArktikOil, reduced output in 2000 (*Komsomolskaya Pravda. Respublika Komi*, 16 February). Moreover, since LUKoil began working in Komi, exports have begun dropping. In 2000, exports were only half their 1999 level, while extraction increased by 1 million tons to 10 million tons annually. During 2000, the average price for oil rose 72 percent and all oil companies tried to increase their exports.

Local journalists claim that LUKoil's actions in the region have angered Komi leader Yurii Spiridonov. He charges that the company does not invest enough in social programs for the local population and is not putting enough money into developing local oil refineries. Additionally, Spiridonov claims that LUKoil is seeking a northern seaport in a different region to export oil, thereby reducing the importance of the Baltic Pipeline System. The Komi leadership believes that the seaport would further reduce its ability to monitor oil exports.

LUKoil's open intervention in the Nenets Autonomous Okrug's gubernatorial elections earlier this year raised local politicians' suspicions about its activities. Although the company's candidate lost the race, the leadership of the okrug and Komi Republic realized that they needed to counter LUKoil's increasing power. LUKoil, which has a strong interest in controlling the Timan Pechora Basin, lost the competition even though it has much greater economic assets than Northern Oil. This loss is a direct consequence of its inability to elect its candidate as Nenets governor and its attempts to increase its influence in Komi.

Nevertheless, this loss of this contract is not hindering LUKoil's advance in the north. Recently, LUKoil bought a large stake in Parma Oil, which engaged the support of the local authorities and was seen as a real competitor on the market. Additionally, the company already has a small, but influential, lobby within the republican government. Thus, First Deputy Governor Anatolii Karachiev, who is generally critical of economic projects, is a clear LUKoil backer. The company also will try to use its influence in Komi's gubernatorial elections set for this fall. In short, the battle continues. - Yurii Shabaev in Syktyvkar

## **VOLGOGRAD LEGISLATURE BLOCKS GOVERNOR'S LUKOIL**

**APPOINTMENT.** On 12 March, the Volgograd legislature refused to discuss Governor Nikolai Maksyuta's proposal to restructure the oblast executive branch in a way that it believes would favor LUKoil. The oil company is one of the most important enterprises in the region and heavily backed Maksyuta's campaign. The governor's plan would create a new position for a deputy governor for the fuel and energy industry. Presumably the occupant of this post would favor LUKoil's interests, paying off the governor's campaign debt to the company. The governor, who won a second term in December, wanted the deputies to approve his plans by 15 March, but they rejected his calls to move quickly.

Chairman of the Volgograd Oblast Duma Committee on Legality and Security Vyacheslav Komissarov charged that the new post of deputy governor for energy issues was created to allow LUKoil to place its people in office after it helped finance Maksyuta's campaign. The resumption of the conflict between the Communist governor and the Communist majority in the regional legislature shows that Maksyuta wants to prevent himself from falling under the legislature's control. His only hope for outside help in such a conflict is LUKoil, which stands outside of the party's sphere of influence. Now Komissarov is calling for strengthening the economic security of the region.

Citing a large number of changes in ownership in local enterprises, Komissarov said that "the authorities can hardly slow this process; however, they have the ability to monitor it. But to do that, they need a clear understanding of what is happening in the economy today. They have levers which will allow them to "take the owner in hand". There are many of them. The main thing is to know which ones to use and how to use them. The committee on economic security I am proposing should carry out these tasks. It should conduct negotiations with the representatives of the owners and the owners themselves to find out what they want and who stands behind them."

Komissarov called for studying the main financial-industrial groups in the region and blocking their future moves if they are not in line with the oblast's interests. Komissarov's statements suggest that he would like to become either the chairman of the regional legislature or Volgograd's legislative representative in the Federation Council. Elections for both spots are set for the beginning of April. - Ivan Kurilla in Volgograd

## **POLITICAL ECONOMY**

**SAMARA ENERGY CONCERN TAKES OVER ULYANOVSKENERGO.** Following Ulyanovsk failed to resolve its energy crisis, the federal government called for structural reforms in Ulyanovskenergo, Ulyanovsk Oblast's main electricity supplier. At the company's next shareholders meeting on 13 April, the board of directors will discuss how best to turn management over to the Middle Volga Interregional Managing Energy Company (SMUEK), which is based in Samara. After assessing Ulyanovskenergo, SMUEK General Director said that the company was "more dead than alive."

Changes have been on the horizon for Ulyanovskenergo for several months now. Presidential Representative to the Volga Federal District Sergei Kirienko visited Ulyanovsk last November to investigate the on-going energy crisis in the region and to adopt solutions.



Following Kiriienko's visit, Unified Energy System, the governor's office, the mayor's office, and Ulyanovskenergo signed an agreement on measures to deal with the crisis. In order to restructure its debts, Ulyanovskenergo had to pay for 100 percent of its current gas use. However, since 1 January, the company has run up a gas debt of 170 million rubles. In November, Kiriienko said that the state would intervene if Ulyanovskenergo did not pay its debts. The transfer of the company to SMUEK can be seen as the follow-up on that threat.

Ulyanovskenergo has been accumulating debt for the past five years. According to the company press service, on 1 January 2001 Ulyanovskenergo owed 3.2 billion rubles. The city of Ulyanovsk's heating network is the main culprit because it owes the company 1.8 billion rubles. Additionally, at the beginning of the year, the municipal energy retailer UIGES owed Ulyanovskenergo 158 million rubles. Among local enterprises, the largest debtors are the UNIKS heavy machinery factory (25 million rubles), the Iskra factory (26 million), the radio factory (28 million), and the Volodarskii machine-building factory (58 million).

According to Ulyanovskenergo Deputy General Economic Director Aleksandr Korolev, the company's main creditor is the federal wholesale energy market, which accounted for roughly a third of its total debt (1.3 billion rubles). Ulyanovskenergo owes Gazprom 700 million rubles, of which 138 million is debt accrued since 1 January.

The takeover by the Samara concern will mean new management, but Ulyanovskenergo will retain its status as a separate company. Energy workers and local government officials are divided on the consequences of the takeover. Oblast Legislative Assembly Chairman Sergei Ryabukhin is sharply opposed it, claiming that management from Samara will put an end to Ulyanovsk Oblast's energy independence. Others expressed concerns that tax revenues would now flow out of Ulyanovsk to Samara.

Ulyanovsk Oblast Fuel and Energy Complex Department Chief Aleksandr Budarin disagreed. He claimed that SMUEK's arrival in Ulyanovsk will not rob the region of anything. "The company will stay here, as will its tax revenue, and the shareholders will not suffer," he said.

"Since the beginning of the year, our energy output has cost 144 million rubles, of which we have been paid 44 million rubles. SMUEK's young managers are offering their services to us, but the budget and oblast administration must do their share, too. If the oblast budget doesn't contain a line on energy payments, Ulyanovsk Oblast will soon face a situation similar to the one in Primorskii Krai," said Korolev.

Ulyanovsk Deputy Mayor Yurii Zaitsev sees the cause of the crisis in the Russian government's refusal to provide subsidies to cover the difference between the low prices charged to customers and the cost of the energy. Some governors have managed to win subsidies to cover this difference, but Ulyanovsk was not in that group. - Sergei Gogin in Ulyanovsk

## **NUCLEAR ISSUES**

**EUROPEANS WORRIED ABOUT INCREASED USE OF NUCLEAR POWER IN RUSSIA.** The growth of the Russian economy over the last two years has created an increased demand for power. Demand for electricity has outstripped the ability of the Unified Energy

System monopoly to supply it, creating an energy crisis. The need for more electricity has driven officials to reconsider decisions made in the early 1990s to halt the construction of nuclear power plants. Now construction has been resumed at the Rostov and Kursk nuclear power plants and work is under way to modernize the Leningrad, Kolsk, and Kalinin nuclear power plants, which were built in the late 1970s and early 1980s. The goal of the upgrade is to increase the reliability of the stations and extend their life another 5-10 years.

All 13 of these units are identical to the unit (RMBK-1000) that exploded at the Chernobyl Nuclear Power Plant in 1986. Naturally, Russia's neighbors, and particularly nearby Europeans, are worried about the safety of these stations. In 1986, the world first learned of the Chernobyl accident from sources monitoring radiation in Scandinavia. Russia now is setting up an early warning system to monitor the level of radiation in the area around the stations.

The EBRD has provided funding for Skylink, a system of 12 posts to measure radiation levels within 30 kilometers of the Kursk Nuclear Power Plant. The German firm Genitron Instruments provided the monitoring equipment in November 2000. The Skylink project in Kursk Oblast cost \$9 million in 2000 (*Kurskaya Pravda*, 13 March). The posts send information electronically to a station at the power plant, which then forwards it to a crisis center at Rosenergoatom. The company then sends the data to a similar center at the Atomic Energy Ministry. From there information will be sent to similar information gathering centers in the European Union. The general public should have access to information about radiation levels from this system.

The EBRD plans an extensive expansion of the project during 2001 and 2002. If all goes well, similar systems will be set up across Russia. - Sergei Sarychev in Kursk

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I apologize for the late distribution of the RRR. An overly ambitious travel schedule caused the delay. The next report will appear on 11 April. - Robert Orttung  
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## CENTER-PERIPHERY RELATIONS

### **KURSK'S COMMUNIST GOVERNOR SEEKS HELP FROM**

**POLTAVCHENKO.** On 22 March, Kursk Governor Aleksandr Mikhailov met with Presidential Representative to the Central Federal District Georgii Poltavchenko. Mikhailov had long sought the meeting to ask for aid from the federal official, but Poltavchenko had put off the meeting. Mikhailov won last year's gubernatorial election after the courts had disqualified incumbent Governor Aleksandr Rutskoi from the race. He defeated the local head of the Federal Security Service who clearly had the Kremlin's backing.

Poltavchenko did not attend Mikhailov's inauguration. Subsequently, he arranged a meeting with the Kursk city mayor in Moscow. He had also met with legislators from the region and had visited neighboring Belgorod and Orel oblasts. Local observers concluded that Poltavchenko did not want to have the meeting.

Kursk's oblast administration believes that it is facing a variety of crises that required a meeting with the representative and even President Vladimir Putin himself. Agriculture is a top priority for the governor since much of his support is based in the rural parts of the region. Kursk's farmers expect Mikhailov to reward their support with increased subsidies, fuel supplies, and overall help in conducting their spring planting. All this aid would cost about 1.5 billion rubles, but there are only 700 million rubles for these purposes in the oblast's 2001 budget. The administration has won the regional legislature's approval for a loan of 100 million rubles from Sberbank and 70 million from Kurskprombank, but needs at least another 630 million rubles.

Energy concerns make up the other group of problems facing the region. For the first time, Kursk's major enterprises and public transportation system have faced

blackouts this year. In a personal meeting with the governor, Gazprom head Rem Vyakhirev easily agreed to restructure the region's natural gas debt. However, Unified Energy System head Anatolii Chubais refused to even consider additional concessions or the payment of 30 percent of the bill in the form of goods produced by Kursk Oblast enterprises, although he did sign a cooperation agreement for 2000-2001.

Mikhailov's willingness to work with the energy companies brought him into conflict with the region's mayors who do not agree with the energy providers' policies. The governor wholeheartedly supports the monopolies' war against the municipal companies that distribute the energy. These companies often skim off profits for themselves, leaving little for the national monopolies. For example, Mikhailov supported Kurskenergo's demand that the municipalities pay off a 200 million ruble debt by handing over Kursk Electric Network and Kursk Heating Network, which are worth no less than 500 million. In the conflict between Kurskregiongaz (a subsidiary of Gazprom) and Kurskgaz (a municipal gas distribution network) over who should receive customer payments, the governor supported Gazprom. Nevertheless, the problem of paying for energy, particularly to supply the region's large enterprises, remains and the governor wants Putin's help in dealing with it.

A third area of concern is Kursk's relationship with the Railroads Ministry. Recently Minister Nikolai Aksenenko and the head of the Moscow Railroads Gennadii Fadeev decided to transfer all the assets of Kursk railroad to Orel's railroad. Mikhailov has protested this decision strongly as it may cost jobs in Kursk and increase social tensions. He also has argued that it may adversely affect overall railroad service. On 21 March he sent an open letter to Aksensnko complaining about the failure of his negotiations with the ministry (*Kurskaya Pravda*, 21 March). Orel Governor Yegor Stroev and Metalloinvest, which now transports the ore from the enormous Mikhailovskii Mining and Processing Combine, benefited most from the transfer of Kursk's railroad assets.

Finally, social policy poses the greatest challenge for the communist governor, who had pledged during his campaign to address issues such as subsidized medicine, the distribution of social payments, and the rising cost of municipal services. The governor has received numerous complaints about these issues from pensioners, invalids, and other disadvantaged members of society, but has asserted that the administration lacks the funds to deal with these problems. At the same time, the governor has not kept his promise to reduce the staff of the oblast administration and government by 50 percent.

Criticism of the failures of the new governor is pervasive in Kursk. Mikhailov's meeting with the federal authorities is unlikely to solve many of these problems, but the governor is still optimistic about the results. - Sergei Sarychev in Kursk

**RAKHIMOV LAYS OUT CRITIQUE OF FEDERAL POLICY.** President Putin has included Bashkortostan President Murtaza Rakhimov in the second group of seven regional leaders to serve a six-month term in the State Council Presidium. The leadership of Bashkortostan had criticized Putin's decision to include Tatarstan President Mintimer Shaimiev in the first group of regional leaders to be in the Presidium, thereby apparently giving him some preference. However, Rakhimov did not complain publicly about the situation and his non-inclusion left him free to criticize the creation of the seven federal districts. Initially, Presidential Representative to the Volga Federal District Sergei

Kirienko had neutral relations with Rakhimov. But after Bashkortostan adopted a new draft of its constitution that violated federal norms as much as the previous draft, provoking protests from the general procurator, the relationship between Rakhimov and Kirienko deteriorated. Kirienko made his first, and apparently last, visit to the republic last year.

Despite his inclusion in the State Council Presidium, Rakhimov has not changed his position on Putin's federal reforms. He charged that the State Council did not resolve any of the problems it raised during the term of the first presidium: electricity monopoly reform (addressed by Tomsk Governor Viktor Kress), a new socio-economic policy (put forward by Khabarovsk Governor Viktor Ishaev), and the division of power between the federal and regional authorities (proposed by Shaimiev). Rakhimov believes that the main problem is that federal bureaucrats are not interested in the problems of the country's donor regions. Rakhimov charged that the State Council does not deal with concrete issues or specific sectors of the economy, leaving the donor regions to address their own concerns unaided.

Rakhimov argued that even though there are numerous federal agencies working in his republic, he must create republican agencies that duplicate their functions. He would prefer to have the federal agencies in the regions subordinated to both federal and regional authorities, similar to the union-republic agencies that existed in the USSR. These agencies would channel federal aid to the regions, particularly those that are most economically developed. Rakhimov particularly wants federal aid for the local chemical and petrochemical industries because he has not been able to raise the money necessary for investment in this sector. Rakhimov suggested that the problem of dividing ownership among the stockholders, regional, and federal governments was of secondary importance. He believes that it is essential to improve the region's financial situation and to address its social problems.

Rakhimov charged that although the federal government had centralized authority over financial flows in its hands and reduced the rights of the regions, it was not addressing social and economic problems. Rakhimov also alleged that the federal authorities were not paying attention to specific ethnic issues in the republics.

Rakhimov met with Putin on the eve of the State Council Presidium meeting. After the meeting, the Bashkortostan President claimed that Putin backed his economic program through 2006. - Igor Rabinovich in Ufa

## **PATTERNS OF REGIONAL DEVELOPMENT**

**VORONEZH GOVERNOR WINS SYMPATHETIC LEGISLATURE.** On 25 March Voronezh Oblast elected a legislature that is sympathetic to recently elected Governor Vladimir Kulikov. Kulikov was extremely interested in the outcome of the election because the previous legislature refused to approve his cabinet appointments. From the beginning of the campaign, Kulikov made clear that he would exert every effort to elect deputies sympathetic to him (*Bereg*, 23 March). Many analysts feared this would be a difficult task because they expected a relatively low turnout, which would invalidate the elections.

The governor's supporters ran under the name "Otechestvennyi vybor" and most were elected (*Voronezhskie vesti*, 28 March). Turnout was similar to four years ago at 37

percent, and 43 of the 45 seats were filled. However, an unusually large number of voters voted "against all": 20 percent in the city and 5 percent in rural areas.

Of the new legislators, 24 are from the governor's list. Four are from the Communist Party of the Russian Federation and four from Yedinstvo. The Agrarian Party and Otechestvo-Vsya Rossiya each have one member. The rest of the deputies are officially independent, but most back the governor. Only 12 of the 35 deputies from the last term successfully won reelection. Thus, the governor achieved his goal and can count on the legislature to support his legislation.

Additionally, the legislature now has many representatives of natural monopolies, such as Voronezhenergo, Voronezhoblgaz, and the South-Eastern Railroad, each of which has elected three members. Representation of local enterprises in the body was significantly reduced. The leader of the Union of Industrialists did not even win a seat. Now only two deputies will represent local industries. Agricultural interests, however, did much better: they will have 14 representatives. - Yuliya Fedorinova in Voronezh

## **LOCAL GOVERNMENT**

**OMSK ELECTS NEW MAYOR.** On 18 March, Omsk elected Omskenergo General Director Yevgenii Belov as the city's mayor. Belov had the backing of Omsk Governor Leonid Polezhaev, who supported him with all of his resources, including a complete monopoly over broadcast media. The former mayor, Valerii Roshchupkin, had resigned under extreme pressure from the governor, with whom he was constantly locked in battle.

Although the governor was able to elect his candidate to office, the numbers in the race indicate the electorate's general dissatisfaction. Turnout for the race was a record low: 29.2 percent, slightly topping the 25 percent required for the elections to be valid. Of the voters who did participate, 58.2 percent supported Belov who faced no real opposition. Thus, Belov received 149,652 votes in a city with 881,040 voters (population almost 1.2 million). Just over 23 percent of the voters marked "against all" on their ballots, a comparatively large figure in relation to other Russian elections, where such votes usually total 5-10 percent. The results give an early measure of the city's residents' support for a 2003 gubernatorial campaign for Polezhaev and serve as a referendum on his policies regarding the city.

The low turnout in the elections reflects the populace's feelings toward Polezhaev policy of exerting intense financial pressure on the city and its former mayor. None of Omsk's political parties could nominate a candidate for the race and the Communists decided to sit out the campaign (Belov headed the Yedinstvo faction in the oblast's legislature). In fact, Polezhaev's policies toward the city create an unpleasant precedent for other cities in Russia. His actions will give the oblast authorities considerable control over local officials.

Two weeks before the end of the campaign, Polezhaev appointed the head of the Central Administrative District of Omsk City Viktor Shreider as a vice governor. Shreider was the only potential candidate considered able to win a significant number of votes and increase his standing. However, after consultations with the governor, he decided to accept the post of "vice governor," as the local press describes it, where he will deal with housing reform, coordinate with the Omsk Fuel Company, and serve as the representative of the Omsk oblast authorities to the city of Omsk's government. Even

before Belov was elected, Shreider made clear that he would play an active role in running the city. He has met with city officials already and intends to participate in selecting new personnel for the mayor's office.

This "Omsk model" of local government essentially puts the city administration under the control of the governor. The governor seeks to prevent any conflicts, which could arise from the mayor seeking independence in adopting decisions. - Pavel Shagiakhmetov in Omsk

### **DAGESTAN: WILLING TO SACRIFICE DEMOCRACY FOR STABILITY.**

In Dagestan, the republican authorities decide whether local leaders should be democratically elected or appointed from above. The republic's State Council proposes which procedure should be used and the People's Assembly adopts the final decision. The republic's leader Magomedali Magomedov claims that this system works the best because it provides stability and, in most cases, allows for the exercise of a democratic system.

Thus, three years ago, the city of Makhchkala elected Said Amirov as its mayor. He is a figure who is both influential and independent. Akhtyn Raion also recently held elections, but these were marked by an enormous scandal. Three weeks before the February election, the region's largest newspaper *Novoye Delo* ran an article claiming that Akhtyn Raion Mayor Safidin Mursalov had stolen state money. Mursalov denied the charges and sued the newspaper for libel, demanded 500,000 rubles in compensation. Mursalov won, though a variety of irregularities accompanied the voting.

In Akushy and Novolak Raions and the city of Kaspiisk, the State Council named local leaders, citing the difficult criminal situation in these localities. In Akushy, after two mayors were murdered two years ago, the republican authorities appointed Khamis Shakhbanov to the position. He had earlier served as an assistant to one of the previous mayors. In the Novolak Raion, bordering on Chechnya, there are on-going disputes between the local Chechens and Laks. When military activities resumed in Chechnya in 1999, the authorities took control of the process of picking Novolak's leader. In Kaspiisk, there is an on-going battle between two different groups, neither of which the republican leadership wants to see in charge.

Although the federal authorities last summer gave governors the power to fire mayors, Moscow insists on holding elections for local leaders. At the last session of the Dagestani Popular Assembly, Magomedov said that some groups within the Southern Federal District and the Presidential Administration were demanding democratic elections in the localities. However, Magomedov rejected these demands. "Someone does not like the fact that the situation is more or less stable. Somebody needs to build confrontation. To those who are seeking this, I want to say that there will not be elections there... Once time passes and the situation normalizes - then we will hold any form of elections."

As part of its campaign to harmonize regional laws with federal norms, the federal authorities want Dagestan to update its law on local government. However, there are major obstacles to doing so. Local governments obtain 90 percent of their financing from the republican government. Additionally, there is no republican law defining which responsibilities belong to the republican government and which reside with local government. Similar issues plague the reform of the Russian law on local government, which also has only a fuzzy distribution of responsibilities.



The Dagestan republican government has long monitored the activities of the local leaders. In summer 2000, Putin and the Russian State Duma approved a law allowing governors to fire mayors if they so desired. Dagestan had adopted a similar law in 1996. However, the republican leaders have not fired any mayors yet. From the republican government's point of view, the top priority is stability, and this goal generally requires keeping a tight lid on local government. Recent laws adopted on maintaining ethnic quotas in the republic's ruling institutions sought to achieve the same purpose. - Zaira Abdullaeva in Makhachkala

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## GOVERNORS' ELECTIONS

**AMUR ELECTS COMMUNIST DUMA DEPUTY GOVERNOR.** In a runoff election on 8 April, Amur Oblast elected State Duma Deputy Leondi Korotkov governor. Korotkov is a former member of the Communist Party, who is now a member of the Narodnyi deputat

faction. During the two weeks between rounds, he practically doubled his vote total, gaining the margin necessary to defeat incumbent Governor Anatolii Belonogov.

Turnout in the second round was 43.7 percent, down 0.29 percent from the first round, which took place on 26 March. Korotkov received 145,492 votes (49.42 percent), up from 54,857 in the first round. Belonogov received 126,000, up slightly from the 116,000 (42.86) he received in the first round. Oblast Electoral Commission head Anatolii Kutsonozhek said that the campaign was one of the dirtiest in oblast history.

Korotkov was born on 19 January 1965. He worked on the railroad and then graduated from the philological faculty of Far Eastern State University in 1987. For six years he worked at the newspaper *Amurskaya pravda*. In 1993, he was elected to the Federation Council from Amur Oblast. In 1995 and 1999, he won seats in the State Duma. When he ran as an independent in 1999, the Communist Party of the Russian Federation excluded him from its ranks and he joined the Narodnyi deputat faction. He also graduated from the Financial Academy in 1999.

Korotkov claimed that he would stress two differences in contrast with his predecessor. First, he claimed that his "administration would carry out an honest policy." Korotkov claimed that he would not have to worry about his personal financial situation as governor because after he left public service he would still be young enough to secure a large income. Second, he said that he would earn money for the oblast budget, citing several sources of potential income. The Bureiskaya electric station is now being built in the region, but the oblast has only a small share in it. Korotkov wants to increase this share. Additionally, Korotkov noted that Amur sends much of its natural wealth beyond its borders for processing. The region produces 70 percent of Russia's soy, but it does not have an adequate processing plant. The region is also Russia's third largest gold producer, but there are no local processing facilities. Korotkov plans to build local processing factories to take advantage of these local resources. - Oleg Zhunusov in Vladivostok

## **OLIGARCHS IN THE REGIONS**

*Last year the giant Russian metal companies Severstal and Russian Aluminum began purchasing automobile factories (see Nezavisimaya gazeta's supplement Politekonomika, 20 February). Russian Aluminum bought the Pavlovskii Bus Factory (PAZ) and the Gorkii Automobile Factory (GAZ) in Nizhnii Novgorod. Severstal bought the Ulyanovsk Automobile Factory (UAZ). In the middle of February, Severstal gained control of the Zavolzhskii Automobile Factory in Nizhnii Novgorod, which supplies engines to PAZ and GAZ. Russian Aluminum bought Volzhskie motory, which supplies engines to UAZ. Now the automobile factories are locked in serious disputes with the engine providers causing enormous problems for their regions.*

**NIZHNII BATTLE BETWEEN DERIPASKA, SEVERSTAL INTENSIFIES.** In the beginning of April the battle between the Gorkii Automobile Factory (GAZ), which is owned by Russian Aluminum's Oleg Deripaska, and its main engine supplier, the Zavolzhskii Motorny Zavod (ZMZ), which is owned by Severstal, reached another peak. The partners could not agree on the price of the engines ZMZ sells to GAZ. GAZ claims that it is losing money due to

the baseless price hikes. ZMZ said that it has to raise prices to ensure its own financial survival and to account for the increased prices of its own suppliers, which include GAZ. Since December 2000, GAZ has raised its prices for these parts 3.4 times and foresees another 26 percent increase in coming weeks. Additionally, GAZ has delayed a payment to ZMZ totaling 120 million rubles.

The Nizhnii Novgorod media has recently carried several articles critical of ZMZ. GAZ claims that 50 percent of the warranty claims its customers make are related to the engines. GAZ also has criticized the quality of the ZMZ engines.

In protest, ZMZ stopped delivery of its engines in early April. Nizhnii Novgorod Governor Ivan Sklyarov immediately intervened, after which deliveries were restored.

Recently, Russian Aluminum bought a controlling stake in the Volzhskii Motorni Zavod (VMZ), which provides engines to the Ulyanovsk Automobile Factory, which belongs to Severstal. It is hard to predict how relations between these companies will evolve in the future. Some analysts believe that Russian Aluminum and Severstal could trade engine factories so that each of the large metal companies will own car and engine makers in the same region. However, most consider ZMZ to be a more advanced factory than VMZ. - Yuri Rodygin in Nizhnii Novgorod

**ULYANOVSK ADMINISTRATION BLASTS SEVERSTAL FOR LACK OF UAZ STRATEGY.** The Ulyanovsk Oblast administration has accused Severstal leadership of lacking a strategy for developing the Ulyanovsk Automobile Factory (UAZ), in which it has owned a controlling stake since November 2000. The criticism followed a halt in UAZ's production line, which in turn reflects dropping demand for the plant's vehicles. Sales dropped after the Severstal management began requiring 100 percent prepayment in cash for the vehicles, ending the previous practice of accepting barter deals for the vehicles. The effect of the new policy is to increase prices for the automobiles by 30 percent. Thanks to the plummeting sales, the oblast budget is receiving much less tax revenue from UAZ: 6 million rubles a month instead of 30 million.

Severstal General Director Aleksei Mordashov visited Ulyanovsk on 31 March and met with Governor Vladimir Shamanov. According to the governor's press service, Shamanov explained "in strict terms" that he was extremely unhappy with the results of UAZ's first quarter performance. The men agreed to set up a bilateral commission to prepare a strategy for developing the plant. If the commission proves ineffective, the governor reserved the right to declare UAZ bankrupt.

"We said to Mordashov frankly: he is the owner and he must demonstrate why he bought the factory and if he is capable of running it," First Deputy Governor Viktor Sidorchev said. "If not, let him sell it. There are people who are ready to exercise ownership more effectively."

Mordashov presented a completely different picture of the situation at UAZ. He said that the new managers had achieved a 4 percent profit, while only five months ago the plant was running a 22 percent loss. He dismissed the poor sales as simply a seasonal drop in demand. Sidorchev rejected these claims as baseless.

The oblast administration's concern is understandable: UAZ's contributions make up one third of the oblast's revenue. From the oblast administration's point of view Severstal's purchase of UAZ is simply a "battle of egos between Deripaska and Mordashov."

In the past, UAZ had bought its engines from Ulyanovsk's Volzhskie motory. Now it buys half of the engines it needs from Nizhni's Zavolzhsii Motorni Zavody (ZMZ). VMZ Director Viktor Samokhvalov complained that UAZ's new policy was hurting its factory since now UAZ only bought 3,000 engines a month, far short of the plant's capacity of 11,000. After Deripaska bought ZMZ however, the Ulyanovsk-based plant signed a deal with GAZ to deliver 7,500 engines a month.

The result is that the long-standing ties between GAZ-ZMZ and UAZ-VMZ are being broken by their new owners. As a consequence the automobile factories may eventually be forced to buy the engines they used to get in their own regions from factories in neighboring regions. - Sergei Gogin in Ulyanovsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SMOLENSK GOVERNOR SUES NEZAVISIMAYA GAZETA.** On 13 March *Nezavisimaya gazeta* published an article entitled "*Bitva za Smolensk*," which described several alleged criminal activities in Smolensk. The article asserted that there were links between the oblast administration and various crimes that have shaken the region in recent years. According to representatives of the Soyuz pravyykh sil, Governor Aleksandr Prokhorov had this issue of *Nezavisimaya gazeta* confiscated from local kiosks (*Nezavisimaya gazeta*, 16 March). Following this incident, Prokhorov gave an interview to the local newspaper *Rabochii put* (28 March) in which he claimed that the central press was conducting a campaign to discredit him personally and his colleagues in the oblast administration. He said that this campaign was connected to the gubernatorial elections that would take place next year.

Prokhorov said that he did not know who was behind this campaign, but planned to sue *Nezavisimaya gazeta* for slander. He also said that he would ask the oblast procurator and police chief to either confirm or reject the information in the article. Prokhorov said that he would seek another term in office next year and that he would not leave the Federation Council until the end of his term on 13 December 2001. - Arsentii Ledovskoi in Smolensk

## **CENTER-PERIPHERY RELATIONS**

**KAZANTSEV WANTS LOCALS TO LEAD ANTI-TERRORIST CAMPAIGN IN SOUTHERN DISTRICT.** A series of bomb blasts in southern Russia has again raised the question of what the authorities can do to protect the local population from terrorist attacks. The latest bombs were clearly intended to disrupt the region's tourism industry, which makes up a significant part of the local economy. The anti-terrorism campaign is intimately tied to the establishment of Putin's "power vertical." Stavropol Governor Aleksandr Chernogorov will prepare a document on this topic for the next session of the State Council to be held on 18-19 April. More immediately, Presidential Representative to the Southern Federal District Viktor

Kazantsev met with numerous federal, oblast and local level officials (including governors and law enforcement agencies) to discuss these issues on 5 April.

During the meeting Kazantsev claimed that the weaker the authorities are, the greater the opportunities terrorists will have to strike. "Indecisive, passive, and unprofessional" authorities could not provide adequate defense, Kazantsev stated. Kazantsev said that his comments were directed at local authorities as well as federal and oblast officials. He charged that local government had mistakenly been excluded from the overall "power vertical" now being created in Russia. The participants of the meeting agreed with this assessment. Kazantsev noted that the explosions had reduced confidence in the authorities and that this confidence had to be restored through the effective work of local governments.

Kazantsev warned that the existing tension between the federal agencies working to combat terrorism and local governments had to be ended immediately. He said that the anti-terrorist measures adopted following the initial explosions were not working. He blamed these failures on the head of the local governments in the resort areas, the mayor of Mineralnyi Vodi, the traffic police, Ministry of Internal Affairs, and numerous others. He charged that there is still no coordination among the police, procurators, special services, justice departments, courts, local governments, and oblast and federal authorities. Kazantsev limited himself to giving advice to some of the officials and suggesting that one voluntarily resign. However, he warned everyone that he would not accept a situation where individual officials did not contribute to the improvement of overall security. He called on the officials to impose order on the public outdoor markets where large crowds of shoppers usually assemble in confined spaces and are often prime targets for bombers. He said that every local official had to take responsibility for fighting terrorism and not wait for someone from Moscow to come and deal with the situation. Additionally, he called on the governors to stop seeking aid from the federal government.

However, regional and local officials are not likely to be able to achieve much toward this end. Russian law assigns security functions to the federal government. On 30 December 1999 President Boris Yeltsin overturned a Stavropol law on increased security measures, pointing out that these were federal responsibilities. The same logic applies to local governments.

Local officials pointed out that the federal government has a considerable amount of work to do. Among the key tasks are improving anti-terrorism legislation, providing greater security on the Chechen border, reequipping the police to deal with the challenges they face, and providing more aid to victims of terrorism. Other officials complained that they could not place limits on the kinds of people moving into the region or that self-interested bureaucrats were blocking the implementation of the numerous anti-terrorism measures that had already been adopted. - Olga Morozova in Pyatigorsk

#### **SOUTHERN FEDERAL DISTRICT UNITES MEDICAL INSURANCE FUNDS.**

One of the most recent steps in integrating federal agencies that work on the regional level in the Southern Federal District was the creation of a position for the chairman of the Southern Federal District Federal Fund for Obligatory Medical Insurance. Ismail Ismailov will now fill this position and monitor the activities of 13 regional funds in the Southern Federal District.

The situation in the Southern Federal District is somewhat different from the rest of Russia. For example, in Dagestan only 25 percent of the population contributes to the fund. The rest of the population is either officially unemployed or hides its income. Usually, the enterprise that employs a worker is responsible for his social fund payments. However, there are numerous ways for the enterprises to avoid providing these contributions. Thus, while in Russia the average worker receives 542 rubles a year in medical support, in Dagestan, the figure is only 337 rubles. In other regions in the Southern Federal District, the figure is as low as 200 rubles a year, Ismailov claimed.

One of Ismailov's first tasks will be to raise the average level of aid in the district to 500 rubles a year. He hopes to achieve this goal by seeking additional aid from the federal fund. Thus, since the beginning of the year, Dagestan has received a 5 million ruble grant for supplying medications to local hospitals.

Another problem is providing health care for residents of Chechnya. There is effectively no health care system in the war-torn republic beyond emergency procedures conducted in refugee camps. Thus, most Chechens go to neighboring regions to bear children or seek non-emergency medical care. In 2000, Dagestan spent 1.3 million rubles on such procedures, but only received 500,000 rubles in compensation from the federal fund. Neighboring regions have similar problems. The heads of the regional funds expect to meet at the end of April to develop a joint policy for dealing with their common problems. - Nabi Abdullaev in Makhachkala

## **LOCAL GOVERNMENT**

**BATTLE OVER LOCAL GOVERNMENT CONTINUES IN KOMI.** The Komi Republic has a long history of blocking the development of local government. According to the 1994 republican constitution, the Komi president appoints local government leaders, and local assemblies have a purely symbolic role. The republican law on local government adopted in 1997 contained numerous contradictions with federal law. This law also prevented direct mayoral elections, instead having local legislatures select the mayor at the recommendation of the republican president. Although the courts ruled the law unconstitutional, it served as the base mayoral appointments that took place in 1999. During the course of 2000, the republican procurator demanded a series of amendments to the law, but it is still far from respecting democratic norms.

Thus, on 29 March an initiative group launched an effort to hold a republican referendum on procedures for electing mayors in the republic. The group includes several members of the republican parliament and the Syktyvkar City Council, civil rights advocates, and women's issues activists. The leader is Vyacheslav Antonov, who is the head of the Syktyvkar Yedinstvo party and an assistant to State Duma Deputy Aleksei Tomov. The initiative group hopes to put the following question to the population: "Do you support elections of mayors by citizens living in their jurisdiction through inclusive, equal, and direct elections?" The republican Electoral Commission must now register the group and it plans to start collecting signatures in the middle of April. During the course of a month, they must collect signatures from 2 percent of the population (15,500 signatures). After that the republican State Council must adopt a decision on holding the referendum (*Molodozh severa*, 5 April).



The referendum supporters should have no difficulty gathering the required number of signatures. Most members of the population believe that they should have a say in choosing mayors. Most observers believe that a referendum will not be held. More likely, the republican legislature finally will adopt a law on local government that allows direct election of mayors in accordance with federal norms. Even direct elections of the mayors will not deprive the republican president of all his influence over the mayors, but it will significantly restructure the power hierarchy that Komi's leader Yurii Spiridonov had established in the republic. - Yurii Shabaev in Syktyvkar

## **FOREIGN POLICY**

**CHERKESOV VISITS FINLAND.** In late March, Presidential Representative to the North West Federal District Viktor Cherkesov visited Finland to help prepare President Putin's visit in September. The trip was Cherkesov's first official foreign trip since becoming a presidential envoy. The only other of the seven presidential representatives to travel abroad was Konstantin Pulikovskii, who visited Japan. During his trip, Cherkesov met with the chairman of the Finnish parliament, the ministers for foreign trade, transportation and communications, and natural resources. He also visited the Union of Industrialists and Nokia. The Finns see the northwest as the main priority in Russia and the majority of their investment projects are based there.

Cherkesov said that he had met with many Finnish business people and politicians in St. Petersburg and that the purpose of his trip was to strengthen the cooperation proposals they had discussed. Cherkesov said that the Finns were mostly interested in learning about the business climate in Russia. Their main concern was achieving predictable laws that would defend Finnish interests, winning assurances that regional authorities would not present new obstacles to business, and increasing confidence that the federal center would not adopt new laws that would "turn the economy on its head." Cherkesov said that most Russian-Finnish cooperation is based on long-term projects in the coal, forestry, and paper sectors, where the first profits may be 10-20 years off. Such projects necessarily require long-term political stability. He said that the Finns were interested in "political will and federal influence on the regional situation, so that the conditions they work in will be understandable, reliable, and stable." - Maksim Timofeev in Petrozavodsk

## **SPECIAL SECTION: PERM OBLAST TRIP REPORT (1-4 APRIL 2001)**

*In early April I visited Perm Oblast. While it is difficult to argue that any specific region in Russia is representative of overall national trends, Perm is an example of the better off regions in Russia. It is relatively wealthy and usually ranks high as a target for foreign investment. Its new governor, Yurii Trutnev, is a former businessman who symbolizes the rise of a new generation of regional leaders. In general, the region is politically peaceful and has largely avoided the kind of scandals that bring national or international attention. Here is a (rather lengthy) summary of what I found there. - Robert Orttung*

## **OVERVIEW**

**PERM: UP AND COMING CITY WITH A WAYS TO GO.** Perm is a city with big hopes for the future. Its politicians and businessmen speak incessantly of their plans to expand the city's influence throughout the Urals and into Siberia and the Far East. The local elite is relatively cohesive, even though former Perm Mayor Yurii Trutnev defeated incumbent Perm Governor Gennadii Igumnov in a recent gubernatorial election and has now just passed his first 100 days in office (for a profile of Trutnev, see *EWI Russian Regional Report*, 13 December 2000). As local observers point out, the transfer of power was peaceful and there are no public fights between the old governor and his successor. Following his defeat, Igumnov joined the board of LUKoil-Perm, the largest business in the region.

Like any provincial city with ambitions, Perm has much to do before it will become a real business and cultural center. It is often overshadowed by Yekaterinburg, its eastern neighbor and rival. Culturally and politically, Yekaterinburg is more dynamic than Perm. However, Perm Oblast has quietly achieved one of the highest levels of enterprise privatization, while others like former Nizhni Novgorod Governor Boris Nemtsov enacted relatively few reforms while crowing about them loudly. Perm residents admit that there is some local organized crime, but they claim that the situation in the notoriously crime-infested Sverdlovsk Oblast is much worse. In terms of business climate, current and past governors have sought to help investors, "not like in Voronezh and Krasnodar," where the governors have often been the enemy of investors.

LUKoil dominates the Perm business scene with its local oil production and refining plants and its extensive chain of service stations. During the December 2000 gubernatorial campaign, LUKoil backed incumbent Governor Igumnov over Trutnev and LUKoil chief Vagit Alekperov came to the region to stump for Igumnov. Now, some believe that Trutnev may try to bring in some other large companies to balance LUKoil. For example, he could build up Kamaneft as a state-owned alternative to LUKoil. LUKoil officials, however, point out that the companies are more likely to compete for individual customers purchasing gasoline than for oil processing contracts. Trutnev is in no way threatening a redistribution of property in the region. In fact, Trutnev will sign a cooperation agreement with Alekperov, when Alekperov visits the region again on 11 April.

Relations with Gazprom are much colder, however. In a late March speech, Trutnev denounced the company as "bandits." Locals, however, suggest that these statements reflect Trutnev's attempts to settle into his job more than a long-term strategy of confrontation.

Trutnev was considered a relatively effective mayor. Using his business background, he helped the city to earn more revenue from its property holdings, which were in disarray when he came to office. He also is credited with making the city look better.

Perhaps most surprising about Perm, where there is no McDonald's or little visible Western presence, is the popularity of basketball. Residents enthusiastically support the local team, Ural Great, which has two American players. Much to the local crowd's delight, Ural Great recently beat Moscow's CSKA (Central Sport Army Club), which has won the Russian basketball championship nine times in a row ([www.cskabasket.ru](http://www.cskabasket.ru)).

## **CENTER-PERIPHERY RELATIONS**

**OBLAST OFFICIALS SUPPORT KIRIENKO, QUESTION NEED FOR FEDERAL DISTRICTS.** Perm Oblast administration officials expressed different views about the creation of the federal districts as an institution, although all were generally happy with Presidential Representative to the Volga Federal District Sergei Kirienko personally. First Deputy Governor Anatolii Temkin, a lawyer by training who moved from the Komsomol business sphere into banking before becoming a public servant, said that the main problem at the federal level was that the laws were not enforced and that the judicial system did not work. He argued that Russia had generally good laws, but the lack of enforcement made them meaningless. He also asserted that the level of corruption in Moscow was enormous.

Temkin rejected the creation of the federal districts as a bad idea that would only add a new layer of bureaucracy and waste money. Instead, he said, Putin should have focused on the existing legal system. Temkin suggested that the president should have made an example of figures like Tatarstan President Mintimer Shaimiev, citing him as one of the most egregious violators of federal law, and used the court system against them.

Another official (who wished to remain anonymous) argued that the districts were a good innovation because they were separate from Moscow and could help direct investment to the regions. He pointed out that the districts did not block Perm's ties with the outside world and the EBRD was still able to work directly with the oblast.

Both Temkin and the second official were unanimous in their praise of Kirienko. They said that Kirienko had the "same mentality" as the presidential envoy and that he was useful in developing contacts in Moscow. Perm also has good ties to Presidential Representative to the Urals Federal District Petr Latyshev, who served as the Perm police chief earlier in his career and maintains good ties with Governor Trutnev. Perm was included in the Volga Federal District even though it is usually considered part of the Urals region. Kirienko and Latyshev have discussed the possibility of using Perm to expand inter-district cooperation.

Oblast officials are not concerned by Kirienko's statements that he would like to take greater power, particularly in emergency situations. They claim that Kirienko cannot take power from them.

On the gubernatorial elections, this anonymous official said that the Kremlin essentially backed three candidates, not just the incumbent Igumnov. Different parts of the president's staff backed different candidates, he claimed. From the oblast administration's perspective, Putin's main problem is that he does not have enough good people to assemble an effective staff. The president does not trust some of his staff members, but does not have anyone to replace them with.

This official argued that Putin's decision to subordinate his seven presidential representatives to Presidential Administration Chief of Staff Aleksandr Voloshin was not a demotion (see *EWI Russian Regional Report*, 31 January). Now it is clear that he did not want them to be subordinate to the new Security Council secretary, Vladimir Rushailo.

Temkin pointed out that the federal and oblast governments often disagree on how to manage federal property in the region. The federal and oblast governments have recently fought over the Permkhladokombinat, a factory that produces ice cream and provides refrigerated storage. The enterprise is federal property and with the help of a federal loan was able to

become profitable. However, the company has yet to repay its debts. This year the federal government therefore decided to take 50 percent of its profits to repay the loans. However, Temkin believes that the loss of this money means that the company will soon go bankrupt. He therefore worked to convince the federal government that more lenient loan terms would enable the firm to achieve a more solid economic foundation and to provide much more revenue to the federal government subsequently. Temkin won an "intermediate victory" in that now the federal government is only taking 30 percent of the factory's profit. This case has helped convince Temkin that the role of the state in the economy should be minimal because the state cannot be an effective manager.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**TRUTNEV REVISES BUSINESS-GOVERNMENT RELATIONS.** Unlike Governor Igumnov, who depended on a system of balancing some interests against others on his staff, Governor Trutnev wants to build a unified team of like-minded individuals, said a high-ranking oblast administration official who wished to remain unidentified. Trutnev is trying to push business out of the political sphere. Under the old system the governor gave oblast oil interests representation within the administration. Trutnev believes that this system gave away too much. Rather he is trying to set up clear rules of the game, which will be well known and straightforward. Every public tender organized by the oblast administration will be transparent, this official claims.

In terms of foreign investment, the main contribution to come from the oblast administration is that it can set up the rules of the game. The best guarantee for investors is that Trutnev is a man who plays by the rules, this official said. In Russia everything depends on the person in charge. Just as the governor seeks to reduce the role of business in politics, the administration is also seeking to reduce its influence in the business sphere to as little as possible, admitting that oblast and local officials are very poor managers. Temkin pointed out that businessmen seek a profit while the state necessarily must pursue different goals. Currently, the administration is trying to divest itself of shares it owns, except in those plants where state interests are high or where the plants perform social functions.

The administration is satisfied with investors like Sun-Interbrew and Nestle in the food industry, but points out that oblast leaders would like to invest in industrial concerns, which they believe will create more jobs. The oblast administration is currently considering hiring outside consultants to develop a strategy for attracting investment. Trutnev is willing to experiment and try new ideas to win investors, but recognizes that the role of the state is necessarily limited.

The Perm oblast administration is currently working on a plan for strategic development that should be approved in November. The plan is being prepared by working groups of politicians, businessmen, and scholars. As mayor, Trutnev used similar councils to guide the city's development. Trutnev believes that he was able to assemble a good team in the mayor's office and many of the key figures from the city government are now working at the oblast level. The 1998 financial crisis, in particular, threw many business people out of work and they were eager to work in the public sector. Now, however, their salaries are "absurdly small," according to this official.

This official claimed that Trutnev was willing to give up some of his powers to achieve economic results. For example, the governor used to play a large role in pension policy, but no longer does so. He is prepared to combine regional units, such as the regional pension funds, to achieve a more effective outcome than currently is possible, even if this means a loss of some power

However, the governor also hopes to extend his influence beyond the borders of the oblast to satisfy his personal ambitions and those of the oblast in general. In particular, he seeks greater influence in the poorer regions of the Volga Federal District such as Udmurtiya..

This official noted that Trutnev hopes to use his good connections with Presidential Representative to the Urals Federal District Petr Latyshev to expand Perm's business and political influence in Sverdlovsk. Perm companies see Sverdlovsk Oblast as a large market where they will be able to work profitably. Latyshev has very poor relations with Sverdlovsk Governor Eduard Rossel and therefore is willing to help expand Perm's business influence in Sverdlovsk. Trutnev is ready to assist local businesses expand their market through the political means at his disposal.

Other indicators of the overall business climate present a mixed picture. The courts in Perm Oblast are as bad as they are anywhere else in Russia, according to PFPG First Vice President Agishev. He points out that the main question is not whether they are good or bad, but simply who are they dependent on.

On land sales, Agishev claimed that all local legislation is in accordance with federal laws, but that for any progress to take place, federal legislation is required. He argued that more land has been sold in (Communist-governed) Krasnodar than in Saratov and that the Saratov model was "nonsense." None of the farmers in Perm have the money to buy agricultural land, so this is not an important question for the region (it is a bigger issue for the more agricultural southern Russia). He also pointed out that every private enterprise can purchase the land on which it sits. Perm is also far along in setting up the infrastructure for land sales. It is preparing an extensive land cadastre that should be completed by the end of the year.

**PERM EXECUTIVE ON GOVERNOR, OLIGARCHS, FEDERAL DISTRICTS, KIRIENKO.** Although outside observers suggest that LUKoil backed incumbent Governor Gennadii Igumnov over former Perm Mayor Yuri Trutnev in the December 2000 gubernatorial elections, Andrei Agishev, first vice president of the Perm Financial and Industrial Group (PFPG), describes the situation differently. Agishev said that LUKoil backed both candidates. According to him, LUKoil and the PFPG are becoming more sophisticated in their political involvement at the regional level.

The businessmen learned a lot from the 1996 race, particularly that you cannot "decide which candidate to back at the last minute." Rather he said that "we have learned from the USA" that it is better to support both candidates. Thus, the business supplied money and organizational support to both sides. The key task was "not to end up facing a choice, but to create a situation in which both candidates suit us."

Agishev, nevertheless, admitted that if Trutnev proceeded with plans to develop Kamaneft as a counterbalance to LUKoil in the region it could create problems for LUKoil. Most likely this increased competition would be limited to the service station sector.

Agishev contrasted the situation sharply with what is going on in Komi Republic. Komi has many more foreign investors in the oil sector than Perm and therefore has more independence. Republican leader Yurii Spiridonov has been in power for many years (in contrast to the recently elected Trutnev) and LUKoil is a relatively new player on the local scene in Komi. Whereas Spiridonov seems increasingly interested in limiting LUKoil's influence in his republic, LUKoil has long operated in Perm and is a well-entrenched presence.

Agishev said that his business had no contact with Presidential Representative to the Volga Federal District Sergei Kirienko. He hoped that this situation would not change in the future. The establishment of the federal districts did not affect Agishev's business, since they seem to be more focused on politics than economic issues. He noted that Perm was oriented on Moscow directly and that now Nizhnii Novgorod and Yekaterinburg (the capitals of the Volga and Ural federal districts) were not above Perm. Perm has daily flights to Moscow and two flights a week to St. Petersburg, but none to the other cities.

Agishev cited taxes and the attitude of the state's financial departments as the main obstacle to doing business. He charged that the state's financial officers believe that if you have an expensive car or office, you should pay high taxes. "They are indifferent to the fate of businesses" that are assessed at high rates, he claimed.

**PERM PARTY POLITICS: "A SWAMP."** The first word local political scientists and businessmen use to describe Perm politics is "*boloto* (swamp)." But they generally employ this word in the positive connotation that there are no major public conflicts rather than the negative sense that nothing ever happens. For example, most of the city elite backed NTV in its on-going struggle to maintain its independence from the Kremlin and were knowledgeable about the issues involved. But no one thought to organize a demonstration to support the television broadcaster. In this way, the city is characterized by a passive liberalism.

The region has a much higher level of support for Boris Nemtsov's Soyuz pravykh sil than is true in other regions. This liberalism comes from the generally high salaries in the city due to the extensive natural resources in the region, the high levels of education among city workers, and generally high level of political culture. Thus, while the electorate is generally passive when it comes to public demonstrations, they have made a conscious choice to support Russia's most right-wing party.

Political parties in Sverdlovsk Oblast have often sought to reach beyond the borders of the region. This tendency is evident in Governor Eduard Rossel's party, Transformation of the Ural, which renamed itself Transformation of the Fatherland, to participate in the 1995 State Duma elections. Sverdlovsk's Mai movement has also sought to establish itself outside of that region's borders. Perm parties do not demonstrate such tendencies. However, one local observer claims, they are just as independent of federal control. The Perm parties seek all of their financial and organizational support locally and therefore are generally free of outside control. Since the parties rely on local resources, which differ from region to region, it is very difficult to build a national party on the basis of these regional units. Only a "nomenklatura party" like Yedinstvo could be set up across the country because the main resource it offers is access to the national ruling elite.

Local political scientists describe the relations between local elites as being based on pacts between the main players. They doubt that the local political scene will disintegrate into all out warfare or that one figure will be able to dominate the scene unchallenged. However, some fear that since Trutnev controlled the city media and will now take over the oblast media, he will have a monopoly on the distribution of information. However, the political scientists suggested that over time, opposition to Trutnev will develop among the local elite and that they will then provide money for an oppositional media.

## **MEDIA ISSUES**

**PERM BOASTS ONE INDEPENDENT NEWSPAPER.** *Zvezda* ([www.nevod.ru/zvezda](http://www.nevod.ru/zvezda)) is Perm's only independent newspaper, which is able to survive on the money it earns from advertising and subscriptions. Other newspapers in the region are either state supported or financed by local businesses. In a city of about one million, it has an average daily readership of 18,000. The paper is housed in a building owned by the federal government and rents space from the local publisher. The editors sometimes feel heat from the local authorities in the form of inspections by the tax police and the fire safety inspectorate (agencies often called in to deal with publications that become "too independent", but this pressure is more generalized than directed at a specific issue.

From 1991 to 1993, the paper's owner was the Perm Oblast Soviet. However, after former President Boris Yeltsin disbanded the soviets in 1993, the journalists asserted ownership of the paper and set it up as an independent stock company in February 1994. The paper has approximately 50 journalist-owners and about 50-60 percent of the current staff are shareholders, according to Editor-in-Chief Sergei Trushnikov. Governor Yurii Trutnev does not have his own newspaper, though some of his business associates control the paper *Mestnoe vremya* ([www.nabat.perm.ru](http://www.nabat.perm.ru)). With a print run of about 250,000, this paper is distributed free of charge to its readers' mailboxes and consists almost entirely of advertisements and articles that have been paid for to advertise specific opinions or products. It is not for sale in local kiosks.

*Zvezda* maintains its independence, but just barely. It earns enough money to survive, but does not have the capital to further improve the paper beyond its simple black-and-white format or to increase the pay of its journalists. Many big businesses, such as LUKoil and Gazprom have offered to buy the paper, but Trushnikov has always refused. The editor said that he would consider selling to a foreign investor who did not have any political interests in the region, but doubts that any would be interested because of the remote chance of turning a profit.

Trushnikov describes his paper as loyal to the recently elected Governor Trutnev, especially since he has long-standing personal links to him. Trushnikov said that the paper had some difficult times with the old administration, since it often was critical. However, the paper was neutral during the December 2000 gubernatorial elections which pitted Perm Mayor Trutnev against incumbent Governor Igumnov. Since the mayor was fighting the governor, the oblast elite was divided. Trushnikov does not seek any state funding, just "non-interference."

The advertisers in the paper include the city's small retail traders, large companies such as LUKoil, and local banks. During the elections, the paper published numerous political advertisements. All of these groups seek to address the paper's middle class audience.

One company that has bought up some local newspapers and a television station is the Perm Financial and Industrial Group (PFPG). The media acquisitions are a new venture for the group. Its goal is to make the media holdings profitable and then sell them for a profit. The main weakness PFPG First Vice President Agishev cites is the lack of good journalists. The PFPG plans to train young people by sending them to Moscow, so that they can return and set up high-quality media. Perm State University does not have a journalism department.

## **LOCAL GOVERNMENT**

**KUNGUR CITY GOVERNMENT SEEKS GREATER AUTONOMY.** Kungur, a city of 76,000 about 1.5 hours from Perm, represents many of the problems common to all local governments in Russia. Most importantly, it is heavily dependent on the oblast government for financing and often lacks the independence and resources required to address the problems facing it.

In the budget sphere, Kungur is a "donor city" in that it contributes more to the oblast and federal budgets than it receives in return. There are about 8-9 similar centers of prosperity within Perm Oblast. City-controlled taxes provide one third of the budget, while the other two-thirds come from the federal and regional budgets. The largest taxpayers in the city are an oil field products factory, a meat processing plant, and several LUKoil service stations. Small businesses of various types only provide 8 percent of city revenues.

In a battle over the 1998 budget, the city filed a court case against the oblast to prevent the oblast from taking all the revenue that the city generated above the planned level. The court ruled in favor of the city, but in a situation common in Russia, the decision was never implemented and nothing changed. The oblast continues to take the city's excess income, leaving the city no incentive to improve its revenues. Kungur officials hope that since Trutnev was mayor of Perm before becoming governor, he will be more sympathetic to their side in dealing with these issues.

The city also faces problems with the federal agencies that do not pay for the municipal services they consume in the region. Over the last five years, local military and prison units have run up a 16 million ruble debt.

Another problem facing the city is taxing large companies that work in many different parts of Perm Oblast. Since these companies are often registered in Perm city, they pay taxes there and not in the cities where they actually work. (An analogous problem exists at the federal level, where large Russian companies work in many regions but are registered in Moscow and pay taxes there.) Perm has solved this problem in the oil sector by having companies like Permneft and LUKoil pay taxes in the cities where their operations are based. However, there are many other companies that do not follow this practice, such as telecom provider Uralsvyazinform and the electrical utility Permenergo. Local officials, like Kungur City Duma Deputy Chair Lyudmila Beloborodova, believe that the city is losing out on considerable sums of money because of the existing tax arrangements. However, she also believes that the process



is moving gradually in favor of local government and soon there will be laws ensuring that the tax revenue stays in the city.

The local officials believe that Governor Trutnev will be willing to transfer some of his responsibilities to cities like Kungur, which are ready to take them. Trutnev's advisors have expressed a willingness to transfer power with the aim of increasing economic performance and thereby winning greater popularity before new elections. Kungur's mayor and city council work together relatively effectively. The city leaders have a clear sense where they want to go and have prioritized investment in the tourism industry. The city has invested in the Iren hotel, which it owns, and is methodically renovating its rooms to bring them up to European standards.

## **BUSINESS CLIMATE FOR DOMESTIC COMPANIES**

**CONSTRUCTION FIRMS FACE PROBLEMS WITH REGULATION, MORTGAGES.** The most difficult problem for the construction industry is that there are no clear rules of the game, according to Semen Levi, the general director of the Stroindustriya construction company and a member of the Perm Oblast Legislative Assembly. He explained that as a contractor he often did not know how much it would cost to construct a building when he started a project because the authorities could impose additional regulations before the job was complete. One problem he described was an ongoing debate over who how much the contractor should pay when connecting new buildings to the city sewer system. This problem had not existed in the past when everything was controlled by the state, but has been a major headache since the time he set up an independent company in the early 1990s.

Levi predicted that there would be a construction boom when these problems are solved. He cited Moscow Mayor Yuri Luzhkov as a prime example of what could be done when the city authorities understood the needs of the construction industry. He said that there was plenty of construction material in Perm Oblast and a highly developed construction industry, but there is relatively little construction in the city. In the Soviet era, every military factory had its own construction department, but now all of this potential stands unused. Moreover, under current conditions, housing prices are rising faster than the rate of inflation, so it has been profitable to build for the last year.

Another issue Levi is working on is providing mortgages to potential home buyers. In December 2000, the oblast established a mortgage fund with 20 million rubles from the oblast budget. The idea is to enable working members of the population currently waiting in line for public housing to purchase their own homes. There are currently 40,000 such families in Perm Oblast. The mortgages would extend for 15-20 years at a 5-7 percent interest rate.

Levi expects the oblast to adopt a regional mortgage law in April or May. According to the plan, banks like Sberbank and the local Dzerzhinskii Bank will provide capital for the program. Sberbank would contribute up to 100 million rubles and Dzerzhinskii would contribute 7 million.

However, a number of policy questions remain unresolved. Levi and his allies want the minimum down payment for the mortgage to be 30 percent of the overall cost of the house, while the oblast administration wants to require 50 percent. Additionally, the administration wants to divide the loans 50:50 between commercial loans and loans earmarked for those

people who are currently working but are waiting in line for their own apartments. Levi wants the mortgages all to be set aside for those who are waiting for homes. Levi thought that the program would take 5-10 years to get started and that there was no other similar project in other Russian regions.

Levi complained that it is difficult for him to secure reasonable bank loans to finance his construction projects. Federal regulators require him to pay interest on his loans every month. This requirement creates severe cash flow problems for him because the firm does not realize its investment until after it sells its apartments. Unfortunately there is little that oblast officials can do to change this situation.

Despite some optimism based on the anticipated new mortgage law, Levi and Aleksandr Besfamilnyi, a deputy mayor and head of the city of Perm's department for managing property, believe that little will happen until after the December 2001 oblast legislative elections. They believe that there is an 80 percent chance that Governor Trutnev will win a loyal legislature and that 2002 will be the beginning of a new era for the region's economic policies.

**PERM FLOUR MILL SEEKS TO EXPAND WITH ITS OWN RESOURCES.** The Perm Flour Mill (*Permskii mukomolnyi zavod*) is one of the five largest flour producers in Russia, along with similar plants in Moscow, St. Petersburg, Tula, and Kazan. It processes more than 50 tons of grain a day. The state owns a 51 percent share of the plant, with the federal and oblast governments each holding 25.5 percent. The Perm Financial-Industrial Group (PFPG) bought a 16 percent stake in 1993 and continues to hold on to it. The workers control another 25 percent and small stake-holders control the rest. Director General Aleksandr Shangin is happy with the current situation because the owners are stable and predictable.

One of the key problems for this giant factory is finding a constant source of supplies. Russia has no centralized grain market, so the plant's buyers are constantly in search of better prices. They face considerable difficulties when governors block sales of grain across regional boundaries during times of crisis. In the past, the factory had as many as 43 suppliers, but now has reduced this number to about 10 regular suppliers.

Shangin hopes to improve the quality of the plant's output by purchasing Swiss equipment to replace the current machinery (also Swiss) that was installed in 1955. The plant had raised capital from its profits in the mid-1990s, but plans to purchase the equipment were thwarted in 1998 with the collapse of the ruble. Now the plant is nearly ready to move ahead. It also expects to secure some investment from the PFPG.

The plant hopes to expand its markets in Russia beyond Perm's borders. Currently it sends 35 percent of its output to other regions. The main markets are in Primorskii Krai, Chita, Sakhalin, Khabarovsk, Kirov, and Sverdlovsk. One of the most important factors in these sales is the price of transportation. Railroad costs make up 30 percent of the final price of the product for Perm flour in Sakhalin. However, transportation costs are not the main problem for the factory. The main problem is generating investment capital.

The plant makes 40-60 million rubles in after tax profits on annual turnover of 1.2 billion rubles. Citing its 51 percent ownership of the plant, the state demands the payment of dividends in order to fill state coffers. These payouts amount to 5-7 million rubles a year. While Shangin understands why the state wants the money, he believes that he could make the factory even

more profitable (and generate more tax revenue) by investing in better production facilities. Additionally, by law the city should be responsible for the social sphere services (housing, day care, etc.) now provided by the factory. However, the city so far refuses to take on these responsibilities, citing a lack of funds to do so. These services consume 10-15 million rubles a year and eat up a substantial part of the factory's profits. Shangin complains that the existing situation amounts to "double taxation." Of the plant's 550 employees, 400 are directly involved in production, while 150 work in social service. Salaries are generally good at 5,700 rubles a month on average, when the average salary in the oblast is 2,900.

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## GOVERNORS' ELECTIONS

**YUKOS EXECUTIVE ELECTED GOVERNOR OF EVENKIYA.** YUKOS Director of Development Boris Zolotarev won the Evenkiya Autonomous Okrug's gubernatorial elections on 8 April with 51.08 percent of the vote and about 32 percent turnout. As governor, Zolotarev will work to protect YUKOS's enormous investment in the region. He defeated former Chief Federal Inspector for the Taimyr and Evenk Autonomous Okrugs Yevgenii Vasilev by fewer than two thousand votes. Incumbent Aleksandr Borovikov did not participate in the election, apparently recognizing that he could not defeat YUKOS's candidate (*Nezavisimaya gazeta*, 20 March). He also apparently told his

inner circle "I cannot guarantee the provision of winter supplies to the region, while Zolotarev can." (*Ekspert*, 16 April)

Zolotarev joins other prominent businessmen who have recently won gubernatorial elections, including Chukotka Governor Roman Abramovich and Taimyr Governor Aleksandr Khloponin. Local businessmen, such as Perm Governor Yuri Trutnev, have also recently been elected governor. This trend is relatively new. Before the 2000-2001 round of governors' elections, the only former businessmen who became governors were Kalmykiya's Kirsan Ilyumzhinov and the Nenets Autonomous Okrug's Vladimir Butov. Additionally, Siberian Aluminum backed the election of Aleksei Lebed in Khakasiya.

YUKOS has a concrete interest in Evenkiya, where it is developing the Yurubchen oil deposit. Slavneft also had hoped to develop this site (*polit.ru*, 10 April). Slavneft had backed second-place finisher Vasilev in the election, but at least a month before the election realized that he was going to lose. Evenkiya is located within Krasnoyarsk Krai and Krasnoyarsk Governor Aleksandr Lebed backed Zolotarev, expressing concern about Vasilev's political activities when he was working as a federal official. Vasilev also had served as a deputy to former Krasnoyarsk Governor Valerii Zubov. The election results probably are not good news for Lebed. Observers believe that Evenkiya will likely try to secede from Krasnoyarsk, just as Taimyr is now doing.

The electoral commission removed Vasilev from the race on 23 March for allegedly buying votes, but then restored his candidacy three days before the election. However, his name was crossed off some of the ballots given to voters who cast their ballot before election day.

Only 20,000 people live in Evenkiya and the budget relies on federal subsidies for 95 percent of its revenue. The region is rich in resources, including oil, gas, gold and diamonds.

## **LEGAL SYSTEM**

**CHELYABINSK LEADS IN IMPLEMENTING JUSTICE OF THE PEACE SYSTEM.** Chelyabinsk Oblast is one of the first Russian regions to successfully launch a justice of the peace system to help judges in the region deal with their overwhelming caseload, according to Vladimir Shaburnikov, the head of the judicial department of the Russian Supreme Court's Chelyabinsk office. Presently, each judge in the region is assigned 59 cases at a time, 2.5 times more than he or she should face. In dealing with such a burden, the justices of the peace will provide substantial support.

So far, the regional Legislative Assembly has confirmed 112 justices of the 164 planned. A staff of 290 individuals supports them. However, this is half the number required. Ninety-seven justices already have begun working, though only 89 of them have a full staff. Despite these limitations, the justices already have dealt with 12,000 cases.

Two main problems hinder the work of the justices: insufficient financing and lack of qualified personnel. The regions will provide most of the financing for the justices, according to Shaburnikov. While the judges themselves will receive their salary from the federal government, in order to preserve their independence, regional

governments (krais and oblasts) will pay for the staff. Chelyabinsk's budget for this year includes 20 million rubles for this purpose.

In general, for every ruble the federal government spends on the justice of the peace system, the regions will contribute three rubles. In Chelyabinsk for 2001 this system will require 17 million rubles from the federal budget and 50 million rubles from the regional budget. In other words, the program is already 30 million rubles short at the oblast level for this year.

Governor Petr Sumin has called this arithmetic into question and advised Shaburnikov to seek additional funding in Moscow. In 2000, the federal government provided 3 million rubles while the oblast spent 20, producing a ratio closer to 1:7 than the planned 1:3. Mostly likely the 1:7 ratio will continue into the future.

Observers believe that the necessary financing will be found since the justices are not very expensive. Much more difficult will be recruiting qualified personnel. Today 25 percent of the Chelyabinsk justices come from the Ministry of Internal Affairs and 20 percent from business. In three years, the entire staff of justices should be replaced, but the oblast is having great difficulty training future justices. Governor Sumin is pressuring the Supreme Court's judicial department to squeeze more financial resources out of Moscow. Most likely, however, if the oblast wants to have a functioning justice of the peace system, it will have to finance it itself. - Igor Stepanov in Chelyabinsk

## **FEDERATION COUNCIL**

*President Putin's reform of the Federation Council replaces the governors and regional legislative chairpeople with their representatives by 1 January 2002. This process has already begun, with about half of the former members being replaced by new ones. A key question in defining the body's future is whether the new members will be loyal to the governors and regional legislatures that appointed them or succumb to pressure from the Kremlin to side with the president. The two reports below examine the ties between the governors and the representatives.*

*On 4 April, the governors and regional legislators remaining in the Federation Council voted to make public all votes in the body from 1 October. Previously, the upper chamber could hold secret ballots. Now the governors will always be able to see how their representatives are voting and thus will be able to keep them on a shorter leash. However, the Kremlin also will know how the senators are voting and may be able to exert some influence on them (Kommersant Daily, 5 April).*

**MARIJ EL SENDS MUSCOVITES TO UPPER CHAMBER.** On 29 March, the Marii El legislature elected Muscovite Ilya Lomakin-Rumyantsev, a close friend of Marii El President Leonid Markelov and the head of the Moscow-based Applied Research Foundation, to the Federation Council. Lomakin-Rumyantsev had no relation to the region before his election and visited it for the first time in the weeks before the republican legislature's vote. Earlier President Markelov had chosen as his representative Muscovite Aleksandr Troshin, who also has no experience with Marii El beyond his friendship with the president. The final vote was 42 in favor of Lomakin-Rumyantsev, 10 for Ivan Teterin, who finished third in the recent republican presidential campaign, and 6

for Yevgenii Bochkarov, the director of the Pivovar brewery and a member of the republican legislature.

Presidential Representative to the Volga Federal District Sergei Kirienko had backed the election of Teterin. However, the legislators decided to back their president over the federal representative. Even the presence of Kirienko's deputy Valentin Stepankov at the session did not help. Teterin would have been a more popular choice, given his Marii ethnicity, well-known reputation in the region, and federal support. But Markelov did not want to have a powerful potential rival in such a prominent position and therefore passed over Teterin. Local observers point out that in this way Markelov is behaving like his immediate predecessor former President Vyacheslav Kislitsyn, who blocked Markelov from winning a State Duma seat. - Svetlana Zasloukina in Ioshkar-Olya

**CHELYABINSK SENDS LOCAL BUSINESSMAN, POLITICIAN TO FEDERATION COUNCIL.** In late March, the Chelyabinsk legislature chose Aleksandr Aristov, a prominent local businessman as its representative to the national legislature's upper parliament. In combining the posts of chairman of the board for the giant Chelyabinsk Electrometallurgical Combine and the relatively large food processing firm Ariant, Aristov has quickly gained the reputation as a significant local politician since 1999.

Aristov represents a new generation of politicians in Chelyabinsk politics. In 1996, he was one of the first local entrepreneurs to realize that combining business and politics would produce enormous results. In realizing this plan, he backed the election of Governor Petr Sumin and won a seat for himself in the oblast's legislature.

Since that time, Aristov's business empire has worked to actively place his people in the legislatures at all levels: from the oblast's Legislative Assembly to city councils. Given the warm relations between Aristov and Sumin, Aristov's appointment to the Federation Council by the oblast legislature is logical. The oblast's legislature is extremely loyal to the governor and Aristov was elected almost unanimously.

More sensational was Sumin's appointment of Chelyabinsk First Deputy Mayor Yevgenii Eliseev as his representative. Yeliseev has never been one of the most prominent politicians in Chelyabinsk, though he has worked effectively, but quietly, in the mayor's office. Earlier, Yeliseev had made clear that he was not a member of Sumin's team when he turned down an offer to accept the position of deputy governor in charge of economic matters. Yeliseev's appointment suggests that the governor has a limited pool of professional and tested personnel which he can draw on and that he had to go beyond his inner circle to fill this post.

Until the collapse of the Soviet system, Yeliseev worked in various party posts. Since 1992 he has served as deputy mayor. Although he was fired from this position in 1997, he set a precedent by winning back his job through the courts. Yeliseev is well known for his idea of turning Chelyabinsk into a capital of the "silk road." He would like to make the most of the city's position on the railroad intersection connecting east and west. Yeliseev trumpets this idea at every opportunity and is one of the only politicians to come up with a concrete way for improving the city's investment attractiveness.

While the new work for the senators will certainly be prestigious, given the structure of the new Federation Council, their job will largely amount to serving as the



governor's emissaries. However, the inclusion of a local businessman in the oblast's delegation suggests the strengthening of liberal reforms in the region and the appearance of a new generation of leaders, which most likely will hold more important positions in the near future. - Olga Smirnova in Chelyabinsk

## **HUMAN RIGHTS OMBUDSMEN IN THE REGIONS**

### **PERM DEPUTIES ELECT PRO-GOVERNOR HUMAN RIGHTS OMBUDSMAN.**

In late March Perm's Legislative Assembly elected its first official ombudsman on human rights. The law creating the institution was developed with considerable input from local human rights activists and they considered it to be reasonably good (see *EWI Russian Regional Report*, 31 January). However, the political situation changed with the election of a new governor.

The oblast legislature elected as the region's new ombudsman Sergei Matveev, a lawyer who had participated in the electoral campaign of Governor Yurii Trutnev. Trutnev himself nominated him for the job. The legislators voted almost unanimously in favor of Matveev, showing their loyalty to the governor.

The human rights community in Perm, however, backed Igor Averkiev, a prominent human rights advocate who serves as the director of the Perm Regional Human Rights Center. However, the human rights advocates had difficulty even getting his name on the ballot.

Now there are numerous questions about how Matveev will do his job. Since he is relatively wealthy, how will he deal with the less-advantaged citizens seeking his support? How will he work with the local human rights community? Will he be willing to oppose the authorities? So far local human rights advocates are keeping an open mind and will be willing to work with Matveev if he is receptive to such cooperation. - Andrei Suslov in Perm

**DOES MARIJ EL NEED A HUMAN RIGHTS OMBUDSMAN?** The previous session of the Marij El State Assembly adopted a law creating the position of a human rights ombudsman in the republic. True, the rights of the ombudsman were limited subsequently, but, nevertheless, the previous republican legislature thought that such an office was necessary. Those legislators did not succeed in filling the position.

Recently elected republican President Leonid Markelov, however, does not see the necessity of such a post. There were rumors that he wanted to abolish the potentially controversial position, but instead decided to solve the problem by simply postponing, at least for the next year, any consideration of candidates for the office.

Only the president and the legislators have the right to recommend candidates as ombudsmen. At first the president claimed that there were no appropriate candidates. However, several social organizations proposed Valerii Kozhevnikov. He had served as the executive director of the Marij El Human Rights Center and currently is the Executive Committee chairman of the regional Soyuz pravyykh sil. He is well-known and popular and meets the legal requirement of having experience in the field of human rights. However, Kozhevnikov's critics sought to discredit him by pointing out that he did not have a university education and that he had been convicted of a crime (what dissident has not been convicted of a crime?). These criticisms had the desired effect and the

legislature postponed its vote on Kozhevnikov. The president now thinks that it is sufficient to have a commission on human rights working under his aegis. - Svetlana Zasloukina in Ioshkar-Olya

## **CENTER-PERIPHERY RELATIONS**

**PULIKOVSKII INTERVENES IN PRIMORSKII CAMPAIGN.** Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii visited Primorskii Krai last week and made a series of critical comments, which could influence the course of the governor's elections. After visiting the Luchegorskii Fuel and Energy Complex in the northern part of the krai, Pulikovskii sharply criticized acting Governor Valentin Dubinin, who has joined the governor's race. At a meeting with mayors in the region, Pulikovskii said, "No one is doing anything. Not you, not the krai administration. Are you working on the elections? People are suffering. The situation is the same as last year. There are no more fuel reserves than last year."

Pulikovskii's comments were aimed at helping his first deputy, Gennadii Apanasenko, win the gubernatorial election. Apanasenko's strategy was that the authority of the mayors and the organizational ability of the krai administration would work in his favor. For this reason he sought to hold the elections as early as possible. In contrast, the Krai Duma deputies in opposition to former Governor Yevgenii Nazdratenko believed it would be better to hold the elections later so that it would first be possible to break the grip of Nazdratenko's team on the oblast.

Unfortunately for Apanasenko, acting Governor Duninin, who initially was appointed by Nazdratenko, decided to run in the race himself and is using all of the oblast administration's resources to build up his own image. For this reason he has yet to turn in the signatures he has collected in favor of his candidacy. Until he is officially registered as a candidate he does not need to excuse himself from his governor's duties in order to campaign. From now until he registers, he can effectively conduct his campaign while working on krai business.

Now Apanasenko, who spent the last 13 years working in Khabarovsk, only benefits from the organizational support of Vladivostok Mayor Yurii Kopylov. Kopylov is trying to win the support of Pulikovskii because he is afraid that he will lose his job following an investigation into his administration's sale of 116 municipal buildings at sub-market prices. Kopylov's assistant, Valentin Hechaev, has already been arrested in this matter.

Dubinin had sought to speed up the investigation of the city authorities, but it was postponed at Apanasenko's official request. While Kopylov could help Apanasenko collect signatures in support of his candidacy, maintaining close ties with Kopylov could significantly damage Apanasenko's reputation among the voters, especially if criminal charges are filed against the mayor. Thus, Apanasenko's plans have not worked out, and his chances for winning the governor's seat are extremely small.

Now it seems that Pulikovskii is preparing new personnel changes in the krai administration. He has threatened that "in three weeks, I will speak completely differently with the leadership of Primorskii Krai, if nothing changes," he said. - Oleg Zhunusov in Vladivostok

**FEDERAL OFFICIAL SEEKS ABILITY TO INITIATE REGIONAL LEGISLATION IN SOUTH.**

Chief Federal Inspector for Kalmykiya, Astrakhan, and Volgograd Valerii Napalkov is trying to convince the authorities of these three regions to give the regional branch of the Russian Justice Ministry the authority to introduce legislation in regional legislatures. While visiting Kalmykiya in early April, Napalkov said that this proposal had already been adopted in Volgograd. Napalkov said that he hoped his idea would be adopted in Kalmykiya and Astrakhan as well (*Ekonomika i zhizn - Kalmykiya*, 11 April).

Napalkov claimed that his proposal would help the regions in coordinating the activities of federal agencies and the regional authorities (*Izvestiya Kalmykii*, 14 April). However, in fact, the proposal is a new mechanism for strengthening the influence of the center on regional legislative processes. Such a change would require amendments to Kalmykiya's constitution. Article 31 of the constitution stipulates that the republican president, the speaker and his assistants, the government, local legislatures, and the republican Supreme and Arbitration courts (within the area of their competencies) have the right to introduce legislation. This list currently does not include any federal agencies.

Napalkov tried to curry favor with President Kirsan Ilyumzhinov. He said that the federal authorities see Ilyumzhinov as a "state-builder," working to defend the country's interests and seeking to build a unified Kalmykiya within a unified Russia. Additionally, Napalkov seemed to support Ilyumzhinov in his battle with some Russian media outlets and the local opposition. "We don't understand the position of some Russian media that claim that Kalmykiya is one of the least law abiding regions in Russia. We hold the opposite opinion," he declared. So far Kalmykiya's political elite has not responded to Napalkov's proposal. - Vladimir Volgin in Elista

**LATYSHEV HOLDS FIRST MEETING OF POLITICAL COUNCIL.** Last week Presidential Representative to the Urals Federal District Petr Latyshev held the first meeting of his newly created Expert Political Council. The purpose of the council is to examine social and political processes in the federal district and make recommendations to the federal authorities. Members include leading campaign advisors and public opinion pollsters. The council will focus on building a new type of relationship between regional and local governments, on one hand, and society, on the other.

Latyshev said the first priority of the council is to provide real aid to the establishment of civil society institutions in the district. In Latyshev's opinion, the only such institution today is the media. He said that political parties and movements do not play an important role in the region. The local branches of political parties are weak and regional parties exist only to support governors or mayors, live on the use of state resources, and are active only during elections. While this situation continues, Latyshev charged, there will be no democracy and no feedback to the authorities. In terms of education, Latyshev called for teaching people how to organize themselves, a skill that has been practically lost in recent times. This kind of training would help overcome the current alienation between state and society, he said. The appearance of "shadow justice" and corruption among the authorities has strengthened these feelings, Latyshev said. Additionally, Latyshev stressed the necessity of finding a way to explain the state's most important actions to the population.

A second task is to measure public reaction to state decisions implemented in the district. Latyshev believes that the absence of such research is one of the greatest deficiencies in the work of the state authorities. Many state policies, although rational and timely, do not have the expected result because they do not take into account public opinion, Latyshev believes. To address this issue, Latyshev wants to provide better training to state employees.

The third task for the council is to counter various "destructive" attempts to manipulate public opinion, especially during campaigns. Latyshev cited dirty tactics employed in recent gubernatorial elections in Kurgan, Chelyabinsk, and Tyumen oblasts as examples. Latyshev hopes to end the use of negative campaigning, anonymous flyers, newspapers published without clear ownership identification, provocative rumors, and other methods. Although these techniques did not affect the outcome of the recent elections, they had an impact. Latyshev suggested that they present a serious threat to democratic principles and norms.

Carrying out such a policy will require the stricter enforcement of existing legislation and the appropriate use of political measures. Latyshev hopes that the new council will help him devise such policies. - Sergei Pushkarev

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ST. PETERSBURG GOVERNOR, LEGISLATURE RETURN TO BATTLE.** St. Petersburg Governor Vladimir Yakovlev's decision to end the practice of giving city legislators discretionary funds to spend in their districts has launched a war between the executive and legislative branches in the city. Since 1995 members of the city's Legislative Assembly have held the right to distribute about 2 percent of the city's expenditures to various projects in their constituencies. Initially, the city created a special deputies' reserve fund as the legal mechanism to transfer the money, but later the deputies simply made collective amendments to the city budget. This process created a way for the deputies to make good on their campaign promises and provided concrete evidence of their work for their constituents (for example, paving roads, placing benches in parks, and buying computers for schools).

Critics of the practice complained that it violated the separation of power between the legislative and executive branches and allowed for public money to be spent without oversight since the legislators' requests were examined collectively rather than individually on their merit. However, since the city press paid considerable attention to how this money was spent, the most egregious practices, such as a deputy financing a social organization of which he was the head, were slowly abandoned. Judges at various levels repeatedly found the practice unconstitutional, but usually the deputies just renamed the process and its essence was continued under a new guise.

Ironically, the governor also benefited from this system. The governor gained a powerful tool for controlling the Legislative Assembly in general and each individual deputy in particular through the deputy funds because he could simply not finance the pet projects of uncooperative deputies. Additionally, the deputies had a strong personal interest in adopting each year's budget on time. Moreover, the governor was happy to grant concessions to the solid pro-gubernatorial lobby so that the legislature would not

oppose the governor, as was the case during the 1991-1993 battles between Anatolii Sobchak and the Lenseviet (as the Legislative Assembly was then called).

But now this system has come to an end. At the end of February, Governor Yakovlev ordered the city government to stop financing the deputies' collective amendments to the budget. Then the city media launched a noisy campaign against the deputies' ability to spend public money at their personal discretion. The governor proposed using the money that would have otherwise been spent by the deputies on urgently needed school repairs and a better fire alarm system. In April City Procurator Ivan Sydoruk filed suit against the part of the budget law that creates the legal base for the deputies' funds. The deputies have resisted changing the law so far, but may face court action if they do not do so in the near future. The governor has not allocated any money for the deputies' projects in next year's draft budget.

In making these moves, Yakovlev is taking a risk. The angry and now independent deputies are actively seeking a way to get back at him. At a recent session, they demonstratively refused to consider the governor's amendments to the law on electing members of the Legislative Assembly. There will be more substantial conflicts in the future. - Vadim Goncharov in St. Petersburg

## **ENERGY AND POLITICS**

**SAMARA COMPANY TAKES OVER ULYANOVSKENERGO.** On 13 April, the shareholders of Ulyanovskenergo gave management of this utility to the Middle Volga Interregional Energy Management Company (SMUEK). Thus, today SMUEK is officially managing both the Samara and Ulyanovsk electricity grids and soon will take over Saratov's as well.

Russia's Unified Energy System (EES), which owns 65 percent of the shares in Ulyanovskenergo, initiated the move as a crisis step because the utility owes 4 billion rubles. However, the utility is owed 3.3 billion rubles by its creditors. EES hopes that the new management company will be able to deal with the chronic lack of payments for the use of electricity.

SMUEK General Director Vladimir Avetisyan succeeded in turning around the Samara utility in two years. He said that in Ulyanovsk he intends to pay off all current bills on time and then work on restructuring the debt that has accumulated over the last five years. He also says that he will only give the customers the energy that they pay for and does not rule out the use of other unpopular measures.

One day before the Ulyanovskenergo shareholders' meeting, Ulyanovsk Governor Vladimir Shamanov announced the creation of an Extraordinary Commission on energy under the leadership of the governor's economic advisor, Dmitrii Piorunskii. The commission includes representatives of the oblast and city administrations, members of the oblast and city legislatures, and scholars. The governor sees the commission as a balance against the pressure SMUEK and EES may exert on the oblast leadership and regional enterprises in order to force them to pay their electricity bills. The administration decided that the best defense is a good offence. Therefore, the commission's goal is to create "a new base for systematic relations with the utility." The commission asserts that the energy providers do not have a realistic pricing policy. In particular, Deputy Ulyanovsk Mayor Yurii Zaitsev said that since the beginning of the year, the city has paid

more than 41 percent of its revenues for energy. With such outlays for energy, he warned that there simply was not enough money left to assure the normal functioning of the city.

The head of the oblast administration's energy department, Aleksandr Budarin, charged that EES charges artificially high prices for its electricity. He claimed that part of the money unfairly goes to developing the monopoly itself. He called for "reviewing all previous debts," suggesting that the existing debts either be cancelled or significantly reduced.

Despite these statements the members of the commission claim that their goal is not to avoid paying the debts, but to work out a compromise agreement between the energy providers and the authorities' plans to develop the industrial potential of the region, which EES's attempts to collect more money could block.

Avetisyan responded that "we are used to speaking the language of economics" and that mutual insults would not stimulate joint work. He agreed that prices should have a firm basis in reality and was ready to discuss them. However, he insisted that the region must pay off all debts.

Earlier Governor Shamanov had created a commission to deal with the debts owed to the energy providers. Thus there are now two commissions within the administration: one seeking to pay the debts and one seeking to avoid them. - Sergei Gogin in Ulyanovsk

**POLITICAL BATTLE SWIRLS AROUND NIZHNI ENERGY.** The current energy situation in Nizhnii Novgorod Oblast has aroused fears that the region will soon face a crisis similar to the one in Primorskii Krai. As in the Far East, disorganization and politics in Nizhnii Novgorod are at fault, not technical problems. The city had difficulties with deliveries of heat and electricity this winter, as did the rest of the country. Like utilities in other regions, Nizhnovenergo demanded that the region pay off its debts and make current payments on time. Local enterprises owe hundreds of millions of rubles to the utility.

Starting on 27 March, Nizhnovenergo switched from negotiations and threats to actually limiting heat supplies and cutting off electricity. The company turned off some of the city's streetlights and reduced the temperature in people's apartments by about three degrees centigrade (on average from 18 to 15 degrees centigrade). The situation in Nizhnii Novgorod is exacerbated by the personal conflict between the main players, Nizhnii Mayor Yurii Lebedev and Nizhnovenergo General Director Aleksei Sannikov. Both men are considering the possibility of running for governor in the region's elections this summer. Neither has made a formal announcement, but local observers are assessing their chances. Both Lebedev and Sannikov have poor relations with incumbent Governor Ivan Sklyarov.

All of the players are using aggressive tactics, accusing each other of an inability to compromise and a desire to turn management issues into a political battle. The mayor's critics claim that he is either unable or unwilling to pay for the city's electricity. Many wonder what happened to the money that was assigned from the budget for these purposes. The mayor claims that the electricity providers refuse to work with him and, in particular, refuse to accept mutual debt cancellations as a way of doing business.

When the streetlights went off, local activists began to picket the mayor's office. Governor Sklyarov blamed the problem on Nizhnovenergo and the city. He announced

that he had prepared a letter addressed to Putin's administration asking him to fire Nizhnovenergo head Sannikov and Mayor Lebedev. He threatened to send the letter if the situation did not improve. For his part, Lebedev said that he was going to ask the court to investigate the activities of the local utility, warning "Let the local residents know that we will not have Vladivostok in Nizhnii Novgorod." Additionally, Lebedev said that he was going to post guards at the plants responsible for ensuring that the streetlights are functioning. Sannikov charged that Lebedev's actions were tantamount to asking the population to steal energy. He said that it would be better to ask the mayor and heads of local enterprises what had happened to the money set aside in the budget that was supposed to pay for the energy.

Chairman of the region's Regional Energy Commission (REK) Feliks Verkhovodov believes that the core of the problem lies in the dissatisfactory economic activity of Nizhnovenergo. The commission raised heat and energy prices three times in 2000, increasing them by a total of 46 percent. These price hikes allowed Nizhnovenergo to improve its financial situation last year and earn more than 638 million rubles in profit. According to the REK's analysis, some of these proceeds was used inappropriately by Nizhnovenergo's management. A significant sum was transferred as cash to the heads of several unnamed enterprises. At the same time, Nizhnovenergo continues to owe considerable sums in back taxes.

As usual, the main losers are the city's taxpayers who pay for their use of heat and light. The question that remains unanswered is: where is the money? - Viktor Persin in Nizhnii Novgorod

## **POLITICAL PARTIES IN THE REGIONS**

### **YEDINSTVO, OTECHESTVO MERGER CREATES PROBLEMS IN**

**SVERDLOVSK.** The announced merger of the pro-Putin Yedinstvo and Moscow Mayor Yurii Luzhkov's Otechestvo last week put Sverdlovsk Oblast politicians into a difficult position. The local branches of these national parties are aligned with regional political movements that have long been rivals. Otechestvo is tied to Yekaterinburg Mayor Arkadii Chernetskii's Nash dom - Nash gorod (NDNG), while Yedinstvo is tied to Yedinstvo Urala (the former Preobrazhenie Urala) headed by Sverdlovsk Governor Eduard Rossel. These local movements have been on opposite sides of the political barricades for at least the last four years. Now, thanks to the actions of the national leadership, they will apparently have to work together.

The situation is further complicated because there are actually two Yedinstvos in the region: the one associated with Rossel and the regional branch of the party, which is headed by State Duma Deputy Valerii Yazev. It is not clear which of these local groups will be merged into the larger party.

Most likely the groups will unite at the national level, but the conflict between Rossel's Preobrazhenie Urala and Chernetskii's Nash dom - nash gorod will continue unabated. This was essentially the situation in 1996 and 2000, when the local groups worked for the same presidential candidate while maintaining their differences.

Rossel is not a member of the Unity party and often is critical of Putin's policy initiatives, especially the creation of the seven federal districts. Thus, it is not clear what will happen when the directives of the national party leadership diverge from those of the

regional elites. The situation with the Otechestvo part of the new super-party will be simpler. Chernetskii is the head of both the local Otechestvo and NDNG, and his positions are closely in line with those of the federal government.

Another problem is who will lead the new party at the local level. The heads of the various local factions prefer putting off such a decision. Most likely Moscow will also avoid forcing the issue. Moscow will need time to decide who among local politicians and business people it will want as allies and whether it wants to have strong regional leaders.

Another interesting question is through what organizations the various groups will contest the Oblast Duma elections in 2002. The last election campaign was so intense that any talk of a real merger among these opposing parties seems unlikely.

The merger of the two national parties creates a powerful party, one that is in effect the "party of power." This alliance cannot help but affect the distribution of power at the regional level. However, the consequences of the merger will not be clear before autumn at the earliest. - Natalya Mints in Yekaterinburg

## **OLIGARCHS IN THE REGIONS**

**DERIPASKA, SUMIN REACH AGREEMENT IN CHELYABINSK.** On 13 April Chelyabinsk Governor Petr Sumin and Siberian Aluminum President Oleg Deripaska signed an agreement that will allow Deripaska to take control of the Ural Automobile Factory (UAZ). The deal suggests that Sumin has now agreed to play by rules dictated by big business, although he has not forgotten about the interests of the oblast. The final agreement was clearly the result of a process of negotiation.

Deripaska will now be able to add UAZ, the largest vehicle maker in the Ural region, to his RosAvtoprom holding company. The oblast and Miass city authorities received guarantees that the new owner would pay taxes into the local budget and take the interests of the local population into account.

UAZ is currently bankrupt and under external management. The sides have yet to agree on how much of a stake Deripaska will buy in the plant and what the price will be. However, after the purchase, Siberian Aluminum has pledged to invest 500 million rubles in the plant. The Chelyabinsk authorities believe that Deripaska has invested heavily in Nizhnii Novgorod's Gorkii Automobile Factory and began producing a profit at that plant in March. What will happen at UAZ is not clear. Local authorities and the population don't expect Deripaska to reduce the size of the staff significantly. In fact, Miass Mayor Vladimir Grigoriadi hopes that Deripaska will provide funding to invest in the city's infrastructure. The city has debts of 500 million rubles and needs at least 100 million rubles worth of investment in its social sphere. City residents expect Deripaska to pay these debts in order to secure good relations with the city authorities. However, Deripaska may not agree to all these outlays. - Igor Stepanov in Chelyabinsk

## **MEDIA ISSUES: REACTION TO NTV BATTLE IN THE REGIONS**

**TVER CREATES FOUNDATION TO BACK INDEPENDENT PRESS.** In reaction to the state-controlled Gazprom's takeover of NTV in early April, intellectuals in Tver returned to the theme of free speech once again. They took action by establishing a new



non-profit organization: The Foundation to Support an Independent Press. Among its founders is Shevron General Director Mostafa Khamuda, *Veche Tveri* Editor-in-Chief Yevgenii Shimin, *Karavan + Ya* Editor Gennadii Klimov, and the chief of a local independent TV station, Vyacheslav Andreev (*Veche Tveri*, 11 April). The foundation's main goals are to guarantee freedom of speech, support the development of independent media, provide financial support to journalists, and attract investment for local media outlets. The Foundation's council includes prominent Tver journalist Marat Amaev and Chairman of the Tver City Bank Valentin Potapov. Andreev is the executive director of the foundation. As its first step, the foundation plans to support talented members of the local press. The foundation hopes for the financial backing of regional business people interested in using an independent press to develop the region. - Boris Goubman in Tver

**JOURNALISTS COUNTER GROWING STATE PRESSURE IN KOMI.** While public attention has recently been focused on NTV, the situation is no less dire at the regional level. On 8 April Vladimir Pozner announced on his Russian Public Television program that Komi had nationalized five newspapers, seriously threatening freedom of speech. In fact, the five newspapers in question had always been financed from the republican budget and were never independent. The decree issued by Komi leader Yurii Spiridonov only provided a legal basis for the existing situation. Essentially, the republican authorities control the majority of the media in the region, earmarking 20 million rubles for this purpose in this year's republican budget. The local television station, Komi gor, also receives financing from the republican budget and is not independent.

The republican leadership has decided to devote enormous resources to set up its own television station, which will begin broadcasting on 30 July 2001. The whole project will cost the budget almost 100 million rubles. Spiridonov faces elections in the fall and the new station will apparently play a major role in shaping his campaign (*Molodezh severa*, 12 April). State influence on the media after the creation of this new station will only increase.

The level of freedom of speech is much lower in Komi than in neighboring regions. According to a ranking produced by the Union of Journalists, the Glasnost Defense Foundation, and other organizations, Komi received a 10.2 percent score, while neighboring Arkhangelsk Oblast and the Komi-Permyak Autonomous Okrug rated 36.7 and 22.3 percent respectively (*Argumenty i fakty - Komi*, no. 2, 2001).

The state's growing influence is causing journalists to unite in order to protect their professional interests and fight for additional press freedoms. Local journalists have already set up a Komi Republic Independent Press Center. At its founding meeting, the center addressed an open letter to Human Rights Ombudsman Oleg Mironov, Press Minister Mikhail Lesin, and Presidential Representative to the North-West Federal District Viktor Cherkesov expressing their concerns about the threats to freedom of speech in Komi. The journalists complained that the republican authorities were "creating a cult of personality around Spiridonov" and that the "regional elite were constantly opposing the central authorities." The founders of the Independent Press Center see their organization as "facilitating glasnost and supporting the implementation of presidential reforms in the region" (*Tribuna*, 13 April). The battle will be particularly intense for the foreseeable future. - Yurii Shabaev in Syktyvkar

## FOREIGN POLICY

**GERMAN CONSULATE TO REMAIN IN SARATOV.** The German consulate in Saratov has issued a press release stating that it has abandoned its five-year efforts to move its offices to Samara. Shortly after Dmitrii Ayatskov was elected governor in 1996, he failed to establish firm cooperation with the German representatives. Unofficial sources claim that the Germans did not want to meet the high financial demands of the administration. In response, the oblast administration "punished" the Germans by not providing a separate building for the consulate, and placing it instead in the Volga hotel, which is unsuitable for the office. The oblast began to suffer as a result, particularly as aid to the Volga Germans was reduced and then completely frozen. Most German support went to other regions, such as Omsk, Novosibirsk, and the Altai Krai.

In September 1998, the German ambassador to Moscow officially asked the Ministry for Foreign Affairs for permission to move the consulate to Samara. Ayatskov used his influence to prevent the move and eventually the Germans reconsidered. Now the Germans have officially said that they will keep the consulate in Saratov. - Yuliya Yeliseeva in Saratov

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## GUBERNATORIAL ELECTIONS

**STARODUBTSEV WINS SECOND TERM AS TULA GOVERNOR.** Vasiliï Starodubtsev won a second term as Tula governor, scoring more than 71 percent of the vote in the 22 April runoff. The campaign was marked by numerous scandals. In the second round, the second place finisher, Lenin Raion Mayor Andrei Samoshin, withdrew from the race, accusing Starodubtsev of illegal campaign tactics. Then all the other candidates announced that they did not want to participate in the runoff either. Since Russian elections must have more than one candidate, the oblast electoral commission replaced Samoshin with the third place finisher, Tsentrogaz General Director Viktor Sokolovskii, despite his request to withdraw from the race. The electoral commission said that his application to withdraw was too late and should have come three days before the election. Sokolovskii ultimately won over 17 percent of the vote.

One of the key economic stakes apparently up for grabs in the campaign was control over the export of defense products shipped from the region (polit.ru, 20 April). The Communist Starodubtsev, who backed the 1991 coup attempt against Gorbachev, is not a Putin ally. However, the presidential administration may have more influence over him in the future. Before the election, Starodubtsev appointed two new deputies, including Vladimir Rotin, who previously served as the federal inspector for Tula on the

staff of Presidential Representative to the Central District Georgii Poltavchenko (*Nezavisimaya gazeta*, 24 April).

**TULEEV REELECTED IN KEMEROVO OBLAST.** Aman Tuleev won a second term as Kemerovo Oblast governor on 22 April, winning 93.68 percent of the vote. Turnout was 52.17 percent. In 12 of the 17 mayoral races that took place on the same day, candidates supporting Tuleev won (*polit.ru*, 23 April). Four additional local races are now heading into a runoff. Kemerovo today leads the country in terms of rate of growth in industrial production (*Nezavisimaya gazeta*, 24 April).

Tuleev had resigned in January to move the elections forward. President Boris Yeltsin used this tactic to move up the presidential election to ensure Vladimir Putin's victory after Yedinstvo's surprise success in the December 1999 State Duma elections. Several governors both before and after Yeltsin have also resigned early to gain political advantage. On 19 April, the State Duma approved legislation in the first reading to prevent governors who resign their post from seeking reelection. Tuleev did not need to engage in such maneuvers to ensure his reelection since he faces no real opposition in the oblast.

## **CENTER-PERIPHERY RELATIONS**

**KIRIENKO MAN HEADS NEW NIZHNII GOVERNMENT.** On 12 April, the Nizhnii Novgorod Oblast legislature elected Chief Federal Inspector for Nizhnii Novgorod Oblast Sergei Obozov to the newly created position as the chairman of the oblast government. Obozov is a key member of Presidential Representative to the Volga Federal District Sergei Kirienko's team.

According to regional legislator Sergei Voronov a "velvet revolution" is taking place in the oblast as Kirienko is taking more power in the region. Today Kirienko is making regional policy (*Vremya Novostei*, 13 April).

The Nizhnii governor's elections will take place in July. Kirienko has exchanged his support for incumbent Governor Ivan Sklyarov for the ability to control regional policy making.

Obozov initiated the creation of the Nizhnii government and prepared a program for the future governor (see *EWI Russian Regional Report*, 28 February). Obozov, with the help of 200 specialists, essentially wrote the program for himself. Kirienko wants to make sure that the new governor is someone he can work with. In particular, he wants to avoid the election of Andrei Klimentev, who won election as Nizhnii Novgorod mayor in April 1998, only to have the results canceled because of his criminal record, or former Transneft President Dmitrii Savelev, who caused problems for Kirienko when he was prime minister. During the campaign, Obozov is expected to focus on the economy while others work on the elections. - Yuri Rodygin in Nizhnii Novgorod

**OMSK BATTLES PROCURATOR FOR CONTROL OVER LAND.** A nearly two year legal struggle between the Omsk governor, legislature, and procurator over control of land rights is reaching its final phase. The conflict began in 1998 when the Omsk Legislative Assembly, at Governor Leonid Polezhaev's insistence, adopted a law giving the oblast administration the right to deprive a land owner of his property if he has not

worked the land in the course of two years. This regional law apparently is unique within the Russian Federation. In adopting it, the regional legislators began legislating in an area, the regulation of property rights, which is under exclusive federal control.

The oblast procurator, who at the time had friendly relations with the governor initially did not raise much of a protest about the new law. An indicator of the then close ties between the procurator and governor was the criminal charges the procurator filed against two deputies of then Omsk Mayor Valerii Roshchupkin shortly before the governor's elections in September 1999. At that time Polezhaev feared that Roshchupkin, his bitter enemy, would enter the governor's race. Roshchupkin did not enter the race, partly as a result of the procurator's pressure, and subsequently resigned.

However, the relationship between the governor and the oblast procurator has changed with the times. The Siberian Federal District Procurator has called attention to instances where regional law deviated from federal norms. Thus in fall 2000, the Omsk procurator filed a protest against the Omsk land law. In his protest, the procurator charged that the Omsk legislature had gone beyond the field of its jurisdiction in adopting the law on land use. He argued that since the Russian constitution guaranteed the right to property, only the federal legislature or the president could legislate in this area.

The legislature did not respond to the procurator's protest, leading the procurator to file a court case. The oblast court then ruled in favor of the oblast authorities, rebuffing the procurator's claims. The case then went to the Russian Supreme Court with the support of the Russian procurator general, but the high court also ruled that the Omsk law did not violate federal norms.

The Supreme Court ruling convinced Polezhaev and Legislative Assembly Speaker Vladimir Varnavskii of their correctness and they announced that the law would stay in effect after the adoption of a federal land code, allowing the oblast authorities to confiscate property that was not being used. Even while the law was being contested in court, the oblast administration began enforcing it. The authorities took possession of 3,000 plots covering 18,000 square meters.

However, the legal fight continues as the procurator plans to appeal to the Supreme Court Presidium since it still believes that the Omsk law violates federal norms. Officials in the Omsk procurator's office are reluctant to talk about the case and requested that their names not be used in print.

The conflict has clear political implications and the final result may not be in favor of the oblast authorities. Potentially, the Siberian Federal District procurator may seek to play a more active role. So far, none of the people who have lost their property have filed a protest with the Constitutional Court, but they may do so in the future. While the State Duma is discussing the adoption of a federal land code, it may be possible for some to win political points by filing such a case and the conflict between the Omsk authorities and the procurator could return to the public arena. - Pavel Shagiakhmetov in Omsk

**BELGOROD GOVERNOR SIGNS ENTERPRISE TREATIES TO AVOID PUTIN TAX REFORM LOSSES.** Belgorod Governor Yevgenii Savchenko announced at a 17 April press conference that he was adopting a new policy of signing treaties with his region's major enterprises to compensate the administration for the money that the regional budget might otherwise lose due to the amendments adopted in the federal tax

code last year. The State Duma's adoption of the second part of the Russian tax code in 2000 gave the federal government control over a greater share of revenue than it had in the past. The regional governments lost a similar amount. The oblast administration seeks the contracts to ensure that the enterprises give the oblast budget no less revenue in 2001 than they gave in 2000.

Thus, in 1999-2000, 65 percent of the taxes collected in Belgorod remained within the oblast, while 35 percent went to the federal government. In 2001, the federal government is planning to take 48.2 percent. Additionally, several taxes were simply abolished. Thus, the regional tax to support municipal housing (which was adopted in violation of federal legislation) and which remained in the region no longer exists, costing Belgorod Oblast 40 million rubles this year.

On 16 April, the administration signed a treaty with the Stoilen Mining and Processing Combine. Savchenko described this treaty as the first of many. According to the treaty, the combine will pay no less than 188 million rubles into the oblast's combined budget this year. This figure is 11 million rubles larger than last year. Additionally, the enterprise agreed to give priority to administration-sponsored projects aimed at supporting veterans, pensioners, sports, health care, and education; preserving existing social programs and jobs; while also improving working conditions, and preserving an average pay no less than the level in 2000. The enterprise will also invest in programs to develop agriculture, food processing, processing plants, and other sectors of the economy.

In exchange for this help from the enterprise, the oblast administration has taken on the task of lobbying the legal interests of the plant with the federal authorities, the federal and regional branches of the natural monopolies (such as the Unified Energy System and Gazprom), and the energy commissions, and cooperating in the realization of the plant's investment ventures, particularly in the area of agriculture. - Sergei Sarychev in Kursk

## **NATURAL MONOPOLIES IN THE REGIONS**

*In trying to understand the power of Russia's governors, one must examine their relationship with the monopolistic energy providers Gazprom and Unified Energy System (EES). In providing fuel and energy to the regions, these companies place enormous constraints on the governors' autonomy. Of the two, Gazprom is the stronger since it is more monolithic and generally less in debt. EES is more divided into regional entities and often is heavily indebted to fuel suppliers such as Gazprom. The following articles give a sense of the relationships between the companies and some of Russia's governors.*

**GAZPROM LOSES IN PERM...** The Perm Oblast administration and Gazprom have resolved their differences, ending a battle that seriously threatened the regional economy. Perm Governor Yuri Trutnev and Mezhhregiongaz General Director Valentin Nikishin came to an agreement at their 12 April meeting. Mezhhregiongaz is the subsidiary of Gazprom responsible for distributing natural gas to Russian consumers.

The conflict between Gazprom and Perm is not new and Perm residents see Gazprom as conducting a policy that damages the region's industry. In 1991, Gazprom delivered 17 billion cubic meters of gas to the region, but now it ships only 12 billion.

Trutnev recently denounced Gazprom's policy as "economic banditism" (*Novyi kompanon*, 17 April). Additionally, Trutnev's administration is seeking to set up its own firm which would deliver natural gas within the region and, more importantly, pay taxes in Perm. Mezhtregiongaz is not registered in Perm and therefore does not pay taxes there.

A week before the meeting took place, Gazprom set an ultimatum and cut gas supplies in half (*Zvezda*, 6 April). There is still snow on the ground in Perm in early April and the cutbacks affected local enterprises and residents alike. However, the oblast authorities also have levers of influence. Gazprom has a large amount of property within Perm Oblast. This equipment is poorly serviced and presents a constant threat of environmental catastrophe.

The Perm authorities emerged victorious from the talks. Nikishin agreed to set up a Permregiongaz on the basis of the local branch of Mezhtregiongaz. The new entity will register in Perm and pay taxes to the local budget. This income will amount to 50-60 million rubles a year. The question of who will control the new firm remains open. Similar structures already exist in 46 regions. Trutnev achieved all his goals while Nikishin failed to do so since no agreement was reached on repaying the distributor's debts to Gazprom (*Novyi kompanon*, 17 April). - Konstantin Kolyvanov in Perm

**... BUT HOLDS ITS GROUND IN CHELYABINSK.** Chelyabinsk, which consumes 13-14 billion cubic meters of natural gas a year, once had relatively good relations with Gazprom, but now the situation is deteriorating. Chelyabinsk Governor Petr Sumin was one of the first to sign a treaty with Gazprom in which his administration took on the responsibility of monitoring local customers' gas payments, developing the region's gas distribution system, and allowing Gazprom to buy up some local enterprises. In return Gazprom was supposed to provide regular supplies of gas, and even consider increasing them if the situation warranted. Gazprom and Chelyabinsk renewed the agreement in December 2000. Additionally, Chelyabinsk is the home of a pipe factory that provides wide-diameter pipes to Gazprom.

Another sign of Chelyabinsk's special relationship with Gazprom was that last year saw the establishment of Chelyabinskregiongaz, which took over as the sole natural gas distributor from the Chelyabinsk branch of Mezhtregiongaz. The new structure had some ties to the oblast administration. Nevertheless, at the highest level, Gazprom promised to ensure supplies to the region and kept its promise until recently.

The oblast authorities were less successful in keeping up their end of the bargain. Thus, the size of the region's debt continued to grow for a long time, although in 2000 it declined by 250 million rubles to 4.25 billion rubles. Despite the small decrease, the overall size of the debt remained quite large. After the creation of Chelyabinskregiongaz in the middle of last year, the debt situation became worse and erased the gains made in 2000. Since that time, debts have increased by 500 million rubles, including 200 million rubles in 2001. The oblast government promised to build extensive new natural gas pipelines, but was not able to fulfill its ambitious plans.

At the beginning of 2001, one of the region's largest debtors, Chelyabenergo, could only pay for 70 percent of its current gas usage, increasing its debt by 106 million rubles in the first quarter and boosting its overall debt to 1.84 billion rubles. As a result, Chelyabregiongaz cut supplies to the utility by 40 percent. At the end of March Mezhtregiongaz cut gas supplies to Chelyabinsk by 20 percent.



The decision to cut supplies brought the gas suppliers into direct conflict with the oblast authorities, who did not want residents to lose heat while it was still cold outside. Chelyabinskoblغاز Director Ildar Usmanov accused the authorities of pandering to the debtors while ignoring the interests of the gas industry.

Deputy Governor Vladimir Bukrin shifted blame to the Southern Ural Railroad, which he accused of failing to pay its taxes to the region and energy bill. The railroad owes 150 million rubles to Chelyabenergo and "hundreds of millions" in regional taxes. While Chelyabenergo's debts are substantial, they make up only a small part of the problem. All enterprises are having difficulty meeting the new energy prices.

While the oblast administration takes little action against the debtors, it is sharply critical of Chelyabinskregiongaz for its supply cutbacks. Now the gas suppliers are fighting back and are likely to cut deliveries even further in May. There is nothing the oblast authorities can do about these cutbacks. The gas suppliers now seem bent on pressing their own interests rather than trying to take into account "the needs of the oblast." - Igor Stepanov in Chelyabinsk

**MAYOR TURNS STREET LIGHTS BACK ON IN NIZHNI.** After three weeks of dark streets, the lights are now back on in Nizhnii Novgorod. Nizhnovenergo Director Aleksei Sannikov had cut power to the lights in most of the central part of the city to protest the 16 million rubles that the city administration owed his company. Ultimately, Mayor Yurii Lebedev took Nizhnovenergo to court demanding that it pay the 17 million rubles it owed the city budget. The court froze the utility's account and transferred the money to the city, which then paid its bill.

Sannikov has the support of Presidential Representative to the Volga Federal District Sergei Kirienko and Duma member Boris Nemtsov, the former governor of the region. Such conflicts between mayors and utilities are common. City budgets have been slashed in favor of regional budgets at the same time that the price for electricity and fuel has risen. In 2000 the regional energy commission raised the price of electricity 46 percent in Nizhnii Novgorod.

The mayor's victory in this dispute may be short-lived. Most residents are extremely unhappy with his actions. Kirienko has announced that he is going to look into the activity and debts of the city-owned Nizhegorodsvet, which is responsible for the lighting. The city administration pays Nizhnovenergo through this agency. "Whoever tries to make political hay out of energy problems will be sorry," Kirienko said. "There will be no free heat and lighting," he warned. Kirienko threatened to impose external management on the city enterprise responsible for the lighting if necessary. - Yurii Rodygin in Nizhnii Novgorod

**EES PLANS TO SUE BASHKIRENERGO FOR DEBTS.** The upcoming restructuring of the electricity monopoly Unified Energy System (EES) in May and its leadership's increasingly strict policies toward its debtors has already spurred a series of crises and conflicts. Now this wave is heading toward Bashkortostan, which had managed to avoid such conflicts until now. EES is planning to sue Bashkirenergo to recover 1.3 billion rubles in debts. EES has similar claims against Tatarstan's Tatenergo and Irkutsk's Irkutskenergo, which owe 1.8 and 3.6 billion rubles respectively. If interest payments

were included in the debt, the figure would be 3 billion rubles higher. The federal government has also not received tax income on these sums.

These three companies have refused to pay "subscription fees" to the monopolist since 1996 and refused to sign a contract with it. The three regional companies are supposed to pay the fees to EES for maintaining the country's overall grid. EES charges that the utilities have violated the government's instructions issued when the federal wholesale market was established by not making the appropriate payments. However, EES has difficulty getting these three regional utilities to pay because they are not part of the EES monopoly itself. Moreover, influential regional leaders stand behind Bashkirenergo and Tatenergo (the governor of Irkutsk is facing a challenging election in July). The EES board of directors hopes to employ similar "heavy artillery" in the battle. It has authorized its chairman, President Chief of Staff Aleksandr Voloshin to ask the leaders of Tatarstan and Bashkortostan to speed the process of signing agreements to pay for EES's services.

The regional energy companies complain that EES is engaging in price gouging. Bashkirenergo Director Azat Salikhov charges that EES used its monopolist position to set prices that have nothing to do with reality. He claims that the regional utility is willing to sign an agreement, but only at reasonable prices. He calculates that the Bashkirenergo's debt is only 10 percent of what EES claims. If a solution cannot be found, Salikhov said that Bashkirenergo is ready to file its own suit in Arbitration Court to defend its interests. - Igor Rabinovich in Ufa

## **MEDIA ISSUES**

### **PSKOV GOVERNOR SEEKS TO TAKE OVER REGIONAL PRINTING PRESS.**

On 10 April the nine-month conflict between Pskov Governor Yevgenii Mikhailov and the staff of the oblast's printing press unexpectedly heated up again. At an extraordinary meeting of the press's employees, Mikhailov's key aides once again sought to remove the head of the plant, Nikolai Sitov, from his post. The plant's workers quickly came to the defense of their boss.

In June 2000, Governor Mikhailov signed an order merging the oblast printing press with another small press. The merger promised no economic benefits, but would give the governor an opportunity to place his press secretary, Sergei Bigovchii, in charge of the plant. However, the workers at the plant protested this move. Now the governor wants to appoint Deputy Chairman of the Oblast Committee on the Mass Media Nikolai Ivanov as head of the plant.

The Pskov Oblast Printing Press is the largest and most profitable press in the region. The 100 employees receive good salaries by Pskov standards, more than 3,000 rubles a month. The current director has worked there 25 years. His only measure of success is profitability. Therefore the political spectrum of publications at the plant is quite large. It includes the liberal *Novosti Pskova*, the pro-governor *Pskovskaya pravda*, the sharply anti-governor *Panorama*, and numerous election newspapers. Of no less importance, the press also prints election ballots. Sitov has even demanded that *Pskovskaya pravda's* editors pay for its publication on time.

Federal Inspector Aleksandr Selivanov has so far remained neutral in the conflict, citing a need to further study documents related to the plant. However, many see the

governor's move as an attempt to set up a regional media holding company, which he will be able to control. The new company he hopes to create would publish papers loyal to the governor and block the appearance of local opposition papers. - Andrei Shcherkin in Pskov

**IRKUTSK LEGISLATURE REJECTS MEDIA SUPPORT BILL.** The Irkutsk legislature has rejected a bill to support regional media and sent it for further amendment. The proposal fell one vote short, winning 22 of 23 necessary votes.

The governor's administration developed the bill with support from journalists in Irkutsk, Shelekhov, Angarsk, Bratsk, and other cities and raions of the oblast. The bill sought to support all oblast, city, and raion media that needed aid, regardless of their form of ownership, according to the governor's deputy chief of staff, Mikhail Rachkov. Oblast media would have received aid up to 50 percent of their actual expenses. Raion and city newspapers would have support up to 70 percent, and papers published in the far north, up to 80 percent.

An oblast commission drawn from representatives of the oblast administration, members of the oblast legislature, and mayors were to draw up a list of newspaper and television and radio companies that need aid. The list could not include partisan, specialized, handbook, advertising, erotic, or digest publications. Acceptable publications had to have large print runs or frequent broadcasts.

The legislature's Media Commission Chairman Anton Romanov suggested rejecting the draft since its concept was "defective." Romanov suggested not supporting oblast newspapers at all, directing all aid to city and rural newspaper and broadcasters. He also wanted to limit support to local papers that had some state ownership. He suggested compiling the list of media that need support at the local level and then confirming it in the oblast legislature. It remains unclear when discussion of the law will resume. - Teleinform in Irkutsk

## **POLITICAL PARTIES IN THE REGIONS**

### **SARATOV GOVERNOR ORDERS CIVIL SERVANTS TO JOIN YEDINSTVO.**

At a meeting of the oblast government, Saratov Governor Dmitrii Ayatskov ordered all of the region's civil servants to join Yedinstvo. "Whoever from the government is not in the party will not be a member of the government," he announced. Ayatskov issued his command after learning of the merger between Yedinstvo and Otechestvo at the federal level. He said that "the future is with the party of power."

The Saratov branch of Yedinstvo currently has 4,000 members. Ayatskov's recent call is not his first attempt to fill the ranks of the party. One month ago the head of the Saratov party branch announced that he would cap membership at 5,000 and called on potential members to join while it was still possible. Several raion administrations tried to join as a group. The local branch of Otechestvo has 3,780 members, a third of whom are bureaucrats.

Deputy head of the Otechestvo-Vsya Rossiya faction in the State Duma Vyacheslav Volodin (a former Saratov deputy governor) said that the governor's summons would not have much effect on party building in the oblast. "Even if the

bureaucrats race to join Yedinstvo, they will be 'dead souls' and nothing more. No party will benefit from this."

There is currently a considerable amount of consternation within the oblast government. On one hand, officials don't want to risk their jobs by not joining the party. On the other hand, the governor's demand that they join the party violates article 5 of the Saratov Oblast law on civil service which mandates that the civil service is not based on party membership. Employees of the Saratov's mayor's office said that they were not going to violate the law and had no intention of joining the party. In the city of Engels some of the 1,500 municipal employees are already members of Yedinstvo, and the rest could join in the near future.

Beyond the attention generated by Ayatskov's order, the question of who will lead the new merged party in the region remains unclear. Both of the local chapters of the national parties are headed by ambitious individuals: State Duma Deputy Speaker Lyubov Sliska heads Yedinstvo and State Duma member Volodin heads Otechestvo. Sliska and Volodin are not allies and the two organizations did not have contact with other before the merger. Members of Otechestvo have sought contact with Sliska since the Yedinstvo-Otechestvo merger was announced, but so far unsuccessfully. - Yuliya Yeliseeva in Saratov

**PARTY MERGER NO PROBLEM IN KARELIYA.** Moscow Mayor Yurii Luzhkov and Emergencies Minister Sergei Shoigu announced that their respective parties, Otechestvo and Yedinstvo were merging on 12 April. According to Vladimir Sobinskii, the head of the Kareliya branch of Otechestvo, his organization had discussed the merger six weeks before the public announcement. Sobinskii thought that there would be no problem in merging the parties in Kareliya. He said that the members of the local branches of the two parties have similar views. "Our ideologies are similar," he said. The two branches of the two parties are planning to set up a coordinating council. - Maksim Timofeev in Petrozavodsk

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## **PROFILE**

*This week the RRR begins a series of profiles on the representatives Putin appointed to the seven federal districts. Judging by the results of the first profile, these articles will raise more questions than they answer. It is easier to discover what the representatives say about their work than to find out exactly how effective they are really being. So the following reports should be taken more as a guide to further research than a final product.*

## **VIKTOR CHERKESOV: PUTIN'S MAN IN THE NORTHWEST**

by Robert Ortung

Presidential Representative to the North-West Federal District Viktor Cherkesov is a prime example for those who make the argument that the KGB is running Russia under President

Vladimir Putin. He has outspokenly decried the weakening of the Russian state and advocated the strengthening of the federal executive branch. He charged that during the 1990s Russia had a "plastic" state operating in a system without rules in social life, business, or politics. The result was a "wave of crime, corruption, Chechnya, a banal lack of order, authorities who were unable to impose order, and oligarchs who had enormous influence over the state and used it exclusively for their own clan interests." (*Vek*, 16 February). Along with Presidential Representative to the Volga Federal District Sergei Kirienko, Cherkesov is the most controversial of the seven presidential representatives (*NG Figury i litsa*, 19 October 2000).

Cherkesov is a close friend of President Vladimir Putin from the days when they both served in the KGB. Before taking on his current job, Cherkesov was best known for his work suppressing the Leningrad dissident movement. Cherkesov took over the St. Petersburg Federal Security Service (FSB) in 1992 and held that job for most of the decade. In 1998, he served as Putin's assistant when the future president was in charge of the FSB. Cherkesov is not an independent player and is completely reliant on Putin for his power (*Versiya*, 19-25 December 2000).

Cherkesov faces a number of significant problems in the northwest federal district, which includes Arkhangelsk, Kaliningrad, Kareliya, Komi, Leningrad Oblast, Murmansk, Nenets Autonomous Okrug, Novgorod, Pskov, St. Petersburg, and Vologda. The press has dubbed St. Petersburg the "criminal capital" of Russia and Cherkesov must deal with the numerous, and chronically unresolved, assassinations in the city. Since the Northwest is a border region, he must combat the crime and corruption surrounding the export industry. To complicate matters, Petersburg is the home of President Putin, giving him in depth knowledge of the region and a special stake in what happens there. Additionally, Cherkesov has to address the unique problems Kaliningrad faces as the European Union's expansion encircles it.

### **Conception of His Duties**

One of the main questions surrounding the seven presidential representatives is their place within the Russian political system. The representatives have to find a way to work with the existing federal ministries and governors, none of whom want to give up their current power. Moreover, the representatives do not control any of the country's money flows or have any real administrative tools at their disposal. Each of the representatives has had to define his tasks within the framework of his district.



The wide range of duties that Cherkesov is pursuing suggests that he has yet to find a niche in the evolving political system. While he can intervene in specific cases, he does not have the resources to make all the bureaucrats in his federal district work effectively. It is also unclear how he can handle the task of coordinating federal agencies while simultaneously representing regional interests in negotiations with the federal government. In many of the areas where he is seeking power, it would make more sense to strengthen existing institutions, such as the courts, rather than transferring responsibilities to the presidential representatives. Finally, his energetic pursuit of foreign investment does not seem compatible with his other duties which are aimed at making state institutions function more effectively. This task would be better handled by a separate agency that focuses on it exclusively.

Cherkesov is seeking to carve out several niches for himself. First, he is trying to make federal agencies work more effectively in the regions. He argues that under Yeltsin the governors grabbed too much power over these agencies. The federal government's ability to provide political and territorial unity in the country all but disappeared, Cherkesov argued in a 16 February *Vek* interview that lays out his political philosophy. Regions simply ignored federal laws if they did not like them. Federal agencies in the regions were more oriented toward regional power structures than to the federal government. Regional laws frequently violated federal norms.

The Russian state was in a "pre-crisis situation," Cherkesov claimed, and the country was becoming unmanageable. The authority of the federal center had fallen. "Our first task was to stop the destruction of the state and reverse the disintegration of the country. Today we can say with confidence that the collapse of the Russia state has been stopped."

Specifically, he argued that it was not right for the governors to "dictate their conditions for the appointment of leaders" of federal agencies (undated interview posted at [www.pskov.ru](http://www.pskov.ru)). During the Yeltsin era, most federal officials working in the regions were appointed with the approval of the regional leaders. In many cases, the federal government simply let the regional leaders appoint their own people to key posts. The result was that many of the federal agencies working in the regions were directly under the authority of the governors.

In his relations with the governors, Cherkesov stresses that he is not trying to take over governors' powers in such areas as housing, transportation, health care, or providing aid to the poorest sectors of the population (*Rossiiskaya gazeta*, 23 September 2000). He sees his job as getting the federal agencies in the regions to work at full strength. "This is the area where the representative, not the governor, is the 'political director.'" He claims that he is not limiting the powers of the governors, but restoring legality. The courts and procurators have the necessary powers; Cherkesov sees his task as making sure that they use them.

Several federal agencies have set up district offices, such as the tax police, Justice ministry and procurator. The Property Ministry is setting up an office and one of the deputy transportation ministers deals exclusively with the northwest (*Vedomosti*, 21 March). Cherkesov claims that he can resolve economic problems through these offices. He notes that the president put him in charge of monitoring federal expenditures, the implementation of federal programs, and the use of federal property.

A second task Cherkesov has set for himself is making the regional and local authorities do their jobs. Ordinary people in his district send him numerous complaints about problems they

face in their daily life: an inability to organize necessary housing repairs, work-related disputes, or a lack of hot water. Rather than ignoring this kind of minutiae, Cherkesov boasts that he takes action and gets results. For example, he helped some veterans change the schedule of a suburban train so that it would be more convenient for them. He also ensured the delivery of aid to Pskov families who lost loved ones in Chechnya. "His magic wand is his truncheon, which he uses to keep bureaucrats in line," *Nezavisimaya gazeta* noted (11 April). People appeal to the presidential representative if they can't get a resolution of problems at the regional or local level. "This means that the regional and local authorities work badly. The main problem is that no one monitors the work of regional and municipal bureaucrats. This leads to disorder, arbitrariness, and corruption," Cherkesov complained.

Cherkesov argues that it is necessary to change the moral atmosphere in society. Bringing about such change "requires a dialogue between the state structures, political parties, influential social organizations, and ordinary citizens." Cherkesov hopes to develop such a dialogue.

A third task Cherkesov sees for himself is working as an advocate for the regions he represents at the federal level. For example, he is making a list of the targeted federal aid programs in the northwest, many of which exist only on paper. Then he will prioritize these programs and seek funding for the most important among them (*Nezavisimaya gazeta*, 12 October 2000). He admits that he won't be able to achieve funding for all of them.

A fourth area in which Cherkesov is seeking a niche is economic policy. He claims to have helped Kaliningrad resolve some of its problems at the beginning of the year when the implementation of the new tax code caused the region to pay taxes twice on some products. The Kaliningrad case was essentially a one-time effort to deal with a crisis. Cherkesov is also seeking a more strategic role. One area where he believes that he can make a contribution is in reducing the economic differences between regions. On the relationship between the state and the economy, he argues the state should not control the economy, but also asserts that "I don't want to go to the other extreme of saying the smaller the state role, the better."

Most prominently, Cherkesov has carved out a role for himself as a promoter of foreign investment. He meets regularly with foreign companies and international financial institutions such as the EBRD. At the end of February, he sponsored a conference entitled "Investment 2001: New Realities, New Possibilities in Northwest Russia." His strategic vision is to shift the economy from raw material exports to high value-added production. He sees one of his key tasks as protecting investor rights in his district. He has even awarded the order of friendship to the director of production at Philip Morris Management Services (*Izvestiya*, 22 February), which has a big cigarette factory in the region. During a March trip to Finland, Cherkesov met with large companies such as Nokia.

Beyond these specific tasks, Cherkesov would like wide latitude in how he exercises his powers. He claims the need for "anti-crisis management in the broadest sense of the word" in strategic economic sectors and enterprises crucial to the city (*Vedomosti*, 21 March). Cherkesov has been adamant in his demands for a federal law defining the role of the representatives and specifying the powers that they would have vis-a-vis the ministries and governors. His use of the phrase "anti-crisis management" suggests that he seeks to have extensive powers.

## **Accomplishments**

What has Cherkesov accomplished after nearly a year in office? In organizational terms, he has hired a staff and set up three advisory councils: Economy and Investment (including federal agencies, regional authorities, business people, and foreign investors); Law Enforcement Agencies and Security; and a Social Chamber (to study public opinion) (*Vremya novostei*, 3 April).

The task of the law enforcement and security council is to evaluate the district's general war preparedness, and forecast developments in the local military, political, and economic situation. The council also coordinates appointments in the military area and monitors the money distributed to the power agencies. Its membership includes the heads of the local military district and the fleet commanders, among others. The council is to meet no less than twice a year. The council's functions are vaguely defined. At the first meeting, the participants had little idea what the council's purpose would be or how it would operate. (*Kommersant-Daily* 26 October 2000). In public, Cherkesov did not provide much additional clarity, saying only that we "will evaluate the threat and how to counter it." But it was not clear if his statement referred to the military threat to the northwestern part of Russia or potential threats to the federal executive branch. The secrecy of the meetings he chairs probably has more to do with Cherkesov's style than the strategic importance of the subjects discussed.

Members of the Social Chamber include 33 organizations with at least 500 members and branches in at least six of the district's regions. Since one of the tasks of the council is to inform the public about the presidential representative's work, observers see it as a PR organ through which Cherkesov can influence local political parties (*Vremya novostei*, 3 April).

In addition to the councils, the northwest federal district at the end of 2000 set up the first branch of German Gref's Center for Strategic Initiatives ([www.csr.ru](http://www.csr.ru)). Another branch has just been established in Novosibirsk (*Vremya novostei*, 28 April). Director Aleksandr Dybal defined the role of the regional center as figuring out how to reform the state institutions of the Northwest Federal District as a unified whole. The main sponsors of the St. Petersburg branch are such major firms as the Baltika beer factory, Telekominvest, Granit and the Rossia bank. Foreigners own substantial shares of Baltika and Telekominvest, so they may have some influence on the center's work. Big business sees this money as an investment in resolving its problems through direct contact with the powers that be (*Ekspert*, 25 December 2000). Despite its high-level patronage, the center has an unclear future. If it has lots of money, it will continue to grow. On the other hand, it constitutes one part of an "administrative-political phantom," which is how *Ekspert* describes the current status of the federal district; its fate therefore will be tied to that of the district itself.

## **Relations with Federal Agencies (Particularly Law Enforcement)**

Beyond examining Cherkesov's organizational achievements and aspirations, the best way to evaluate his impact is to study his relations with the federal agencies operating in his district and with the 12 governors in office there. Cherkesov argues that the 760 branches of federal

agencies working in the Northwest are not effective. We "need to optimize them, and if we are speaking more simply and understandably, we need to reduce their number," he told Radio Mayak on 27 December 2000.

Cherkesov was sharply critical of the federal law enforcement agencies at a meeting of his coordinating council on 18 January and at a Kaliningrad conference on corruption on 24 March (*Rossiiskaya gazeta*, 20 January and Baltic News Service, 24 March). He said that economic crime and corruption had increased since 1999. He contended that "we did not succeed in making any serious blows against corruption in 2000. There were no cases which could be called symbolic that exerted a serious influence on the process of taking power from the criminal, although you can't say that there was no work in this direction." Cherkesov claimed that criminal groups grew in number and skill during 2000. He listed St. Petersburg, Komi, Novgorod, and Murmansk as the most crime-infested regions.

In particular, he warned that a weak federal customs agency allowed the illegal export of natural resources. Council members also worried that in recent years organized criminal groups had submitted paperwork on exports that never existed or had significantly marked up the value of the goods they actually did export in order to receive illegal value-added tax refunds at the expense of the federal budget. Much of this criminal money goes to bribing bureaucrats, Cherkesov warned, and measures against such actions have so far proven to be ineffective. To deal with these problems, Cherkesov advocated "great transparency in enterprises' financial flows, monitoring of budget expenditures, and the regulation of import-export operations." He also called for an investigation into the way the Ministry of Taxes and Collections returns VAT to exporters.

Cherkesov is sending mixed signals on his determination to fight corruption. On 9 January, Putin fired the head of the St. Petersburg and Leningrad Oblast Federal Security Service (FSB) Aleksandr Grigorev and replaced him with Sergei Smirnov. Grigorev had apparently been in a months-long fight with Cherkesov because he believed that Cherkesov had hired assistants with alleged connections to two of Petersburg's reputed organized crime bosses (*Segodnya*, 10 January). Grigorev was also a close friend of Putin and the president apparently had to choose between the two because of the intensity of the conflict.

St. Petersburg Governor Vladimir Yakovlev does not support Cherkesov's efforts to coordinate local law enforcement agencies. Yakovlev objected to the policy of subordinating law enforcement agencies directly to the representatives and financing them from the federal budget (*Izvestiya*, 28 March). "In other words, the governor is not responsible for enforcing the law in his region," he said. "I think that this is right only in theory." In response Yakovlev has created an Anti-Crime and Anti-Terrorist Committee under his auspices.

Yakovlev's move challenged Cherkesov's stated position that the governors had taken on too much power in the past. Cherkesov complained that "In nearly half the regions, they set up their own security councils, with representatives of the tax police, FSB, procurator, and customs agencies. The governor ruled these agencies through these councils and solved regional problems at the expense of federal interests (*Vedomosti*, 21 March)."

## **Relations with Governors**

Cherkesov's problems with Yakovlev go beyond a dispute over who should control the law enforcement agencies. Just as Urals Representative Petr Latyshev has had a difficult time with Sverdlovsk Oblast Governor Eduard Rossel, Cherkesov and Yakovlev are clear competitors, though Yakovlev is much less vocal about the conflict than Rossel and tries to paper over his disagreements with Putin by being the first to back his proposals.

As a loyal supporter of former St. Petersburg Mayor Anatolii Sobchak, Putin considered Yakovlev a "Judas" for betraying their patron and defeating him in a bitterly fought election. Putin tried to remove Yakovlev from office in the May 2000 gubernatorial elections, but the local elite and voters stood by Yakovlev and gave him a second term. Yakovlev has since reached a kind of mutual non-aggression pact with Putin. The president has decided that he will work with Yakovlev now rather than try to replace him. The city elite also cooperate with Yakovlev, while seeking to maintain good ties to Putin (*Izvestiya - Peterburg* 20 December 2000). As a Putin loyalist, Cherkesov shares the president's negative assessment of Yakovlev. Putin appointed Cherkesov not only because he is a loyal friend, but also because he is one of Yakovlev's strongest opponents (*NG Figury i Litsa*, 19 October 2000). Cherkesov is apparently the source of frequent rumors that Yakovlev is on the verge of resigning, assertions which Yakovlev constantly dismisses (*Nezavisimaya gazeta*, 11 April).

A major point of conflict is the approximately 40 billion rubles that Putin has promised in federal aid to the city to help celebrate the 300th anniversary of its founding in 2003. The event looks to be as politically significant for Putin as the 850th founding celebration was for Moscow Mayor Yurii Luzhkov, then nursing presidential ambitions. The money, equal to St. Petersburg's entire annual budget, will go mainly for the reconstruction of the city's historic downtown, the construction of a ring road around the metropolis, and work to complete a dam to protect the city from flooding (*Kommersant Daily*, 7 February).

Cherkesov warns that such large sums of money will make unscrupulous bureaucrats rub their hands together in glee and the president has assigned him the task of monitoring how the money is spent (*Vek*, 16 February). But Cherkesov seems more interested in managing and distributing the money himself than simply monitoring how others spend it, further raising the level of tension between him and Yakovlev (*Vedomosti*, 21 March). *Vedomosti* cites frequent conjecture among local observers that power is shifting from Yakovlev's Smolny headquarters to Cherkesov's office at Petrov Embankment, 2.

Cherkesov's power grab angered Yakovlev. On 28 March, he told *Izvestiya* that without the participation of the governor and his staff, nothing will be accomplished in building the ring road. "Is the representative's staff really going to deal with this?" he asked sarcastically. Yakovlev pointed out that the representative could monitor the money, but if the work was not proceeding, then there would be nothing to monitor. He pointedly noted that in his meeting with Putin, they had agreed that the representatives should not interfere in the work of the regions.

Cherkesov and Yakovlev may nonetheless be able to find common ground in their support for St. Petersburg in competition with other regions. *Kommersant Daily* (12 April) claims that Cherkesov is trying to influence the federal government to favor St. Petersburg over Kaliningrad in assigning defense orders. For example, the paper claims that after the Russian government's 22 March meeting on its policy toward Kaliningrad, Cherkesov said "German Gref is a great enthusiast of Kaliningrad. However, his idea to develop Kaliningrad's export

potential is undeveloped and unintelligible." According to the paper, Petersburg Deputy Prime Minister Ilya Klebanov also supports transferring military orders from Kaliningrad to Petersburg.

Despite his conflict with Yakovlev, Cherkesov seems to be having better luck dealing with other governors in the region. Kareliya's Sergei Katanandov supported Moscow Mayor Yuriy Luzhkov's Otechestvo party in the 1999 State Duma race and now is doing everything he can to demonstrate his loyalty to Putin to make up for his earlier "mistake." The recent merger of Otechestvo with the pro-Putin Yedinstvo was a particularly helpful event for Katanandov. In Komi, Yuriy Spiridonov is seeking reelection in the fall and wants to have Kremlin backing. As a result, he appointed a St. Petersburg FSB man, at Cherkesov's recommendation, as his representative to the Federation Council (see article in this issue). While Spiridonov may be cooperative in issues such as this, he has still refused to bring his legislation into line with federal norms on local government.

### **Interregional Association**

The Northwest Interregional Association has become another arena for conflict between Cherkesov and Yakovlev. The association was founded ten years ago to provide a mechanism for increasing horizontal economic ties among regions. Yakovlev is its current leader. Its membership completely overlaps with the membership of the Northwest Federal District, except that Kirov Oblast is in the association, but not in the district.

Cherkesov has expressed no interest in continuing the association. His economic assistant Lyubov Sovershaeva essentially dismissed it, describing its work as "ineffective" since only 5 percent of its decisions are implemented (*Ekspert*, 2 April). On 20 March the association marked its tenth anniversary. Yakovlev had hoped to gather all of the governors at the event. In the end, he was the only one to turn up at the ceremony. No high-ranking federal officials came and Cherkesov sent a subordinate in his place. In the past, the president had participated in some of the association's work. In 2001, however, the governors did not come because of Cherkesov's opposition to it. Cherkesov believes that its functions overlap with those that he would like to control.

Thus, in one sense, Putin's efforts to build a "vertical" of power have destroyed the region's earlier attempts to build horizontal ties. But the Northwest association never succeeded in establishing itself as an agency capable of integrating the region and carrying out an independent policy. There are likely many reasons for this failure. Among them are a severe lack of federal funding for the projects that the association wanted to work on. Another is that the regional leaders have diverging interests and often felt that they were better off developing one-on-one relations with Moscow than trying to work together. Nevertheless, as *Ekspert* points out, it is not clear that more energetic federal control of the regions will be a good replacement for amorphous, but spontaneous, attempts at organization among the regions themselves.

### **Media**

Since coming to office Cherkosov has talked about building a "unified information space" within the confines of his federal district. In particular, Cherkosov would like to have a greater say in the content of media coverage. Initially, the Petersburg Television and Radio Company, which generally supports the governor, did not cover his activities as well as he expected. But when Cherkosov threatened to examine the basis on which the company had been privatized, the broadcaster began to devote more airtime to him.

In April, Cherkosov set up an Association of Northwest Media, whose leadership then signed a cooperation agreement with him (*Vremya MN*, 17 April). One of the leaders of the association is Cherkosov's wife, Natalya Chaplina, editor of *Peterburgskii chas pik*, a newspaper that generally takes an anti-Yakovlev line and is highly respected in the city (*Izvestiya*, 14 April). *Vremya MN* (17 April) claims that Cherkosov's logical next step will be to take control of the Petersburg channel, which is now essentially a propaganda arm for Yakovlev's office. According to the paper, Cherkosov wants to put this broadcaster firmly under federal control.

## **Democracy**

Some observers of Russia have suggested that Putin's rise to power and his subsequent appointment of FSB and military leaders to key political positions threaten the already weak roots of democracy in the country. Cherkosov takes issue with this analysis, arguing that "we have a 'dictatorship of law' that is strengthening democracy, not weakening it."

He also argues that the increasingly visible role of military and security people in public office does not weaken democracy. He points out that the president and governors with a security or military background were elected democratically. Cherkosov suggests that the electorate voted for these people because they had "lost faith that 'classical' democracy could give Russia stability, order, and economic and social progress." On this topic he is worth quoting at length:

"Don't take my words only as irony. Now a deep change is taking place in people's mindsets. These changes are still ill defined. It is not clear how they will ultimately turn out. In Russia, at all times, order and justice were associated with strict authoritarian power, which was based on the army and the power structures. Elections demonstrate the citizens' faith in these institutions and the people representing them. ...

"In the entire world, the army, power structures, and law enforcement agencies are the defenders and guarantors of democracy. Russia is no exception. We all know how hard it is to carry out reforms in our country. The fact that they are moving to a certain degree is thanks to the army and power structures that recognize the necessary renewal of the country, display loyalty to the authorities, and preserve faithfulness to the constitution and their oath. Let's remember this more often when some assert the 'preponderance of the military people.' The threat to democracy comes not from people in uniform, but from those who plunder the country without being punished or manage the state unprofessionally (*Vek*, 16 February)."

In sum, Cherkosov is still seeking a place in Russia's evolving political system, trying to carve out a domain of his own between the federal ministries and regional authorities. He is a prominent and vocal player on the stage, but beyond a distinct change in the atmosphere of

center-periphery relations, it is hard to identify concrete results that can be attributed directly to his work.

## **FEDERATION COUNCIL**

**KOMI NAMES PETERSBURG FSB MAN TO UPPER CHAMBER.** With an eye to winning presidential support for his reelection campaign in November elections, Komi leader Yurii Spiridonov on 18 April appointed a former employee of the St. Petersburg KGB as his representative in the Federation Council. The appointment suggests how Putin's new system is working to exert pressure on regional leaders and how these leaders are seeking to gain influence in the new system.

Spiridonov does not have to appoint a representative to the upper chamber until after his election this fall, but, in a sign of support for the president's policies, he did not wait for this deadline. On 18 April he appointed Yurii Volkov, 46, to the post. His choice was controversial because Volkov has never lived in Komi and never worked closely with its leadership. Like Putin, Volkov was born in Leningrad and studied in the Leningrad State University law department. From 1983 to 1993, he worked for the KGB. He interacted with Putin numerous times in the 1990s when he worked in the St. Petersburg mayor's office for ties with the law enforcement agencies and then as the deputy head of the Petrograd Raion of the city. Many current employees of the presidential administration worked closely with Volkov.

In making his choice, Spiridonov said that he conducted extensive consultations with Presidential Representative to the Northwest Viktor Cherkesov, the leadership of the presidential administration, and Boris Gryzlov, who was then head of the Yedinstvo faction in the State Duma and now is the minister for internal affairs. Last summer, Cherkesov appointed Volkov to his staff as the head of the Department for Work with the Regional Authorities in the Northwest Federal District. According to *Molodozh severa* (26 April), Spiridonov made an emergency trip to St. Petersburg to meet with Cherkesov on 17 April and quickly signed the order appointing Volkov after that. Until the trip, Spiridonov had never indicated that he was planning to leave the upper chamber early. Spiridonov openly named his appointee as the president's man and said that since he had access to high offices, he would be useful to the republic (*Respublika*, 26 April).

The republican legislature, which is loyal to Spiridonov, backed his choice. Beyond the interests of the republic, Spiridonov was clearly thinking of his reelection campaign when he appointed Volkov. He needs to secure the Kremlin's backing since it is not clear how much popular support he has for a third term. During the last year, the speaker of the parliament, Vladimir Torlopov, has strengthened his position and observers believed that the federal authorities were ready to support his candidacy. Therefore Spiridonov was ready to make serious concessions to the federal authorities. Spiridonov hopes that Putin will visit the republic for the 80th anniversary of Komi statehood in August. His decision to leave the Federation Council early indicates part of the deal he made. - Yurii Shabaev in Syktyvkar

## **LAW ENFORCEMENT AGENCIES**



**MORDOVIYA PROCURATOR UNEXPECTEDLY RESIGNS.** Mordoviya Procurator Igor Kudinov resigned his position at the end of April after serving in the post only five and a half months. His first deputy, Ivan Kadrin, is now the acting procurator.

Chief Federal Inspector for Mordoviya Aleksandr Pykov immediately announced that Kudinov had left voluntarily for family reasons. He also denied rumors that Mordoviya's leadership has sought Kudinov's removal because he had devoted considerable effort to rooting out corruption. Shortly after taking office in Fall 2000, Kudinov filed criminal cases accusing several high-level officials in the Mordoviya Ministry of Internal Affairs and Tax Police of taking bribes and illegally using money from the Mordoviya government reserve fund. The chief inspector claimed that neither the republican authorities nor the Russian procurator general had any complaints about Kadrin's work.

Kudinov himself refused to meet with the press, did not explain his decision to resign, and quickly left for Penza, where he had lived until being appointed to the Mordoviya job. In appointing Kadrin as the acting republican procurator, the employees of the procurator's office made clear their intent to continue the battle against corruption in the law enforcement agencies and republican government. However, sources in the Mordoviy government said that Kadrin would only hold the job temporarily. Given the high level of corruption in the republic and the clan-like character of the local authorities, Moscow would not accept the appointment of a person who was born in Mordoviya and worked his entire career there. - Igor Telin in Saransk

## **GOVERNOR'S ELECTIONS**

**CIVIL SERVANTS ON EDGE AS SHAIMIEV STARTS THIRD TERM.** Tatarstan elected Minitimer Shaimiev to a third term on 25 March with 80 percent of the vote. In contrast to the republican presidential elections of 1991 and 1996, Shaimiev faced opposition in the form of four other contenders, but it was obvious from the start that he would win.

Unlike the 1996 inauguration, few high-level guests attended the ceremony on 12 April. There were no CIS presidents and the Russian prime minister stayed away. Moscow sent Presidential Chief of Staff Aleksandr Voloshin, who is rumored to be on his way out of power. Deputy Prime Minister Valentina Matvienko gave Shaimiev a watch and recommended that he set it to Moscow time. Shaimiev's former allies in the Otechestvo-Vsya Rossiya bloc Moscow Mayor Yurii Luzhkov and St. Petersburg Governor Vladimir Yakovlev did not attend, nor did other well-known governors. Observers suggested that the guest list reflected the Tatarstani president's declining authority and the Kremlin's relatively cool relations with him.

Shaimiev, however, remained defiant. In June 2000 the Russian Constitutional Court declared unconstitutional clauses about state sovereignty in six republican constitutions, including Tatarstan's. Nevertheless, Shaimiev took his oath of office on the constitution, which has yet to be amended, vowing to defend the republic's sovereignty.

On the day after his inauguration, Shaimiev accepted the resignation of the entire cabinet and left for a vacation in Karlovy Vary, Czech Republic. Shaimiev announced that he would change the structure of the republic's executive institutions and replace some personnel. He has the habit of returning from vacation with a firm plan on how to proceed. He will announce the new republican government on 11 May.

Shaimiev wants to retain his prime minister, Rustam Minnikhanov, who is extremely loyal to the president and friend of Shaimiev's son. But, according to the local press, Moscow wants one of the three top republican leaders (president, legislative chairman, and prime minister) to be an ethnic Russian. The most likely candidate is Deputy Prime Minister Kogogin. However, it is not clear if Shaimiev will make this concession to Moscow. There are also rumors that Shaimiev will ask the current head of the republican Ministry of Internal Affairs, Safarov, to become his chief of staff. Safarov is very close to Shaimiev, who appointed him to his current position in 1998.

The State Council is at the center of a controversy over its election rules. In response to a suit filed by the opposition movement Ravnopravie i zakonnost, the Russian Supreme Court has declared the district boundaries by which the deputies were elected in December 1999 illegal. Federal law allows the number of voters in each district to vary by 10 percent, but in Tatarstan, some districts were 100 times larger than others. Therefore, the opposition has declared the State Council illegitimate and all the laws that it adopts invalid. It believes that the legislature should be disbanded.

The opposition has asked the courts to invalidate the mandates of the current legislators. On 23 April, Tatarstan's Supreme Court postponed making a decision on this question. The executive branch does not want to disband the current parliament because it is extremely loyal. However, if the court does not do so, the opposition will appeal to the Russian Supreme Court. Given the federal government's effort to bring regional laws into line with federal norms, the Russian court could disband the parliament.

All these events suggest that Shaimiev is slowly losing some of his authority. He still wields enormous power in the republic, but he is not as all-powerful as he was in the past. The people around him understand this, making it impossible to predict their reaction in advance. - Midkhat Faroukshin in Kazan

## **CENTER-PERIPHERY RELATIONS**

**KALMYKIYA SEEKS BETTER ACCOUNTING OF ITS INTERESTS.** The leadership of Kalmykiya believes that the federal government is not taking its interests sufficiently into account. The Kalmykiyan government expressed this point of view at a meeting on 26 March to examine the federal program for the socio-economic development of the North Caucasus through the period 2006. The members of the republican cabinet sharply criticized it, saying that it was mostly focused on the tourist industry and, above all, served the interests of Krasnodar, Stavropol, and Rostov.

Kalmykiya President Kirsan Ilyumzhinov made the republic's opinion clear to Prime Minister Mikhail Kasyanov when he visited neighboring Astrakhan on 20 April. Kalmykiya Prime Minister Aleksandr Dorzhedeev said that during the meeting, Kalmykiya's leadership advocated returning to the previous federal program, which focused on the overall development of the Caspian region, specifically helping Kalmykiya, Dagestan, and Astrakhan. The Ministry of Economic Development and Trade has frozen all progress on the issues addressed in that program (*Izvestiya Kalmykiya*, 24 April).

The previous program included an effort to stop the advancing desertification of Kalmykiya, counteract the warming of the Caspian waters bordering the republic, and other issues. The new program, which focuses on developing the entire territory of the Southern Federal District, has superseded the old one. Kalmykiya's leader believe that the new federal program also fails to meet Kalmykiya's needs in terms of agriculture, railroads, sea and air transportation, and electricity and water supplies.

This dispute goes beyond a simple conflict between Kalmykiya and Moscow. The new federal program for the North Caucasus is the first to be developed on the scale of the federal district. Previously, programs were aimed at providing aid to specific regions or several regions facing the same problems. Developing a program for 13 regions with different interests is extremely difficult and means that some interests will be overlooked. Kalmykiya does not plan to remain idle while its interests are ignored.

Similarly, Kalmykiya is unhappy with the process of bringing regional laws into line with federal norms. Initially the republican leadership supported this process. But now it believes that federal laws do not take into account Kalmykiya's specific regional needs. Thus the republic seeks to have the federal government change some of its legislation to take into account regional needs. As a result the relationship between the federal, district and republican governments is now far from optimal. Ilyumzhinov continues to lobby his region's interests in Moscow and hopes that Kasyanov will soon visit Kalmykiya. - Vladimir Volgin in Elista

## **LOCAL GOVERNMENT**

**NO REFERENDUM ON KOMI LOCAL GOVERNMENT.** The Komi Republic Electoral Commission voted on 12 April that it would not allow a referendum that asked voters if they wanted the right to directly elect mayors. The commission claimed that the referendum contradicted republican and federal legislation because municipalities (not voters) have the right to determine how to conduct elections.

However, on 14 March the republican Supreme Court declared provisions of the republican law that assigned local councils the job of electing mayors from among their ranks to be in violation of federal norms. Federal laws calls for direct elections. One of the backers of the referendum pointed out that even the illegal republican law on local government is not being implemented. In the Kortkeros Raion where the representative lives, the local council elected Nikolai Livson mayor even though he is not a member of the council (*Molodozh severa*, 19 April). The battle over local government is likely to continue through the November republican presidential elections, if not longer. - Yurii Shabaev in Syktyvkar

## **RUSSIA'S MUSLIMS**

*The Central Spiritual Department of Russia's Muslims (TsDU) has been based in Ufa for 212 years and guided Muslim affairs in all of Russia since its founding. After the 1917 revolution, all Muslim parishes joined it except those located in the North Caucasus. Today the TsDU unites 26 regional muftiats in the European and Eurasian parts of*

*Russia. Its membership includes 2,500 religious societies in Russia (96 percent of all societies), except those in the North Caucasus.*

*Muslims in Russia have faced many problems since the collapse of the Soviet Union. On one hand, they have built more than 1,000 mosques in recent years and increased their memberships. On the other hand, other branches of Islam are seeking to take members away from the TsDU. On 11 April, RRR Correspondent Marina Kalashnikova interviewed Supreme Mufti and TsDU Chairman Talgat Tadzhuddin in Ufa..*

## **TADZHUDDIN: CONCERNED ABOUT EXTREMISM**

**RRR:** The problem of religious extremism and the activities of foreign sects is particularly severe in Russia. What forms do these problems take and how do you address them?

**Tadzhuddin:** Unfortunately, the situation in some regions is alarming and difficult, particularly in Orenburg, Ulyanovsk, Tatarstan, and Mordoviya. There religious extremism, fanaticism, and various types of Whahabbism are prevalent. Current laws do not forbid this activity. ...

**RRR:** In the North Caucaus, the state is conducting a policy to protect the ethnic Russian population. You also participated in the meeting in which Presidential Representative to the Southern Federal District Viktor Kazantsev met with the leaders of Muslim societies.

**Tadzhuddin:** This is completely understandable and there is nothing reprehensible in such a policy. Ethnic Russians make up the base of the Russian state. Today there are 15 million Muslims in Russia, making up 10 percent of the population. For almost 400 years Muslims have made up a part of the Russian population and the Russian state. ... There were no conflicts between Christians and Muslims. ...

**RRR:** Has Islam affected the foreign economic ties of the republics?

**Tadzhuddin:** Bashkortostan has normal economic ties with the republics of Central Asia and Europe. The TsDU also tries to contribute to the establishment of good economic, social, and inter-ethnic relations. For example, the TsDU helped established chartered flights between Ufa and Istanbul. ... We have had relations with the Arab world for decades. We receive dozens of delegations. We hope that these ties improve relations between Russian and the Arab states.

**RRR:** What role do Muslims play in Russia's political processes?

**Tadzhuddin:** Religion is separate from the state. Therefore religious groups should not influence state policy on the federal or regional levels. We are also against the creation of political parties on a religious basis. Bringing politics into spiritual life can divide both Muslims and Christians. Unfortunately, several attempts [to create political parties] were made in recent years. Existing legislation allowed this. The Union of Muslims of Russia and the Rafakh party, which was

included in Yedinstvo several months before the 1999 State Duma elections, were essentially up for sale, like something in a kiosk.

These parties were aimed at undermining the authority of Islam and Muslims and [destabilizing] relations between the peoples of Russia. Even now some of their representatives are members of the State Duma. Recently Yedinstvo expelled Rafakh and its leaders from the party. But Russia's Muslims did not vote for these representatives at all. It is not clear why these people should participate in making the policies and laws of our country.

**RRR:** What problems are you facing today?

**Tadzhuddin:** We have problems with taxes. Take, for example, the notorious land tax. Orthodox churches do not pay this tax. The problem is simple: a church that was returned to its congregation or restored is considered a historical, cultural, or architectural landmark. A mosque, built on the location of a destroyed mosque, is considered a new building and therefore must pay tax. This is simply a result of imperfect laws. But this imperfection creates a lack of trust in the authorities and elements of mistrust and conflict with representatives of other religions. There should be some state support [for non-Orthodox religious organizations]. The taxes [collected on mosques] are a tiny fraction of the state budget. The state could help by providing benefits to religious organizations.

## **TRANS-FRONTIER COOPERATION**

**VOLGOGRAD GOVERNOR RENEWS TREATY WITH KAZAKHSTANI COUNTERPART.** Volgograd Governor Nikolai Maksyuta met with the head of the neighboring Kazakhstani region, Krymbek Kuserbaev, on 23 April, marking two years since the two sides signed an economic and cultural agreement. Over the last two years, trade turnover between the two border regions grew from \$3 million a year to \$40 million. However, the agreement probably played little role in this growth. Rather, the general economic conditions after the August 1998 crisis reoriented many Russian trade flows to the CIS countries.

Trade flows of \$40 million are relatively small for two neighboring regions. Most trade is the result of activity between residents who live near the border. Because of poor transportation links, Kazakhstan does not send many goods through Volgograd to the rest of Russia or Europe.

Many problems remain unresolved. Narcotics continue to flow between the two regions. Additionally, last year locusts coming into Volgograd from Kazakhstan plagued the region. Then experts pointed out that the lack of cooperation between agricultural officials on both sides of the border blocked measures to deal with the problem. The best way to fight locusts is when they are still breeding. Russian specialists already have given the Kazakhstani colleagues a map of breeding grounds on the Russian side and hope for similar help from their neighbors. - Ivan Kurilla in Volgograd

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## THE KREMLIN, GOVERNORS, AND OLIGARCHS

**THE BATTLE FOR IRKUTSKENERGO.** Russia's most powerful groups are now engaged in an intense struggle to control one of its most lucrative assets: Irkutskenergo, the second largest regional electricity producer in the country. In a fight involving shifting alliances, the Kremlin, key oligarchs, and a governor who will stand for reelection in July, are squaring off in a battle over property that will help define who really holds power in Putin's Russia.

Irkutskenergo is one of four regional electricity generators that is not controlled by the Unified Energy System national monopoly (*Nezavisimaya gazeta*, 26 April). Its pre-tax profit in 2000 was 1.6 billion rubles (*Kommersant Daily*, 28 April). Total tax payments amounted to 656 million rubles in 2000 (*Izvestiya*, 4 May). Last year Irkutskenergo produced 55,000MW, well short of its 76,000MW capacity, so there is plenty of potential to generate additional profits (*Financial Times*, 27 April). Future electricity sales to China could open up lucrative new markets.

The utility's ownership is split among the three competing groups and no one owns a controlling stake. The oligarchs are represented by Russian Aluminum, the giant conglomerate controlling 70 percent of Russia's aluminum production which is run by Oleg Deripaska and Roman Abramovich (who is also the governor of Chukotka), and their ally, Siberian Urals Aluminum Company (SUAL), which is run by US-based Russian businessman Victor Vexelberg. Russian Aluminum owns a 25 percent stake and SUAL owns 10 percent. The state owns a 40 percent stake, but the Kremlin and Irkutsk Governor Boris Govorin disagree over how this stake should be managed.

### **The Aluminum Interests**

The aluminum interests are interested in the utility because they want cheap electricity to power their smelters in the region. Irkutskenergo generates power from a giant hydroelectric dam on the Angara, the only river flowing out of Lake Baikal (*Financial Times*, 27 April). Since smelters consume huge amounts of electricity, the price of power is crucial in determining the aluminum plant's profits. Russian Aluminum owns the Bratsk Aluminum Factory and SUAL owns the Irkutsk Aluminum Factory. Last year, the aluminum magnates launched a major drive to gain control of their power supplier in Irkutsk. Similar struggles between aluminum plants and electricity generators are taking place in Krasnoyarsk and Khakasiya.

Naturally, the managers of the utility do not want to be controlled by the aluminum factories who are their main customers. In 2000, 88 percent of Irkutskenergo's income came from the two aluminum smelters. If the utility comes under the control of the aluminum companies, it will no longer be very profitable, as the companies will lower the price that they currently pay for electricity. The aluminum companies are extremely angry about the prices they currently pay for electricity. On 12 April, the Irkutsk Oblast Arbitration Court ruled that the management of Irkutskenergo had overcharged the aluminum companies as much as \$200 million since 1998 (*Nezavisimaya gazeta*, 18 April and *Vremya novosti*, 13 April).

### **Governor Boris Govorin**

Irkutsk Governor Govorin is seeking reelection on 29 July 2001 and the battle over Irkutskenergo will be one of the defining issues in the campaign. If Govorin is ousted, Irkutskenergo could end up in different hands. The regional government has been battling the federal government for control of the 40 percent state stake for many years. In 1996, Yeltsin and Govorin signed a treaty, which defined the 40 percent stake as joint federal and regional property. In practice, the treaty gave the oblast government control over the utility (*Vedomosti*, 23 April). Toward the end of the 1990s, the federal government sought to regain control over the property that it had let devolve to the regions. In December 1999, the Federal Property Ministry filed a claim with the Supreme Arbitration Court seeking to declare the 40 percent stake federal property. On 5 February 2001, the court ruled that the federal Property Ministry would control the 40 percent state stake. However, the court also ruled that oblast administration would be able to vote a 15.5 percent stake of the overall 40 percent. The court was vague about how this split should work in practice, setting up a new battle between the



regional and federal governments. This 15.5 stake is crucial in the current battle because when combined with the 35 percent held by the aluminum interests, it gives the oligarchs and governor control over the utility. If the federal government can use all 40 percent of its shares, it can secure a controlling stake over Irkutskenergo in alliance with the plant's management, which owns just over 10 percent (*Izvestiya*, 4 May).

Former Irkutskenergo General Director Viktor Borovskii fell out with Govorin about a year ago in a dispute over electricity prices. High electricity prices reduce the profits at the aluminum factories, which therefore pay less in the form of profit taxes to the regional budget. Borovskii left the utility leaving Sergei Kuimov, one of his allies, in charge. The governor now wants to replace Kuimov with someone more to his liking. In the summer of 2000 Borovskii won a seat in the Irkutsk regional legislature and after a bruising four-month battle with the governor, was able to win the speakership in December (*EWI Russian Regional Report*, 10 January). Kuimov is well known in the oblast for his public attacks on the governor (*Nezavisimaya gazeta*, 18 April). Thus, the governor has formed an alliance with the aluminum companies, who also want to remove Kuimov from the utility. The two aluminum plants and the governor have agreed to back Sergei Yesapov, the deputy general director of Energonadzor AOEiE Irkutskenergo, as the new head of Irkutskenergo.

## **Federal Government**

The federal government's main interest in the dispute is to assert its control over the utility and ensure that it makes substantial payments to the federal budget. In the battle over who will run the utility, the federal representative backed Kuimov and Irkutskenergo's current management. The federal government and managers can only assert their preferences if they can block the governor's ability to vote the oblast's 15.5 percent stake in the utility. In mid-April, Putin ordered the general procurator, the Ministry of Internal Affairs, and the Justice Ministry to "protect the interests of the state." (*Vedomosti*, 23 and 26 April). However, the Supreme Arbitration Court has not reversed its February decision, so the Irkutsk governor still has control over the 15.5 percent stake.

As frequently happens, the federal government does not have monolithic interests in the dispute. While Putin will want to get as much tax revenue out of the plant as possible, he will not want to alienate men like Deripaska, who has close ties to the Kremlin (*Financial Times*, 27 April). The aluminum interests also seek to avoid confrontation with the Kremlin.

Now that Borovskii is the head of the regional parliament, the battle over Irkutskenergo has turned into a bitter conflict between the oblast's executive and legislative branches. Govorin is naturally angry that the regional legislature no longer supports him in his battle with the federal government to gain control of Irkutskenergo. On 16 April Govorin declared that the "Legislative Assembly had sold out the interests of the oblast." Borovskii and his allies demanded that the governor apologize for this statement and noted that the legislature supported Putin regarding the "need to firmly defend the interests of the state." (Teleinform, Irkutsk) Borovskii and his allies have yet to identify the candidate they will support in the governor's elections. This person, perhaps Borovskii himself, will be Govorin's main challenger.

### **The Outcome (so far)**

The battle was supposed to come to a head on 28 April at an extraordinary Irkutskenergo board of directors' meeting. Until the last minute it was not clear if the meeting would take place. On 25 April the Irkutsk Arbitration Court postponed the meeting at the request of the federal Property Ministry and first deputy Irkutsk Oblast procurator until questions about the 15.5 percent oblast share could be resolved. Bailiffs tried to disperse the directors on 28 April, but the aluminum companies produced a different court order that mandated that the meeting proceed.

The outcome was not decisive for either side. At the meeting the shareholders left Kuimov as acting director, at least until 30 June when the board will meet again. However, Kuimov appointed Yesapov, the aluminum interests' choice to replace him, as his deputy in charge of finances. Yesapov will now control the money at the plant. The meeting also elected a new board of directors that includes three members representing Russian Aluminum, two representing SUAL, three representing the federal government, two representing the Irkutsk authorities, and one representative for the utility's management (*Izvestiya*, 4 May). A representative of the federal property ministry will chair the board.

According to *Izvestiya*, the main loser in this outcome is the oblast government. The aluminum companies secured representation on the board, which they had not had before. The federal authorities also strengthened their position in the factory.

### **The Greater Significance**

The battle over Irkutskenergo could set a new precedent in property struggles between the federal government and the regions. In seeking Putin's support in this case, federal Property Minister Gazizullin had sought a presidential decree that would have overturned all agreements that divided property between Moscow and the regions. Putin did not grant this far ranging power, but may do so in the future. (*Vedomosti*, 23 April). - Compiled by Robert Orttung with reports from Teleinform in Irkutsk

## **REGIONAL ECONOMIES**

**INCREASED TRANSFERS TO FEDERAL GOVERNMENT, LOWER OIL OUTPUT THREATEN BASHKORTOSTAN ECONOMY.** During the Soviet era, Bashkortostan developed an economy run by the state on the basis of a plan that prevented any market diversification. The republican economic system that developed in the 1990s on this base did not introduce any substantial changes. Until recently, it was relatively successful and stable thanks to the concentration of resources in the hands of the republic's politically dominant elite, centralized management of the republic's most profitable sectors, and the presence of a rich raw materials base, especially oil. The republican leadership's economic policy was based on expanding the resource base, strengthening its monopoly control of the leading corporations, which were managed through state-owned shares and state representatives in the company's

management, and preventing the liberalization of the regional economy. One of the republican leadership's top priorities was maintaining reasonably high standards of living for the population so that it did not suffer from the regional leadership's economic policy. In order to secure its economic health, the republic declared its economic independence and state sovereignty, which allowed it to engage in foreign economic activity independent of the Russian government.

Putin's efforts to reign in the regions have imposed significant political and economic constraints on Bashkortostan's economy. Most important is the Russian Constitutional Court's declaration that the republic's sovereignty is unconstitutional. This declaration has forced the republican leadership to forfeit the right to conclude agreements with foreign partners. Simultaneously, the federal government has ended its previous practice of giving the republic special benefits within the budgetary system. This policy shift means that the republic now must transfer a greater share of taxes than it did in the past to the federal government. Before the reform, this money had remained under the control of the republican leadership. Thus, in the first quarter of 2001, the republic increased its transfers to the federal government 2.3 times in comparison with the first quarter of 2000, according to Rashit Sattarov, the head of the Bashkortostani branch of the Russian Tax Collections Ministry. Of the 9.9 billion rubles in revenue collected for budgets at all levels (federal, regional, local), Bashkortostan sent more than 5 billion -- more than 50 percent -- to the federal budget. In the past, this figure was 18-20 percent. In 2001, the federal government is expected to transfer money to Bashkortostan to reduce the impact of the new policies. However, the amount the federal government will transfer back is much smaller than the amount of money the republican leadership had managed in the past. Additionally, in line with changes to federal legislation, Bashkortostan is no longer able to set up a road fund or other off-budget funds, which had been one of the main sources for financing the republican economy.

At the same time that the federal government is extracting more resources, the exhaustion of Bashkortostan's oil deposits is threatening the republic's economic stability. Lower oil output means that there will be fewer inputs for the republic's leading economic sectors: oil processing and petrochemicals production. The republican budget relies on these sectors for revenue. In 1998, the oil company Bashneft, controlled by the republican government through the Bashkir Fuel Company (BTK), produced 17 percent less oil than it did in 1997. In 1999 and 2000 the trend toward declining output continued. According to BTK President Nur Saifullin, production in 2000 dropped 2.6 percent, in contrast to 4.9 percent. This improved performance was a direct result of the republican government's protectionist policy of charging only half as much tax as in the rest of the Russian Federation. In the future, Bashkortostan will not be able to provide such tax breaks since they violate the economic policy of the Russian government.

Because the republic's energy companies have lacked funds for investment since 1994, the condition of their equipment has continued to deteriorate and there is simply no new equipment to replace it (Bashinform, 13 April). Most of the industry's equipment is obsolete, significantly reducing its attractiveness for investors. In terms of foreign investment, Bashkortostan is in last place among the regions in the Volga Federal District (*Rossiiskaya gazeta*, 14 February).

Bashkortostan's economy remains important for Russia as a whole because of the high concentration of oil processing, petrochemical, and chemical enterprises that are able to produce competitive products. While the republic can expect some federal investment, republican sources will have to provide most of the investment. Thus the republican government is now slashing its aid to the chronically unprofitable republican agricultural sector, which in the past consumed nearly one third of the republican budget. Starting in 2001, the republican government cut its purchases of grain by 50 percent. Also the state has stopped funding companies that buy grain and then make money by reselling it at higher prices.

Large Russian companies have replaced the republican government as the main investor in republican agriculture and are seeking a larger role in the rest of the republican economy. On 17 April, the republican government signed a five-year agreement with Alfa-Eko, a Moscow-based trading company that is part of the Alfa-Group. Alfa-Eko is providing local farms a credit in the form of 30,000 tons of diesel fuel, an amount equal to 30 percent of what the republic needs during 2001. Bashkortostani farmers will repay the credit in the form of goods later in the year. Additionally, Alfa-Eko is providing 200 million rubles for the production of grain and 100-120 million rubles for the production of sugar, one-third the amount that the state is providing. Moreover, Alfa-Eko has become a shareholder in the Bashkir Agro-Chemical Company, providing 200 tractors and a fertilizer production facility through it. In exchange Alfa-Eko will gain control of a currently unprofitable state-owned factory. Alfa-Eko will also be involved in joint ventures in the oil and metallurgy sectors and help sell alcoholic beverages produced by Bashspirt in Moscow and Moscow Oblast. As part of the general agreement, Bashneft will participate in exploratory and drilling work in Sakhalin where Alfa has licenses. Thus Alfa-Eko is becoming one of the republican government's largest economic partners. - Igor Rabinovich in Ufa

## **GOVERNOR'S ELECTIONS**

**KREMLIN ACTIVELY INTERVENING IN PRIMORSKII GOVERNOR'S ELECTION.** As the 27 May election day approaches, events are speeding up in Primorskii Krai. In the beginning of May, the Fruzenskii Raion Court of Vladivostok restored Konstantin Tolstoshein, a close ally of former Governor Yevgenii Nazdratenko, to his former position as first deputy governor. After President Vladimir Putin secured Nazdratenko's resignation on 5 February, Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii pressured Tolstoshein and several other deputy governors close to Nazdratenko to resign. As soon as his former position was restored, Tolstoshein announced that he was taking over as acting governor on 4 May, forcing out the previous acting governor, Igor Belchuk, who stepped down on 7 May. Belchuk had replaced acting Governor Valentin Dubinin who resigned the position to participate in the gubernatorial campaign.

Meanwhile Deputy Presidential Chief of Staff Vladislav Surkov arrived in the krai on 5 May to hold meetings with regional and local officials. He was accompanied by the deputy chiefs of the Ministry of Internal Affairs, Federal Security Service, and the general procurator's office. According to Communist Krai Duma member Tatyana Chernousovaya, Surkov said that the Kremlin did not want former Vladivostok Mayor Viktor Cherepkov, a communist, or

anyone associated with Nazdratenko to be elected governor. The Kremlin only supports the election of Pulikovskii's deputy, Genadii Apanasenko, she asserted. Chernousovaya also claimed that Surkov had said that if a candidate not to the president's liking were elected, he would replace all of the heads of the federal law enforcement agencies in the region and impose external management. Chernousovaya said that there were no journalists at the meeting.

According to Cherepkov's analysis, Pulikovskii and Apanasenko wanted Tolstoshein to serve as acting governor so that he could use the powers of the governor's office to support Apanasenko's candidacy. However, Cherepkov claimed that Pulikovskii was "committing professional and political suicide" by making such an alliance. Moreover, it is unclear why Tolstoshein would want to support Pulikovskii's candidate.

Observers viewed the arrival of the Surikov mission as an indication that the Kremlin is extremely concerned about the return to power of officials close to former Governor Nazdratenko. However, the Moscow visitors most likely discovered that it will be extremely difficult to avoid this. So far Apanasenko, the most convenient candidate for the Kremlin, has not been able to improve his poll ratings enough to guarantee that he will make it into the second round of the elections. No candidate is considered likely to win the 50 percent plus one vote required to win the election outright. One of the main problems for Apanasenko is that former Acting Governor Dubinin decided to enter the race himself and was therefore able to use the resources of the governor's office to support his candidacy. Pulikovskii did not expect Dubinin to jump into the race.

Apanasenko's main supporter now is Vladivostok Mayor Yurii Kopylov, a close associate of Nazdratenko whose rating has dropped significantly since Nazdratenko resigned. Apanasenko and Pulikovskii apparently could think of nothing better than to return Tolstoshein to power so that he would hopefully limit Dubinin's access to the gubernatorial resources and use them instead to support Apanasenko. Federal officials may also hope that Tolstoshein would postpone the elections if Apanasenko appears to be trailing in the polls. Such a maneuver would require the resignation of four members of the Krai Electoral Commission. Tolstoshein has worked with the electoral commission for many years and may have sufficient influence to achieve such an outcome.

As soon as Nazdratenko left office, the local opposition wanted to postpone the gubernatorial elections as long as possible to weaken the system of personal power that Nazdratenko had built up in the krai. However, Apanasenko did not listen. He wanted the elections as early as possible, trusting that the people in power would support him. The first clear sign that this strategy was mistaken was Dubinin's announcement that he was going to run for governor.

Now Apanasenko's team is making a second mistake. It has decided to rely on some of Nazdratenko's former appointees, the very people the federal authorities had thrown out of power. Many local observers are convinced that this step is a mistake. The person most likely to benefit is Nazdratenko, his allies, and Presidential Chief of Staff Aleksandr Voloshin, who is supporting the ex-governor.

The situation in the krai remains extremely unstable. The news that Putin was considering imposing external control over the region if an unacceptable candidate were elected governor elicited an extremely negative reaction among the citizens of Primorskii Krai. When

interviewed by the local media, some local residents reminisced about the idea of creating a Far Eastern Republic. - Oleg Zhunusov in Vladivostok

## **LAW ENFORCEMENT AGENCIES**

### **CENTER CRACKS DOWN ON BASHKORTOSTAN POLICE, PROCURATOR.**

The federal government is continuing its methodical effort to limit the power of regional leaders to independently control law enforcement agencies in their regions. Following the effort to bring regional laws into line with federal norms, the Russian Procurator General, working with its branches in the federal districts, has begun an examination of the work of regional branches of the Ministry of Internal Affairs (MVD) and regional procurators. In the case of Bashkortostan, these regional branches of the federal agencies are considered to be under the influence of the republican government.

During the first quarter of the year, the federal authorities conducted a series of such investigations in Bashkortostan. They revealed numerous violations of the law by Bashkortostan's procurator and MVD. According to Yurii Fedulov, the head of a group from the Volga Federal District procurator office working in Ufa, police investigators in Bashkortostan employ illegal methods of gathering information, such as using physical force against detainees. The share of citizens arrested without cause is nearly 50 percent. Recently 2,545 individuals have filed suit claiming that they were arrested and detained illegally. The courts have ruled in 364 cases that the arrest was illegal. The courts have freed 86 individuals in the course of their investigations. Additionally, this year the federal district officials have found 800 complaints that were hidden by the MVD and were never investigated. This is twice as many cases as the Bashkortostan procurator found during the course of 2000.

The investigators also have declared that the republic's efforts in fighting drugs are unsatisfactory. Generally republican law enforcement agencies arrest drug users and small-scale dealers, while the network of suppliers and sellers continues to operate. The federal district authorities filed more than 600 cases against drug traffickers and 186 against counterfeiters. Here the record of the republican authorities is very poor: in 310 where counterfeit money was being used, not one case was filed. After its investigation, the federal district procurator filed 16 criminal cases against employees of the republican MVD.

Given the overwhelming evidence of wrong-doing by republican officials, Bashkortostani Procurator Yavdat Turumtaev had to admit in early April that the republican law enforcement agencies "grossly violated criminal procedure law." The republican authorities reacted to the criticism by creating a special program to fight drug transit through Bashkortostan. However, they also tried to protect "their" procurators and questioned the basis on which they were arrested.

The federal government plans to strengthen its control over the republican police by appointing new leaders to it, according to Chief Federal Inspector for Bashkortostan Rustem Khamitov. Khamitov said that he had already prepared personnel suggestions, which he had sent to the Bashkortostani presidential administration for informational purposes. Although it is not clear who will fill the positions, a new republican procurator and MVD chief are expected to be named soon.

The investigation are not over. In May the Russian Audit Chamber plans to investigate the Bashkortostani FSB. The Procurator General is continuing its work on the legality of the activities of the republican procurator and MVD.

The federal government is conducting similar investigations elsewhere in Russia. Sverdlovsk Oblast claimed to have solved 100 percent of the cases dealing with narcotics, but in reality hundreds of crimes have not been solved (*Rossiiskaya gazeta*, 14 April). The leadership of the Procurator General's offices believes that only tough measures will stop the falsification of crime statistics and other legal violations in the regions. Such measures include criminal investigations of staff members of the procurator and MVD, who manipulate their statistics. Thus, in contrast to previous years, the investigations conducted will have consequences for the staff of the local law enforcement agencies in the regions.

The federal government's tough moves against Bashkortostan's law enforcement agencies, traditionally controlled by the republican authorities, will strengthen the position of the federal authorities in the regions and weaken the regional authorities. In the case of Bashkortostan, this will strengthen the level of legality and the observation of human rights in the region. - Igor Rabinovich in Ufa

## **BUSINESS IN THE REGIONS**

**FEDERAL DISTRICT AUTHORITIES SEEK TO LIMIT EXCESSIVE INSPECTIONS.** An interagency commission operating under the aegis of the chief federal inspector for Ulyanovsk Oblast has prepared the first print run of inspection books designed to limit the number of times an inspector can visit a small business operating in the region. Every time an inspector visits a business, he will have to make a note in the book. The books are being introduced in the oblast as one element in a system of measures aimed at reducing the administrative barriers to business.

The interagency commission includes representatives of the oblast and city administrations, and heads of federal agencies, which have the right to check businesses. By sponsoring the creation and distribution of the book, the heads of the agencies take responsibility for their subordinates and guarantee that they will carry out inspections within the framework of the law.

Some firms in Ulyanovsk face dozens of inspections every month. As Federal Inspector for Ulyanovsk Oblast Aleksandr Ivanov explained, the establishment of the book does not limit the number of inspections, since each agency has internal instructions allowing for unplanned inspections. However, now the inspector will be required to note the fact that he conducted an inspection in the book.

The main problem that businesses face is that often inspectors carry out inspections with the single purpose of extorting money from business owners. Such unscrupulous inspectors could simply ignore the book. Ivanov suggests that in such cases, the business owner should record the name of the inspector and report him to the interagency commission, which will take appropriate action.

Business owners also could decide not to use the book, reasoning that it is simply easier to agree with an inspector on the size of a bribe. In this case, Ivanov said that business owners

and the authorities must work together to ensure compliance with the new program. - Sergei Gogin in Ulyanovsk

## **LOCAL GOVERNMENT**

**NEW OMSK MAYOR PUSHES UNPOPULAR HOUSING REFORM.** Newly elected Omsk Mayor Yevgenii Belov recently announced his intention to double apartment rents in the city. In response, some citizens have started a campaign seeking his resignation.

Belov's foray into this unpopular reform came after a reasonably positive start, although one that did not arouse much enthusiasm among the city's residents. At his first press conference, Belov, the former general director of Omskenergo, announced that the city's 2001 budget would be 2.3 billion rubles, much larger than the 1.7 billion ruble budget that had been adopted by the oblast's Legislative Assembly. Although the oblast legislature had set this figure, the city council had yet to adopt its own budget. Belov argued that Omsk could not live with less than 2.3 billion rubles and was able to win this amount from the oblast. One week after Belov's announcement, the oblast legislature approved an additional 600 million rubles for the city. Oblast financial officials said that changes came as a result of recommendations from the Finance Ministry collegium and a better accounting of the city's financial situation. The local press cited the figure as what Governor Leonid Polezhaev was willing to pay to remove former Omsk Mayor Valerii Roshchupkin, his bitter enemy.

However, the city residents soon learned that the oblast did not plan to simply transfer the money to the city without receiving something in return. At an extraordinary city council meeting, Vice Mayor Anatolii Bushuev announced that the oblast planned to raise rents 2.2 times. His speech took the city council members by surprise. Currently, Omsk residents pay an average of 85 kopecks for each square meter. Rents would rise to 2 rubles/square meter with the new prices. Local observers believe that the increased rents are a quid pro quo for the additional money the oblast assigned to the city budget.

Bushuev said that it was necessary to increase rents because of the catastrophically poor state of the city's housing supply. The city does not have enough money to cover current expenses, much less make needed repairs, he said. Some buildings in the city have not paid for electricity for two years. The city of Omsk badly needs money and plans to take it from citizens' pockets.

Currently, even the mayor does not know what happens to the rent money that is collected today. When members of the city council asked him when an audit would be conducted, Belov emotionally answered that he did not know what his predecessor had been doing in this sphere. Belov promised to replace the existing housing sector management with a more transparent structure. This statement surprised Omsk observers for two reasons. First, former Mayor Roshchupkin is now in charge of the housing sector in the federal State Construction Committee. Second, it does not make sense to raise prices if it is possible first to lower costs. Nevertheless, the mayor is pushing the city council hard to raise rents and no one doubts that they will go up in the near future. The campaign to remove the mayor is also picking up. - Pavel Shagiakhmetov in Omsk



## THE DEFINITIVE, UNCENSORED INTERVIEW

### VLADIMIR ZHIRINOVSKY ON FEDERALISM

*On 26 March RRR Correspondent Vasilii Filippov interviewed State Duma member Vladimir Zhirinovskiy, the head of the Liberal Democratic Party of Russia faction.*

**RRR:** Vladimir Volfovich, do you think that Putin's reform of the state system is spontaneous or the result of a well-thought out and consistent plan?

**Zhirinovskiy:** Life dictated these reforms. It was necessary to strengthen the state. A state like Russia must be repaired periodically, just like a house.

**RRR:** What factors in your opinion caused the crisis of Russian statehood?

**Zhirinovskiy:** A mistake was made in 1922. Administrative borders [within the Soviet Union] should not have been drawn along ethnic lines. Republics should not have been based on ethnicity. This mistake was repeated in 1991. The 1993 constitution legitimatised the mistake. But, in the future, I think that there will be a transition to drawing administrative lines simply by geographic determinates.

I am convinced that nationality, like someone's marital status, is the personal affair of each individual. A person should have formal status only in terms of belonging to some state, in other words, his citizenship. There are people now who consider themselves citizens of the world and have dual citizenship. I think that the European Union will ultimately create a Europe-wide citizenship.

But for us, at the current stage of reform, it is necessary to enlarge the size of the regions. Two or three regions should be combined into one so that there are 30 large gubernias with populations of about 5 million each. These larger regions ultimately could replace the [seven] federal districts. I think that the future evolution of the Russian state will head in this direction.

**RRR:** Do you think that the existing seven federal districts are temporary?

**Zhirinovskiy:** Yes. It is possible that this model will be preserved. This would mean that the presidential representatives would assume part of the functions of the center and rule one-seventh of the state [from their regional capitals]. This would concentrate all administrative functions in the districts. Then there would be seven territories with populations of 20 million. ... The unified state would be divided into seven parts. Seven parts or 30 parts, it largely a matter of taste. The same goes for suits - four buttons, two buttons... I happen to love one button. Nevertheless, you need buttons.

**RRR:** Based on your political intuition: Does Putin have a specific goal, a conception of reforming the state? Does he really want to combine some regions or are we simply imputing these beliefs to him?

**Zhirinovsky:** It is difficult to say. We cannot know what he really wants. In any case, it is clear that we are witnessing an attempt to strengthen the state.

Since I was young I have thought of a formula for state reform: remove the national element because it creates the worst problems. Take the Caucasus today. It is a tragedy! A tragedy created by the national division of Russia. I have an assistant who is a Kumyk. He says that he is a Kumyk because he was made to talk that way. You are an Avar, you are a Jew, you are a Chechen, you are a Yakut. Why do these distinctions exist? This is what happened in Hitler's concentration camps. Why do we need it? Citizen! And that is it!

Several regions of the country do not want to issue passports that do not identify the bearer's nationality. Even now they are giving out some sort of identification documents in Bashkortostan and Tatarstan... What is this? Nonsense!

**RRR:** Now the presidential representatives have neither power nor money. Will their powers be broadened in the future?

**Zhirinovsky:** It is necessary. It is necessary to give them access to television, all the functions of the courts, procurators, and all law enforcement and military agencies. And money. The cities should have only municipal and economic responsibilities: hospitals, roads, public transportation, heat, etc. The district center should have all attributes of the central state. This reform will afford an opportunity to provide a systematic, rational distribution of funds, improve the army's ability to recruit soldiers, and reorganize the system of education. Judges will work at the federal district level and the districts will be subordinate to Moscow. The budget finally will work through the district. When the money and police are in the hands of the federal districts, the process will be complete. I think that events will evolve along this scenario. The most important task is to take power from the national [republics]!

**RRR:** Won't the governors and presidents rebel? Will Putin succeed in breaking the "gubernatorial" opposition to the Kremlin?

**Zhirinovsky:** It no longer exists. They have given up everything.

**RRR:** What do you think of the current system of naming members to the Federation Council?

**Zhirinovsky:** Rational. I think that it is the first step in liquidating the upper chamber. It is completely unnecessary.

For the next four years the members of the Federation Council will be appointed with the agreement of the governors and regional legislatures, and after four years, this political structure will be eliminated. What good is it? The regions already are represented in the State Duma. The governors are represented in the State Council.

We cannot make separate laws for Chuvashiya, Smolensk, or Yaroslavl. These narrow concerns can be worked out in the executive branch. Ministries, the State Council and State Duma members from specific regions will address these concerns. A separate chamber is not needed. A chamber like the current Federation Council doesn't exist anywhere else in the world. However, there are many examples of unicameral legislatures in Finland, Greece, Israel and dozens of other countries. ...

The state should be organized without an upper chamber, without national republics, and without small regions. There should be seven large territories, which will resolve the majority of questions. Moscow should handle foreign policy, defense, finances, transportation, communications, energy, and ecology. The districts would handle everything else. The cities will handle management issues. Just as it was in [pre-revolutionary] Russia. That is how the reforms will evolve. Later, we will reform the pension system, then the courts, etc. Over the next 10-20 years, we will reform everything.

**RRR:** The president justly is calling for regional legislation to be brought into line with federal norms. However, I have the feeling that this aspect of reform is bogging down. Bashkortostan claims that it has brought its laws into line, but in fact has not done so. For example, the republic still requires that its president speak Russian and Bashkir, in violation of federal law, which excludes such requirements.

**Zhirinovskiy:** Gradualism. Gradually we will bring everything into accordance with the Russian constitution. The president simply does not want to exacerbate the situation unnecessarily. Now everything is moving quietly. Later there will be a second step of reform, and then a third. All the republican presidents will suffer and exit into political oblivion. Everything will be taken to its conclusion. Now the situation in Chechnya is deteriorating. It would be possible to bomb all the villages in the mountains, but then the whole world would protest. Why should they do this when the special services can find pockets of resistance and eliminate them at night. The same with the regional laws -- slowly all regional laws are being brought into line.

**RRR:** Following up on what you just said, why do you think that the Duma voted to allow the governors to serve a third term?

**Zhirinovskiy:** This vote was the result of a desire to help the president lower the level of fear and avoid agitating national feelings. It is the same as dealing with children: we give them candy and then they make noise because they want a rattle too. Let them grow up a bit, we will take back the rattles and they will not ask for candy. This is a temporary compromise.

I would have done things differently. I am a different kind of person with a different personality. I would have "extinguished" these three regions: Tatarstan, Bashkortostan, and Yakutiya. I would create a unified country. But Putin is different. Each person does what he can or wants, based on his evaluation of the situation. Like doctors. One does an operation, one doesn't. One heals a patient, another lets him die.

**RRR:** How do you evaluate the new system of budgetary federalism proposed by Putin?

**Zhirinovsky:** It was a big mistake in the past to let several regions get away with not paying federal taxes. As a result, many funds went bankrupt, people did not get their pensions, all parts of the budget suffered. [See related article on Bashkortostan in this issue.]

We need to achieve a situation in which the state provides its citizens with what they need in all regions of the country. This requires a centralized budget. Whatever a region earns beyond the established norm, it can spend in other ways.

**RRR:** What is the optimal proportion for distributing tax revenue between the federal government and the regions?

**Zhirinovsky:** Initially, we thought a 70:30 distribution in favor of the federal government would be optimal, but for now we have a 50:50 distribution. I believe that 70 percent of the property, budget, and management functions should be in the hands of the center. Then we will have a strong state.

**RRR:** The remaining 30 percent should stay with the regional government or be transferred to the local governments?

**Zhirinovsky:** The ideal model would be to give this money to local governments. Otherwise there will be no funds to support democracy. ... When there is no external threat, then [power over] political power, control over the budget, and the armed forces should be brought down to the level of the village. ...

**RRR:** For the last ten years the idea has been hammered into our heads that a federal state is the only acceptable model for Russia. They argue that federalism means democracy while a unitary state brings totalitarianism. Why? In what way is a unitary state worse than a federal one and why can't a unitary state be democratic?

**Zhirinovsky:** A majority of the states in the world are unitary and many of them are correctly considered democratic. There are no more than ten real federations: Switzerland, Germany, India, Brazil, the USA... The USA is an artificial state. India is a former colony and hard to take as a model. Germany is a federation only in words. The other 190 states are unitary. Democracy was born there [in these non-federal states].

The federation, which they want to thrust on us is mistaken; it has already produced poor results. If we had preserved the system of the Russian empire or the Soviet Union, we would have had more success.

For a multi-national state, a federation is a misfortune leading to its demise. India survives because it does not have national states. States are defined by geography. We are the only federation in the world, which preserves ethnic federalism. Federalism in Czechoslovakia and Yugoslavia collapsed. If we break up into 100 states, it means the end of all Europe. A general war [that starts inside Russia] would spill over into Europe. The Albanians today are a

relatively small problem. The situation would be much worse if Russia collapses. People do not understand the threat.

## **REGIONAL RESOURCES**

**Media in the regions** (<http://www.freepress.ru/win/l.htm>) - A coalition of Russian organizations including the Journalists' Union, Glasnost Defense Foundation, and several others have compiled extensive data on the state of the media in Russia's regions. The 89 region-by-region Russian-language reports available at this site rank the regions in terms of the freedom of the mass media and provide extensive information on the local situations.

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## BRINGING REGIONAL LAWS INTO LINE

**OVERVIEW: HOW EFFECTIVE HAVE PUTIN'S REFORMS BEEN AFTER ONE YEAR?** One year ago, President Vladimir Putin created the seven federal districts and assigned the presidential representatives to them the task of bringing regional laws into line with federal norms. According to the president's assessment, one in four regional laws violated the Russian constitution or federal law when he came to power (*Izvestiya*, 22 March). In terms of absolute numbers, in his 3 April state of the union address to the federal legislature Putin said that "Over 3,500 normative acts adopted in the constituent parts of the federation were out of tune with the Russian constitution and federal laws." Putin claims to have radically changed this situation. In a meeting with his seven representatives on 12 May, he congratulated them on bringing 80 percent of the errant laws into line. According to Putin, his regional emissaries had carried out

their main task of preventing the country from disintegrating (*Kommersant Daily*, 14 May). In fact, he went even further and claimed that they had also created "a unified legal space in Russia (*Vremya novostei*, 14 May)."

This week several RRR correspondents report on how the process of bringing laws into line actually is proceeding in their regions. A more detailed assessment suggests that Putin's figures hide much more than they explain in describing what has happened across Russia during the last year.

Merely harmonizing laws does not address all of Russia's problems. Nevertheless, there are some benefits from the process. For example, many regions have abolished laws that limit the flow of goods across regional borders. But what is written on paper and what actually happens are often two different things. Regional officials can easily impose new restrictions. Other positive changes include some attempts to reduce the lawlessness of the regional elite and efforts to make financial flows in the regions more transparent.

Nevertheless, several correspondents note that they detect little overall economic and political improvement from the harmonization campaign so far. Russia's federal laws are often conflicting and confusing and do not provide the basis for a coherent market economy. Consequently, bringing regional laws into line should be only one part of a much broader process of overhauling the country's legislation and practices.

The campaign to harmonize laws has affected regions differently. In general, the non-Russian republics had more violations than did the predominantly ethnic Russian oblasts. For example, Saratov Oblast had few explicit contradictions with federal law, but that did not prevent its governor from running the region like a feudal tyrant. The process of harmonizing the laws is essentially over in places like Saratov but it has done nothing to change the autocratic style of leadership in the oblast and there is still plenty of room for abuse.

Some regions like Ulyanovsk Oblast also had few violations, but this was a function of the legislature's low level of activity rather than evidence of a rule-of-law state in the region. The previous governor simply ignored many of the region's economic problems. Local observers suggest that the new governor's more active efforts to address these problems will inevitably generate more violations with federal norms.

In many regions, the process of bringing regional laws into line has had the effect of further strengthening the power of regional executives. Reformed regional laws now give governors unprecedented powers to disband their legislatures. However, this power is likely to remain on paper since actual moves against the legislature would require complicated procedures, including a court ruling that the legislature had acted unconstitutionally or illegally.

Many issues are so complicated that fixing them will require many years of work. In Perm, for example, the new governor wants to clean up the regional legislation on taxation. However, there are currently about 50 normative acts that affect regional taxes and many of them are in violation of federal law. Fixing this mess will be a long and arduous process.

At the same time, new problems are appearing. Putin's federal tax reform adopted last year gave the federal government much greater control over tax revenue. The regions now control much less of this tax revenue than they did in the past. To address this issue, the governor of Belgorod, for example, is signing agreements with local enterprises obligating them



to pay as much in taxes to the oblast budget in 2001 as they did in 2000. This is in direct violation of the intention of the federal law (see *Russian Regional Report*, 25 April).

The ethnic republics had gone much farther than the predominantly Russian oblasts and krais in adopting constitutions and legislation that violated federal norms. In some regions, the procurators have made progress in amending these norms. However, there are many clear examples where republics have avoided making the kind of changes that the federal government is seeking:

-- Tatarstan postponed adopting any real changes to its constitution and legislation until President Mintimer Shaimiev won a third term in office. The republic has yet to renounce its sovereignty as the Russian Constitutional Court has ordered.

-- Bashkortostan amended its constitution in the fall of 2000, but the procurator has declared that the new version contains numerous violations of federal law. The new version of the constitution also includes the full text of the power-sharing treaty, something Putin clearly wanted to avoid.

-- Sakha's parliament has refused to give up the republic's sovereignty and its ownership of the natural resources on its territory, such as the valuable diamonds, which provide significant revenue for the region. The legislature only agreed to remove a clause that allowed the republican president to establish a republican army in violation of federal law. On 3 May, the Sakha Supreme Court declared about half of the 144 articles in the republican constitution unconstitutional (*Kommersant Daily*, 8 May). The republican authorities' reluctance to give up this right is understandable since such a move would nullify a leasing arrangement with the Alrosa diamond company, which provides up to 75 percent of the republic's tax revenue. Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii has promised to deal with this problem since it is the most prominent violation remaining in his district (polit.ru, 12 May).

-- In places like Tyva, the president has used the harmonization process to rewrite the republican constitution to give himself more power in relation to other institutions within the republic. On 6 May, Tyva residents approved his draft of the republican constitution in a popular referendum. The presidential representative in the Siberian Federal District had forced the heavily subsidized republic to amend its constitution by threatening to cut off federal subsidies if it did not do so. The previous version of the constitution gave the republic the right to secede from Russia and declared that only republican laws would be in effect during crises. However, there were so many legal violations in the process of writing the new constitution and adopting it, that now the opposition is likely to challenge its legitimacy in court (*Kommersant Daily*, 8 May).

Thus, as the case studies show, the federal government has made some progress in harmonizing regional laws. However, in the oblasts where there were few explicit violations to begin with, the process has done little to curb the power of governors within their own regions.

In the republics where some of the most serious violations occurred, much work remains to be done.

The actual contribution of the presidential representatives to this process remains unclear. Most likely, the process of harmonizing laws could have been completed by a well-organized procurator. Nevertheless, at his 12 May meeting with his representatives, Putin assigned them the task of continuing the process over the next year. The representative will also begin the task of bringing local legislation into line.

The Russian press has published conflicting reports on how Putin really evaluates the work of his representatives. *Kommersant Daily* (14 May) suggested that the president is happy with them and plans to give them extensive new powers over key financial flows. However, Putin has yet to issue a decree actually assigning these new powers to the representatives. Polit.ru (14 May), citing Vladimir Pozner's Russian Public Television show and an anonymous Kremlin source, claims instead that Putin is unhappy with all of the representatives except Kirienko. - Robert Orttung

**ULYANOVSK: SLUGGISH LEGISLATIVE PROCESS MEANS FEW VIOLATIONS.** Ulyanovsk Oblast never had many regional laws that violated federal norms. This situation allowed the oblast leadership to declare in October 2000 that it was the first region in the Volga Federal District to bring its legislation into line with federal norms.

The chairman of the oblast's Legislative Assembly, Sergei Ryabukhin, describes this success as evidence of the high quality legislative process he has led since December 1995. However, Federal Inspector for Ulyanovsk Oblast Aleksandr Ivanov believes that the high level of conformity reflects the "listlessness" of the regional legislature, which is a function of the region's lack of a vibrant and socially engaged society.

The new governor, Vladimir Shamanov, openly emphasizes many problems, which former Governor Yurii Goryachev either did not recognize or consciously ignored. Now those problems require legislative solutions. Although a more activist legislative policy might increase the number of deviations from federal legislation in the future, Ivanov sees the increased activism of the oblast legislative process as a positive development. He says that he has put in place a procedure to check the conformity of new oblast laws. Additionally, the procurator, who is carrying out this new oversight, has increased powers. Ivanov also believes that the political influence and status of the presidential representative and the federal inspector is sufficient to bring deviations to the attention of the procurator or the courts. Additionally, the oblast branch of the Justice Ministry has created a department of experts to check the conformity of oblast laws.

The group of official acts to be examined will include the decrees and other rulings issued by the governor, local government bodies, and other agencies. These bodies did not always check to ensure that their actions were in conformity with federal norms and sometimes did not register their actions with the appropriate branch of the Justice Ministry. - Sergei Gogin in Ulyanovsk

**SARATOV: CONFORMITY OF LAWS DOES NOT BRING POSITIVE POLITICAL, ECONOMIC CHANGE.** Saratov has always been among the group of

regions that had few violations of federal law. Regional authorities never declared that the oblast was in any way a sovereign entity. Observers attribute this conformity to the high quality of the region's law schools and the unflinching loyalty of Governor Dmitrii Ayatskov to former President Boris Yeltsin and current President Vladimir Putin.

Since 1994, the Saratov Oblast Duma passed more than 300 laws. Additionally, during the last four years the executive branch has adopted more than 12,000 legal acts. During the last four years the Justice Ministry has protested 26 laws, which it claimed do not conform to federal norms. It filed no claims against the charter. When the Constitutional Court ruled on 1 October 1998 that the regions could legislate in areas that were under joint federal and regional control and where there were no federal laws, the number of protests dropped. In 1998, the ministry filed 12 protests, in 1999, the figure fell to 2 and was zero thereafter. From 1997 to the present, the procurator has filed 17 formal protests and 33 declarations that regional law violated federal norms. The process of constantly bringing laws into line in the pre-Putin era meant that Presidential Representative to the Volga Federal District Sergei Kirienko only identified 8 laws that violated federal norms.

Despite the general conformity of the regional laws, the oblast created a committee to guide the process of bringing its laws into line. It included representatives of the Justice Ministry, procurator, Oblast Duma, governor's administration, and presidential representative. Following his appointment on 13 September 2000, Chief Federal Inspector for Saratov Rinat Khalikov chaired this committee. According to Khalikov, the work proceeded in a routine manner and he never had to appeal to the procurator or the courts.

The committee quietly introduced amendments to the oblast charter that removed the governor's power to appoint and remove deputy governors and other high-ranking administration officials unilaterally. Now he must win the legislature's approval. The oblast also modified its tax laws.

The committee had to take stronger action against regional laws on mortgaging agricultural land (since the oblast legislation duplicated a federal law), on trade flows through the region (increasing the power of the local tax police), and on the quality of beer for sale in the region. Regional government often illegally seek to regulate a product's "quality" in order to give preferences to local products while excluding imported goods.

Scandals surrounding the most controversial laws, namely those dealing with land and the creation of a regional security council, started long before Putin's campaign began. The law on land was adopted in December 1997 and the governor's order creating the security council appeared on 21 January 1998.

Saratov worked with Yeltsin to adopt a law on land sales that was far ahead of federal legislation in developing the constitutional right to private land ownership. Both Yeltsin and Ayatskov saw the law as having greater political than economic significance and the governor viewed it as a good way to advance his career. The land auctions held in the region were essentially a show that had no significant consequences. Saratov farmers own only three percent of their land and most are afraid to invest money in something that they are not sure they will actually own. Ultimately, oblast legislators removed the clause on buying and selling agricultural land from the oblast law. However, when the State Duma adopts the anticipated framework law

on land, the regions will have the power to determine whether or not they can sell agricultural land and the Saratov authorities will most likely return this clause to the regional law.

With the governor's decree on the security council, the battle revolved around the head of the council, Aleksandr Miroshin, and the nature of his work. The regulations on the council's work gave him the right to "approve the appointment and dismissal of regional heads of the federal law enforcement and military agencies." This power allowed Ayatskov to influence the activities of the federal agencies working in his region in ways that the federal government found excessive. Regional Federal Tax Police Service Chief Anatolii Yatskov, in particular, sought to reduce Miroshin's influence. Oblast Procurator Anatolii Bondnar filed a suit against the formation of the security council, but both the oblast court and the Supreme Court ruled in favor of Ayatskov (see *EWI Russian Regional Report*, 29 November 2000). However, the court ruled that the security council no longer had the right to approve appointments to the heads of regional branches of the federal ministries.

Saratov officials declared that the oblast's laws were in conformity with federal norms on 27 November, one month before the deadline set by Putin. However, neither Khalikov nor Sergei Timoshin, the governor's representative to the oblast's legislature, think that the conditions which allowed regional laws to be adopted in violation of federal norms have been addressed. Among these problems are: the lack of federal legislation dealing with many of the problems created by Russia's new economic conditions; socio-economic inequality among the regions which leads to the adoption of laws limiting the free flow of goods, services, and money; the influence of lobbyists in the formation of laws; the lack of a unanimous interpretation of existing laws, leading to conflicts in applying the laws; and the lack of a comprehensive program for training new law-makers.

The next step in the process is to bring local legislation into line. Since 1 January 1997, local governments have adopted 118,282 rulings and 77,246 instructions. Local procurators have protested 242 of these, and the protests were rejected in nine cases. The quality of local legislation is considered low because few of the people involved in local government have had professional legal training.

The process of harmonizing laws has not had a positive impact on either the economic or political life of the region. Ayatskov has not created a legal base that would defend the interests of society against the abuses of specific individuals in power. Thus, there is no law in the region giving voters the right to recall their representatives. Accordingly, the management of the oblast remains in the hands of various clans and "families." Ayatskov is not afraid to say that "the oblast has developed an electoral mechanism that allows the election of the appropriate people." Not everyone is happy with this system. In the recent gubernatorial elections, more than 20 percent of the voters checked "against all" on their ballots, a high percentage by Russian standards.

There is still plenty of lawlessness in the region. In a scandal that received national attention, Ayatskov decreed the removal of former Balakovo Mayor Aleksei Saurin from a run-off election in which he was seeking a second term. It is irrelevant that the procurator overturned this ruling because now the city has a different mayor. Saurin is waiting for a decision of the Constitutional Court to determine if he will be a member of the city council, which now has the power to appoint the mayor.

The harmonization process has not added any greater clarity to the economic sphere. For example, no one can stop Ayatskov from issuing a decree this summer limiting the sale of local grain outside regional borders. Of course, the procurator would protest the decision, but the process of overturning the decree would take three to four months, which is all the time that Ayatskov needs to force farmers to sell their grain at low prices to the oblast's food processing corporations.

Local observers give the presidential representatives low marks. Presidential Representative to the Volga Federal District Sergei Kirienko said that the interests of federal law are his top priority. This view seems extremely limited. Now we should not be talking about individual separatist regions, whose threats are greatly exaggerated, but about the creation of a unified and comprehensive legal space that would prevent regional leaders from blocking regional development. The presidential representatives have not even begun to work on this task yet. - Yuliya Yeliseeva in Saratov

**ALTAI KRAI: PROCURATOR EXTREMELY ACTIVE.** During the last year, the Altai Krai made an extensive effort to bring its laws into line with federal norms, including changes in the krai's charter. The krai procurator was the main initiator of this process, not Presidential Representative to the Siberian Federal District Leonid Drachevskii or his staff.

Shortly after Putin launched his federal reforms in May 2000, the krai procurator filed complaints against 18 regional laws. As a result, the krai's legislature devoted its summer legislative session to bringing its laws into line with federal norms. The main target were protectionist laws affecting sales of alcohol, scrap metal and other goods, and administrative laws that granted regional authorities expanded authority over law enforcement. The legislators did not argue with the procurator's conclusions and began making amendments to regional laws.

In the fall of 2000, Altai Krai began bringing into line the key political acts, which determine its status within the Russian Federation. In September it adopted important amendments to the region's charter. The previous charter had declared that the krai legislature could be disbanded only if the legislature itself voted to disband or if the voters simultaneously recalled one-third of the deputies. Now, the Russian president, krai governor, and courts have the ability to dissolve the legislature.

The new version of the charter takes away the legislature's right to remove the governor on the basis of a court decision. The former charter's inclusion of this right had been one of the main sources of conflict between the krai's executive and legislative branches. In 1996, the Russian Constitutional Court ruled that the legislature had the right to remove the governor, but only on the basis of a court decision that had determined that the governor had committed a crime or seriously violated the law. As a result of this decision, the krai legislature had much more power over the executive than did the national legislature. The Constitutional Court's 1996 decision confirmed that the krai system was constitutional. However, changes in federal law adopted under Putin in 2000 forced the krai to give up this power. Now the krai legislature can only express no confidence in the governor, while the Russian president has the right to remove him from office permanently or temporarily.

In other spheres, the new krai charter enhances the region's powers. In line with new federal laws, the governor now has the power to fire mayors in the region, except for the mayor of Barnaul, the region's capital.

The legislature also has amended a host of other laws, including one that removes the krai's ability to create off-budget and hard currency funds since these funds are no longer allowed under federal legislation.

In some cases, the amendment process compounded existing problems. Currently federal law does not establish penalties for crimes involving hard currency operations. Altai Krai had adopted a law in 1999 to deal with this problem, but the Supreme Court ruled in September 2000 that this law had to be overturned. - Oleg Barabanov

### **MORDOVIYA: PROCURATOR ATTACKS POWERS OF REGIONAL ELITE.**

Mordoviya took Yeltsin's call to "take as much sovereignty as you want" seriously. The result is that contradictions with federal norms abound in its constitution and the majority of its laws. In the early 1990s, Mordoviya President Nikolai Merkushkin essentially wrote the constitution to serve his personal interests. When Putin came to power in 2000, the local political elite saw his campaign to harmonize laws as the latest "whim" of the federal government, a one-time action, which the Mordoviyans would survive, and did not pay any particular attention to it.

Reality turned out to be somewhat different. Unknown to the republican political elite, Mordoviya Procurator Pavel Senkin, at Moscow's initiative, performed a detailed analysis of local legislation and found many violations of federal norms. Following up on the analysis, the procurator filed a series of protests about republican legislation in the fall of 2000. He also filed protests against clauses in the republican constitution defining the power of the republican president. Even though Senkin had to resign immediately after filing the protests, the republican leadership recognized that it would have to make changes in its legislation.

From the fall of 2000 and to 10 January 2001, the republican legislature held a series of sessions to revise its constitution. The sessions focused on issues that are regulated by federal law: military service for citizens of the republic, legal immunity of top republican officials, and the responsibilities of the court and procurator. Since 10 January was the deadline for the changes to be implemented, the deputies adopted them with little debate, except for a discussion about the process of appointing the procurator. Citing the federal law on the procurator, the republican legislature sought to retain the right to approve the appointment of the procurator, but eventually even this attempt was dropped. Thus, the legislature quickly brought its legislation in line. Mordoviya Procurator Igor Kudinov, who succeeded Senkin, was instrumental in getting the republican leadership to act. Nevertheless, Kudinov resigned at the end of April, citing family reasons (*EWI Russian Regional Report*, 2 May).

The speedy actions in the fall and early winter of 2000-2001 have now been replaced by slow bureaucratic maneuvering as the republican leadership works on amendments to the republican constitution regarding the powers of the president. The legislature's Committee on Legislation, Legality, and Law Enforcement reportedly is drawing up a list of ministries to abolish from the republican government. While the actual list remains secret, the local press claims that the targeted ministries include the ministries of foreign economic ties, industry, labor and employment, housing, architecture and construction, and press (*Stolitsa S*, 4 May). There

are plans to turn the ministries on foreign economic ties and press into state committees, to unify committees on housing, architecture, and construction, and to abolish the ministries on labor and industry. The first will be joined with the Ministry on Social Security and the second with the Economics Ministry. Chief Federal Inspector for Mordoviya said that the position of deputy prime minister for agriculture would be abolished and his functions transferred to the prime minister.

According to staff members working for Mordoviya Prime Minister Vladimir Volkov, the changes will have a negative impact on the population by eliminating the ministries that deal with the population's chief concerns: labor and housing. However, the staffers do not view the reform as a tragedy since it is more likely to shift staff around than change the way the ministries actually work.

Mordoviya President Nikolai Merkushev has yet to comment on the changes, which will not be implemented until the fall. However, he is expected to retain considerable power regardless of what happens. - Igor Telin in Saransk

**KURSK: FEDERAL GOVERNMENT STRENGTHENS POSITION DURING REGIONAL ELECTIONS.** The history of bringing Kursk Oblast's laws into line with federal norms stretches back to August 1997 and the era of former Kursk Governor Aleksandr Rutskoï. In August 1997, President Boris Yeltsin issued a special decree overturning a decree by Rutskoï forbidding the export of agricultural products from the oblast. In September 1999, the Kursk Oblast Arbitration Court supported two complaints from the oblast procurator against a law blocking the export of grain from the region. In each case, the agencies cited the regional laws' violation of federal norms.

At the beginning of May 2000, just as Putin was about to launch his reform, Kursk Oblast faced more than 50 complaints from the procurator about various laws or executive branch decisions that violated federal law (*Kurskii vestnik*, 18 May 2000). The procurator worked in tandem with the presidential representatives (Viktor Surzhikov and Leonid Bashkeev) and with the presidential administration and the federal authorities exerted the greatest pressure on the oblast authorities during May and June of last year.

Most of the non-compliance with federal law was concentrated in the oblast's charter so initial work focused on amending it. The oblast adopted a new charter six months later on 16 December 2000. By this time, Communist Aleksandr Mikhailov had replaced Governor Rutskoï and the legislature's term had almost expired.

The process of amending the oblast charter was long and difficult. After months of fruitless debate, the Russian Constitutional Court issued a ruling on 30 November that defined all the amendments ultimately made to the charter (*Kurskaya Pravda*, 6 February). Amendments to the new charter significantly changed the organization of state power in the oblast (article 30) and the section on the executive branch was almost completely rewritten (articles 54-67). The new versions include clauses that allow for the government to be removed from office and the oblast legislature to be disbanded if they take actions that violate federal norms ([www.oblduma.kursknet.ru/zakon/ustav00.html](http://www.oblduma.kursknet.ru/zakon/ustav00.html)). Additionally, Kursk brought its gubernatorial and legislative election laws in line with federal legislation. Moreover, at the end of 2000, the Oblast Duma brought seven of its resolutions adopted between 1996 and 1998 into

line with federal norms. These resolutions generally affected laws dealing with sales and profit taxes and were in violation of the second part of the tax code, which came into effect on 1 January 2001.

Although these legal changes took place during a gubernatorial election, the regional players involved acted while taking into account federal preferences. In the case of Kursk, the federal authorities effectively used the unstable situation in the oblast to strengthen their position.  
- Sergei Sarychev in Kursk

### **KALMYKIYA: INITIAL COOPERATION EVOLVING INTO GROWING**

**CRITICISM.** The process of bringing regional laws into line with federal norms has been relatively smooth in Kalmykiya, sparking little conflict between the regional authorities and the center. President Kirsan Ilyumzhinov has used this period of calm to announce that he will seek a third term as president. Ilyumzhinov's current term does not run out until October 2002. He was initially elected in April 1993, then won a second term in hastily called elections in October 1995, giving him a seven-year term. However, he wants to use the current generally cooperative period in his relations with Moscow to his own political advantage. Local observers judged the absence of a strong negative reaction at the federal level to his candidacy announcement as a signal from the Kremlin that the federal government did not oppose Ilyumzhinov's intention to stay in power.

The new republican law on the presidency is completely in line with federal norms, following amendments introduced on 17 January 2001. It does not include a residency or language requirement as it had in the past, in violation of federal standards. Also it does not limit candidates to citizens of the republic, allowing all Russian citizens to run. The president now has the power to disband the parliament if a court determines that legislation was adopted in violation of federal norms or the republican constitution and the parliament does not correct its infraction within six months of the court decision. The parliament can vote no confidence in the republican president, but cannot remove him from office.

Several republican laws were riddled with so many contradictions, that the parliament simply overturned them. This list included laws on the republican budget system, conducting referendums, and emergency situations.

A major factor in the process of bringing the republic's laws into line was the Russian procurator general's appointment of Nikolai Khazikov as the new procurator for the republic in January 2001. The staff of the presidential representative in the region, including Chief Federal Inspector Valerii Napalkov has been generally supportive of Ilyumzhinov (see *EWI Russian Regional Report*, 18 April). However, the federal government also has sought to increase its power to influence the legislative process in Kalmykiya by seeking the right to introduce bills to the republican legislature.

Despite the overall positive atmosphere, Ilyumzhinov recently has begun to complain that federal laws do not take the local situation into account. He also has accused the federal government of failing to fulfill its responsibilities (*Izvestiya Kalmykii*, 17 March). The republican leaders also believe that Moscow is ignoring its social and economic interests and favoring other regions over Kalmykiya (see *EWI Russian Regional Report*, 2 May).



Local government is another area that has undergone significant change. After 1993, Ilyumzhinov disbanded the local soviets that had operated in the region. He replaced them with presidential representatives, leading the federal government to protest because federal law calls for popularly elected local government. On 4 February 2001, the republic held elections to 116 local councils for the first time since the soviets had been disbanded. These elections put an end to the dispute between the federal and republican government over the "format" of the republic's local government. However, Kalmykiya did not fully bring its laws into line with federal norms because it now reserves the right to register local government charters even though this should be a federal function. Local observers claim that the republican leadership has found a way to limit the ability of the federal government to employ local government as a tool in its effort to limit the power of the republican government.

The election of the local councils has made clear additional problems with Kalmykiya's laws. The creation of this new level of government means that responsibilities and financing must be shared with it. However, uncertainty prevails in this area and republican laws lag behind what is needed to ensure effective local government. Ilyumzhinov is likely to set up a special council to work out some of these problems. - Vladimir Volgin in Elista

## **GOVERNORS' ELECTIONS**

**PRIMORSKII DUMA LIMITS TOLSTOSHEIN TERM, PROTESTS FEDERAL INTERFERENCE.** On 11 May the members of the Primorskii Krai Duma voted to limit Acting Governor Konstantin Tolstoshein's term in office if the region's gubernatorial elections are not held as scheduled on 27 May. The Duma scheduled its meeting as soon as Tolstoshein returned to power at the beginning of the month. The deputies feared that if the elections are postponed, Tolstoshein would continue to serve as the acting governor and would not return the office to former Acting Governor Valentin Dubinin, who temporarily stepped down to campaign for the governor's office. Now Dubinin will return to office if the elections are cancelled. The deputies believe that their move deprives Tolstoshein and his patron, gubernatorial candidate Gennadii Apanasenko, who is the deputy presidential representative to the Far Eastern Federal District, of any incentive to postpone the elections.

At the same session, the deputies sent President Putin a letter denouncing what they see as the federal government's intervention into the campaign. The deputies accused Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii and his staff of working to secure Apanasenko's victory. The regional legislators also accused Deputy Presidential Chief of Staff Vladislav Surkov, who recently visited the region, of participating in this process.

The deputies accused the federal officials of "including in the campaign the same people whom previously the federal authorities fired or sought to fire for their incompatibility for their positions." This remark was clearly aimed at Tolstoshein, who Pulikovskii had forced to resign, and Vladivostok Mayor Yurii Kopylov. Apanasenko stopped an investigation into Kopylov's financial dealings in order to secure his support for his campaign.

With the election set for 27 May, early voting for citizens unable to come to the polling places on election day started on 12 May. Experts on Russian elections believe that the

authorities can easily falsify these early votes. Krai Electoral Commission Chairman Sergei Knyazev stressed that only citizens with compelling reasons should vote early. In the most recent Vladivostok mayoral elections, about 20 percent of the voters voted early, a much higher figure than is normal. Opposition candidates claimed that these ballots were falsified. Thus, whoever controls the early voting process may be at a significant advantage.

However, this resource may actually be neutralized in the gubernatorial campaign. Over the weekend, Moscow summoned Pulikovskii and Dubinin for consultations. This move could signal that the Kremlin has given up on supporting Apanasenko, whose chances of winning are extremely small, and may back Dubinin instead. However, if Moscow decided to back Dubinin instead of Apanasenko, it is not clear whom the region's mayors and electoral commission members would support. Once these people have been instructed to support one candidate, it is difficult to get them to support a different one. If the Kremlin did change horses in mid-stream, its ability to use its administrative resources would be circumscribed. - Oleg Zhunusov in Vladivostok

## **NATURAL MONOPOLIES IN THE REGIONS**

**EES SWITCHES FROM THREATS TO NEGOTIATED AGREEMENTS.** At the meeting of Unified Energy System (EES) board of directors on 28 April in Tver Oblast, Board Chairman Aleksandr Voloshin, who is also the presidential chief of staff, said that the company could not avoid future blackouts in the regions. At the same time, he confirmed that the company intended to reduce its reliance on threats, and develop and enforce a system of negotiated relations with municipalities and regions (*Veche Tveri*, 4 May). EES believes that it must enforce strict policies toward its debtors because wholesale resellers owe the company 27.5 billion rubles and municipalities owe it 17.9 billion.

The company hopes to resolve these debt issues as it is contemplating a major restructuring designed to attract investment in its basic equipment. At the meeting, Director Anatolii Chubais said that the strict policies already had brought the first positive results and that the company was financially stable. Chubais expected the government to approve its reconstruction plan on 16 May.

On the day of the meeting, Tver Deputy Governors Andrei Stroev and Aleksandr Zatvan and Tver Mayor Aleksandr Belousov met with Chubais to discuss restructuring the city and oblast's 850 million ruble debt to the company. According to their agreement, the debt will be paid off over ten years. During the first year, the city and oblast will pay off 15 percent of the debt and then equal shares of 80 million rubles for the next nine years. The city will pay off most of the debt. - Boris Goubman in Tver

**CHELYABENERGO SEEKS INVESTMENT.** Chelyabenergo, the electrical utility serving Chelyabinsk Oblast needs investment to grow. In Russia, most enterprises generate investment funds from their own profits. For a utility, this means either increasing prices or lowering costs. In Russian conditions, it is very difficult to lower costs, though Chelyabenergo has prepared a program and is trying to implement it. Raising prices is also not easy: regional electricity commissions, which decide energy prices in the regions, operate under incredible pressure from

the governor and cannot raise prices without his consent. Even if the governor understands the problems of the electricity providers, he must take into account a variety of other factors in setting electricity prices. For example, higher power costs will reduce the profitability of local factories. Therefore the utility's efforts to win the governor's approval for an investment surcharge that would effectively raise prices have been rejected.

Until the end of last year, the utility's income was not enough to pay for its supplies (coal, natural gas, machinery) and the electricity it purchased on the national wholesale market (FOREM). Losses in the fourth quarter of 2000 were 250 million rubles and overall losses for the year were 190 million rubles. Even though the Chelyabinsk economy had a relatively good year in 2000, the utility did not generate enough money to invest in its own development. No repair work was carried out and the second block at the third thermal-electric power station remains only 80 percent complete. The region's equipment is among the oldest in Russia and 50 percent is obsolete. The situation will not improve without investment.

This spring the situation began to change when the governor and Unified Energy System (EES) leadership began to pay serious attention to the utility's problems. On 17 April EES Director Anatolii Chubais, Chelyabinsk Governor Petr Sumin, and Chelyabenergo Director Vyacheslav Seredkin met in Moscow and adopted two important decisions. First, EES will invest in Chelyabinskugol, Chelyabenergo's main coal supplier. Second, EES will provide funds to complete construction of the power station. The 210 megawatt Chelyabinsk power station fits into EES's plans to bring 5,000 megawatts of new generating power on line in the near future. Additionally, EES will serve as the guarantor for a 3.5-4 year, 550-600 million ruble credit that Chelyabenergo hopes to secure from a major Russian bank. Negotiations are now under way with Alfa-Bank, Sberbank, and several "oil" banks. The interest payments will come from higher prices charged customers and the utility will pay off the principle from income generated from the new power station. The utility expects its costs to go down 6 percent when the new plant comes on-line while prices will remain at their current level. The new station should be complete in 2002.

Sumin has discussed the possibility of creating a unified fuel and power company in the oblast combining Chelyabenergo, Chelyabinskugol, and EES. However, these discussions are only in the initial stage. The electricity generators want to avoid taking on the problems of the coal miners. The miners also are seeking a higher price for their product, but Sumin has so far opposed this idea. Raising coal prices would only hurt Chelyabenergo, which buys 3.5 million tons of coal a year from Chelyabinskugol. EES has apparently decided that it is better to invest directly in Chelyabinskugol and become a shareholder than raise prices. Thus, EES is now helping Chelyabenergo secure raw material and refurbish its equipment. - Igor Stepanov in Chelyabinsk

## **BUSINESS IN THE REGIONS**

**STATE INCREASES ITS ROLE IN KEY PERM ENTERPRISES.** The federal government is planning to create the Perm Federal Center for Motor Building (PFTsM) on the base of Permskie Motory, the giant aircraft and rocket engine factory in the city. All the shareholders in the company, including Sergei Potanin's Interros, Gazprom, and the American

Pratt & Whitney, agreed to this proposal at a meeting with Deputy Prime Minister Ilya Klebanov on 5 May. In the process of creating PFTsM, the state agreed to a program of restructuring Permskie Motory's debt to the Pension Fund in exchange for a controlling share in the enterprise (*Ekspert*, 15 May). The state will pay the enterprise's debt to the fund and as a result will receive 37.2 percent of the shares of Permskie Motory which Interros currently owns. Together with the 14.2 percent the federal government already owns, this will create a controlling share.

In exchange Permskie Motory will receive from the federal government and Interros controlling (greater than 50 percent) or blocking (25 percent) stakes in the eight companies which include practically all of Permskie Motory's production, financial, or other activities. Additionally, the federal government will award Permskie Motory the intellectual property rights to the PS-90A and D-30 engines. This transfer will give Permskie Motory the upper hand in its fight with the Yaroslavl Oblast based Rybinskii Motory over the rights to the engines, which Permskie Motory believes is using without providing proper compensation.

An earlier version of this deal fell through when the Federal Security Service (FSB) charged that the companies were trying to swap worthless stocks to cover their debts. The FSB also warned that the transfer of intellectual property rights would unfairly benefit Pratt & Whitney (*Permskii obozrevatel*, 12 February). These concerns have apparently either been set aside or addressed.

Deputy Presidential Representative to the Volga Federal District Valentin Stepankov and Klebanov have already offered to head the new company (*Novyi kompanon*, 17 April and *Region-Info-Perm*, 18 April). These actions have already produced results as the plant now has orders for 10 engines for Il-96-400 airplanes, whereas last year it only produced three (*VETTA*, 11 May).

The second plant where the federal government will regain control is Motovilikhinskii zavody, a defense plant that is Russia's largest artillery producer. Here the state will hold a "golden share," according to Perm Governor Yurii Trutnev. Kakha Bendukidze, the owner of United Heavy Machinery, also reportedly was interested in purchasing the shares (*Novyi kompanon*, 24 April). This interest is apparently connected to reports that the plant will soon receive a large order for its products. Governor Trutnev lobbied Moscow to play a greater role in Motovilikhinskii zavody. - Konstantin Kolyvanov in Perm

**NEW VORONEZH AUTHORITIES FRIENDLY TOWARD BUSINESS.** The new governor and legislature in Voronezh Oblast have adopted a new attitude toward business in the region markedly different than their Communist predecessors. One of the most noticeable features of the new administration and legislature is the large number of representatives of big business (by regional standards) among their ranks. Small and medium sized business are rather poorly represented and therefore have difficulty representing their interests among the authorities. There are only 11,000 small and medium-sized businesses in Voronezh and they generally have difficulty playing a strong political role.

Despite the overall improvement, however, the oblast administration's relations with one of the key local oligarchs are deteriorating rapidly. Nikolai Olyshanskii, a State Duma member and the chairman of Voronezh's largest enterprise, Minudobreniya, was close to former

Governor Ivan Shabanov, who is now in the corporation's top management. The changing relationship will likely lead to the removal of Deputy Governor Aleksandr Sysoev, whose appointment Olyshanskii supported (*Novaya gazeta v Voronezhe*, 3-7 May).

In place of ties with Olyshanskii, the administration is developing an alliance with the region's natural gas monopolists: Voronezhregiongaz, Voronezhoblgaz, and Mezhhregiongaz. The oblast administration has signed an agreement with these three firms that foresees creating a holding company that would include food processing plants and a unified network for supplying heat to the oblast. In such a way, the current administration has succeeded in doing what the previous administration failed to do: attract the interest of the natural gas companies to invest in the region (*Bereg*, 27 April).

The new administration also has improved its relationship with the city of Moscow. Governor Vladimir Kulakov came to a preliminary agreement with the city's food supply department, which could become a potential investor in the oblast. Given the overall lack of investment in Voronezh, this is a significant achievement for the new administration (*Bereg*, 27 April).

Relations with the federal government have warmed. The new administration has lobbied for the oblast to participate in a variety of federal programs. The federal government currently has 62 targeted aid programs through which it funds specific projects. Under Shabanov, Voronezh was not included in a single one of these programs.

Additionally, during a meeting with President Putin, Kulakov succeeded in winning federal support for the aviation industry. Three banks will now finance the local aviation sector and a new leasing company will help market Voronezh aircraft. The government offered to cover the interest payments on the loans that the banks will provide to the factories. This financial mechanism should start functioning on 1 July of this year. - Yuliya Fedorinova in Voronezh

**FINANCIAL GROUPS EXPAND ROLE IN VOLGOGRAD INDUSTRY.** In recent years Russian financial and industrial groups have bought stakes in Volgograd's largest industries. In 2000, MDM-Bank bought the Volzhskii Ball Bearing Plant. The bank then backed Oleg Savchenko in the gubernatorial campaign as an alternative to the ultimate winner Governor Nikolai Maksyuta. LUKoil, which has extensive production facilities in the region, backed Maksyuta. Other financial-industrial groups are not as visible in the region, but they are participating in the redistribution of industrial property in Volgograd.

The greatest competition is in the metallurgy and machine-building sectors. Besides MDM-bank, which is connected to Siberian Aluminum and Sibneft, other players include the Alfa group, MAIR (the largest processor of ferrous scrap metal in Russia), Kakha Bendukidze's United Heavy Machinery, and the Siberian Ural Aluminum Company along with its associate Flora-Moskva. Flora-Moskva, which had bought the region's largest metallurgical factory, Krasnyi Oktyabr, already has sold a significant share to the Alfa group. SUAL continues to own the Volgograd Aluminum Factory. Mate-Oki, which is a small company fronting for MDM-bank, bought the Volzhskii Ball Bearing Plant last year and is now buying up stock in the Volgograd Tractor factory.

In the region's large chemical industry, which includes Kaustik, Khimprom, Volzhskoe khimvolokno, Volzhskii zavod sinteticheskogo kauchuka, and others, the main groups battling it out are Nikos, Sibur, and Amtel. The largest enterprises belong to Gazprom-subsidiary Sibur: the Volzhskii zavod sinteticheskogo kauchuka. Sibur already has invested 250 million rubles in the plant and plans another 600 million in outlays. The plant, which has not produced anything for five years, has just started producing a high-octane additive to gasoline and is now employing 1,200 workers.

The interest of the financial and industrial groups in the region reflects the revival of industrial production in Russia and Volgograd Oblast's considerable industrial potential. However, the regional leadership feels threatened that the groups are trying to translate their economic resources into political power. The 2000 gubernatorial campaign provided strong evidence of this tendency. Additionally, the political elite is worried that profits and taxes generated by the revitalized factories will not remain in the region. The oblast's leaders also fear that some companies are buying up factories simply to close down their competition. Chairman of the Oblast Duma Security Commission Vyacheslav Komissarov has proposed setting up a special commission to investigate all of the deals in which large amounts of property change hands, but the regional legislature simply does not have the authority to do so. - Ivan Kurilla in Volgograd

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## **CENTER-PERIPHERY RELATIONS**

### **COURT RULES FEDERAL GOVERNMENT CAN MOVE AGAINST**

**TATARSTAN, BASHKORTOSTAN.** For the first time, Presidential Representative in the Volga Federal District Sergei Kirienko has publicly indicated that the clauses on state sovereignty that remain in the constitutions of Tatarstan and Bashkortostan are a serious political

and juridical problem for the federal government. In a ruling on 19 April, the Constitutional Court determined that the federal government can move ahead in prosecuting the republics for not removing these clauses for almost a year after being ordered to do so (*Rossiiskaya gazeta*, 16 May).

The court ruled that its 27 June 2000 determination that the clauses in the republican constitutions on sovereignty were in violation of the Russian constitution was a final decision and does not require any additional judicial action. The court also noted that republican officials have to implement its rulings as soon as they are published. Additionally, the court found that the president has a sufficient legal basis to begin the process of firing the presidents of the republics and disbanding their legislatures because they had not complied with these decisions. This process, however, is extremely complicated and would take a long time to implement.

The Bashkortostani authorities sought to argue with the court's decision. Speaker of the republican parliament Konstantin Tolkachev said that federal legislation did not have a monopoly on the use of the word "sovereignty." Bashkortostan President Murtaza Rakhimov said that the new version of the republican constitution adopted in November 2000 was in conformity with the Russian constitution and claimed that Putin agrees with this assessment. - Igor Rabinovich in Ufa

**PUTIN MAKES CONCESSIONS TO DAGESTAN.** In a 16 May meeting with Dagestani leader Magomedali Magomedov, Putin made a number of concessions to the republic. First, Putin ordered Prime Minister Mikhail Kasyanov, Chief of Staff Aleksandr Voloshin, Security Council Secretary Vladimir Rushailo, and Presidential Representative in the Southern Federal District Viktor Kazantsev to take the republican authorities' opinions into account when appointing the heads of federal agencies in the republic. Second, Putin ordered Kasyanov to work with the Slavneft oil company to invest in developing the oil deposits in the Caspian shelf off the Dagestani coast since foreign investors are not interested in working in this area. Putin also asked the president of Slavneft to assist the republic. Third, Putin ordered Deputy Prime Minister Ilya Klebanov and Economic Development and Trade Minister German Gref to help preserve and develop local defense enterprises. Putin also agreed to assist in the development of the local port.

This meeting illustrates the special relationship the Russian leadership has with Dagestan, the largest and most loyal forepost for Russia in the North Caucasus. Allowing the republican leadership to have a say in the appointment of federal officials in the republic contradicts Putin's overall policy toward the regions, which seeks to reduce regional power over federal officials. Nevertheless, the federal authorities are willing to make concessions in this case. Putin's decision to invest in the Dagestani shelf does not make economic sense so it must be seen simply as a way to support the republican leadership. The same is true for the port. Its reconstruction has been under way for many years and has already scared off the Italian partner Girola.

Providing state orders for the local defense enterprises will more likely extend their agony rather than revive them. Most of the skilled laborers who worked in them were ethnic Russians and they have fled the republic. Most of those who left were fleeing the high crime in the area rather than poor economic conditions. Moreover, even if good jobs were created for

ethnic Russians, other Dagestani ethnic groups would quickly drive them out. - Nabi Abdullaev in Makhachkala

## **GOVERNORS' ELECTIONS**

**LOCALS COMPLAIN OF HEIGHTENED FEDERAL INTERFERENCE IN PRIMORSKII CAMPAIGN.** The Primorskii Krai Electoral Commission has issued a warning to candidate Gennadii Apanasenko, the deputy presidential representative in the Far Eastern Federal District, for printing campaign posters aimed at deceiving local voters. The posters claim that President Putin backs Apanasenko's candidacy, an assertion that the commission claimed is not true. The posters included the slogan "The choice of Primore residents. Governor Gennadii Apanasenko. Supported by the president." Commission Chairman Sergei Knyazev said that "As soon as I saw the posters I knew that the candidate had backed himself into a corner: either the president was illegally supporting one of the candidates or Apanasenko was deceiving voters into thinking that he had such support." Since the commission determined that the posters did not interfere with voters' ability to make a free choice, it did not see any reason to disqualify Apanasenko from the 27 May elections.

Despite this decision, residents of the region, who for many years were divided in their opinions about the leadership of former Governor Yevgenii Nazdratenko, are increasingly united in opposing the pressure that Apanasenko is exerting on them. The journalists of Primorskii Krai have adopted a declaration addressed to the president, procurator general, and chairman of the Central Electoral Commission expressing concern about the campaign in the krai and particularly about the actions of Presidential Representative Konstantin Pulikovskii. The journalists said that the Pulikovskii did not accept the journalists' reports about attempts to deceive and frighten the voters and distribute inaccurate campaign material. Instead he accused them of acting under the influence of Nazdratenko, even though many had been critical of his rule. On the eve of the meeting, Pulikovskii had accused the journalists of conducting a dirty campaign, but the journalists charged that his deputy Apanasenko was responsible for most of the dirty campaigning.

Apanasenko has exercised such extensive control over the Vladivostok All-Russian State Television and Radio Company that the trade union has threatened to go on strike if Apanasenko does not reduce his pressure on the broadcasters. The television station is the only one that reaches throughout the krai. The union charged that the station was working at Apanasenko's orders and had to show material prepared by his team regardless of norms for candidates' airtime. Regularly-broadcast shows were being dropped in favor of Apanasenko's programming, the journalists charged. The company executives said that they had stopped approving the programs so that they would bear no responsibility for violating the electoral law. The union warned that the company could be fined and even deprived of its license because of these violations regardless of the outcome of the elections.

Through acting Governor Konstantin Tolstoshein, Apanasenko has also taken control of the OTV-prim TV station. Local observers believe that Pulikovskii was behind Tolstoshein's recent restoration to power and claim that Tolstoshein has paid back the debt by appointing

Andrei Kholenko as the acting president of OTV-prim. His deputy is Irina Logvinenko, the head of Apanasenko's campaign staff.

Local observers believe the pressure on the media is part of a larger campaign by Pulikovskii and Apanasenko to use state resources to elect Apanasenko governor. The acting governor, whom most local residents associate with organized crime, is beholden to the presidential representative. Vladivostok Mayor Yurii Kopylov owes Apanasenko for blocking an audit of the city's finances. The two leading TV stations in the region are now controlled by Apanasenko's allies. And Deputy Presidential Chief of Staff Vladislav Surkov has exerted pressure on the mayors in the region, warning them that if they don't ensure the election of Apanasenko, the Kremlin will introduce some elements of direct presidential rule in the region.

Central Electoral Commission Chairman Aleksandr Veshnyakov was in the district from 15 May to 18 May. Upon arrival, Veshnyakov said that Putin did not support any of the candidates and that he would deal with those who claimed to have his support. Apanasenko is the most obvious example of such a candidate. However, on his departure, Veshnyakov said that there were no grounds for removing any of the candidates. - Oleg Zhunusov in Vladivostok

## **LAW ENFORCEMENT AGENCIES**

*During the Yeltsin era, governors controlled the local police forces, even though they were supposed to be subordinate to the federal government. Governors used to secure the appointment of allies as regional police chiefs and supply the force with housing, cars, offices and other necessities the federal budget did not provide. Putin has tried to reassert federal control over the police. The State Duma is now considering a law that would eliminate the regions' voice in appointing police chiefs. Additionally, recently appointed Minister for Internal Affairs Boris Gryzlov announced that he will appoint new police chiefs for the seven federal districts who will be appointed directly by the president and command all the police forces in the district (Rossiiskaya gazeta, 19 May). These seven federal district level officials presumably will be beyond the governors' reach.*

*Many problems remain, however, in bringing the police under federal control. As noted in the profile of Poltavchenko elsewhere in this issue, Moscow Mayor Yurii Luzhkov has been fighting for the right to appoint his police chief since the end of 1999, when the federal government fired Luzhkov ally Nikolai Kulikov. In the Urals, procurators have found considerable evidence that the law enforcement agencies are falsifying data (Vremya novostei, 18 May). In many regions, the local police are still heavily dependent on governors for funding to cover their social needs. Below are two articles that discuss these problems in more detail.*

## **YAKOVLEV CALLS FOR BETTER COORDINATION OF FEDERAL AGENCIES.**

After meeting with President Vladimir Putin in Moscow, St. Petersburg Governor Vladimir Yakovlev called for an inventory of federal agencies working in the Russian regions. In particular, he wants a study to determine if the federal agencies are duplicating each other's work. The governor suggested that the seven presidential representatives in the regions carry out this work. Yakovlev pointed out that 11,000 federal employees currently work in St.

Petersburg and 7,000 work in Novgorod Oblast. Yakovlev said that the city of St. Petersburg only employs 7,000 civil servants.

Yakovlev also called on Putin to reform the St. Petersburg police force (GUVD) within the context of a reform of the Russian Ministry of Internal Affairs. Yakovlev said that the city budget currently pays more than 1 billion rubles a year to support the city's police. At the same time, Yakovlev noted that "this agency is not under the city's jurisdiction." Yakovlev said that it was time to determine which agencies were under either joint federal and regional control or under the control of the city.

Yakovlev said that Putin agreed with his ideas and gave the appropriate orders to Minister of Internal Affairs Boris Gryzlov. Yakovlev said that there soon might be a meeting to figure out how to reform the law enforcement agencies. - Marina Makova in St. Petersburg

**SPIRIDONOV, GRYZLOV DISCUSS KOMI POLICE.** On 16 May, Komi leader Yurii Spiridonov met with Minister of Internal Affairs (MVD) Boris Gryzlov in Moscow. During the meeting, Spiridonov raised one of the hot topics of the day: financial and social support for the republic's law enforcement agencies. Spiridonov is particularly concerned about the social problems of Komi's police. During 2000, the federal government provided just 1 million rubles for housing construction for them when significantly more is needed. In 2000, the republican budget bought 50 specialized vehicles for the republic's police, while the federal budget bought three. The republican police also face numerous other shortages.

Spiridonov stressed that the police force has difficulty in securing federal funds for healthcare and health insurance. According to a directive from Putin, the federal budget will only include money for these needs in 2002. Other issues the two men discussed included raising the status of the Syktyvkar branch of the Moscow Police School and the Komi MVD officers serving in Chechnya. - Press Service for the Head of the Komi Republic

## **NATURAL MONOPOLIES IN THE REGIONS**

### **GOVERNMENT ADOPTS PLAN TO RESTRUCTURE ELECTRICITY**

**MONOPOLY.** On 19 May, the Russian government provisionally adopted a plan to restructure the Unified Energy System electricity monopoly. With Putin's support, the government chose a plan prepared by German Gref's trade and economic development ministry that strongly resembled a plan proposed by EES Chief Anatolii Chubais last year. The key element of the plan is to split EES into at least two companies: one controlling the national transmission grid and a second controlling regional generating companies. The federal government seeks to assert 100 percent federal control over the grid. The government has yet to clarify how it will gain control of parts of the grid now owned by regional companies. It plans to sell stakes in the regional generating companies by 2008 to create competition and generate investment. However, in the first stage of reform, EES will consolidate the existing generators it controls into 5-7 subsidiaries and the regional generators into 50-60 subsidiaries. The plan will be implemented over an approximately ten-year period.

An alternative plan prepared by a State Council group headed by Tomsk Governor Viktor Kress, which included Presidential Advisor Andrei Illarionov and EES minority

shareholders, argued that the regional companies should retain control over the parts of the grid that they now own so that they could build vertically integrated energy companies. These regionally-based companies would combine the production, sales, and distribution of electricity. Transferring the grid entirely into federal hands means that it will be impossible to build full-blooded, vertically-integrated regional companies. The government is set to adopt a final decision in one month, and the Gref-Chubais plan now seems likely to prevail although such an outcome is by no means guaranteed.

If the Gref plan is ultimately approved and the federal government gains control over all the transmission lines, the federal government will increase its power over regional energy supplies and therefore obtain greater leverage over the governors. Additionally, consolidating the generators will give Moscow greater control over the tax revenue the generators produce, taking this money from regional control. This assertion of greater federal control seems to be the main purpose of the plan. Initially, EES Chief Chubais said that he wanted to restructure his utility in order to attract additional investment, including from foreign sources. Such investment is necessary to upgrade the utility's antiquated equipment. However, his plans have alienated many foreign investors who own 30 percent of the \$4.6 billion company because they do not now know what kind of stock they will receive in exchange for their present holdings. The Russian state owns 52.8 percent of EES, which in turn owns controlling stakes in all but four of the regional companies.

Part of the plan is to increase energy prices and end the current subsidies. Currently governors have extensive control over energy prices and use this control to set prices to favor some local enterprises and to ensure that prices for private residences are relatively low. Allowing prices to rise will inevitably force some business into bankruptcy increasing social tension in the regions in the short term. In the next few weeks, the governors may be able to marshal decisive opposition to the plan. Already Tatarstan and Bashkortostan, whose regional utilities are independent of EES, are working out a strategy separate from the federal reforms. - Robert Orttung

**TATARSTAN, BASHKORTOSTAN UTILITIES CHALLENGE NATIONAL MONOPOLY.** While the national electricity monopoly, Unified Energy System (EES), seeks to restructure itself, Tatarstan and Bashkortostan are developing their own plan to restructure their energy systems. The main idea of the republics' restructuring plan is to unify the republican utilities Bashkirenergo and Tatenergo. Currently a framework agreement for the merger is being drafted. The merged company will include the Nizhnekamsk Hydroelectric Station and Zain regional electric power station in Tatarstan and the Karman regional electric power station in Bashkortostan and will be connected by 500 kilowatt transmission lines. The merger will allow the two republics effectively to separate themselves from the federal wholesale energy market controlled by EES and independently coordinate the production and distribution of electricity on their territory. The republican budgets and the two utilities will pay the 2 billion rubles required to build an energy bridge between Kazan and Ufa.

The republics made public the idea of merging their electricity systems after EES threatened them with a court case if they did not pay the 2 billion rubles they owe EES in fees for transmission services. Once the merger goes through, the utilities believe that they will not

have to pay additional fees to EES. After the merger the unified republican utilities will be the largest electricity producer in Russia outside of EES. Today Tatarstan owns 100 percent of Tatenergo and Bashkortostan owns all of Bashkirenergo except for 20 percent, which belongs to EES. Thus EES has little influence over the republican leaders, who are not happy with the EES's own restructuring plans.

Some players at the federal level are happy to support the republics' plans to merge their utilities, seeing them as a partial counterweight to EES. Deputy Energy Minister Viktor Kudryavyi, whose ministry did not sign off on the Gref plan, sees the presence of a powerful electricity generator outside of EES as a fact. Non-EES generators in Russia account for 25 percent of the country's electricity generation (*Nezavisimaya gazeta*, 26 April). According to the paper the non-EES utilities are developing faster than EES. In 2000, Bashkirenergo invested 1.2 billion rubles in its infrastructure. Bashkortostan is also developing alternative sources of energy and has built the first 2.2 megawatt wind farm in the Urals.

Despite these statistics, however, the situation at Bashkirenergo is far from healthy. The republican government exercises firm control over the company and removed its director, Azat Salikhov, in May because Bashkirenergo has not repaid an interest free development loan worth more than 1 billion rubles that the republic gave the utility. Republican enterprises owe the utility 1.3 billion rubles, with more than 1 billion being due from the agricultural sector. Other indicators also suggest trouble. Profitability dropped 5 percent in the first quarter of 2001 despite an increase in prices charged. Energy production dropped 3 percent, forcing the utility to buy energy from EES. These figures show that the battle with EES is far from over. - Igor Rabinovich in Ufa

**RAILROAD REFORM APPROVED.** On 19 May, Prime Minister Mikhail Kasyanov approved the long-awaited restructuring program for Russia's railroad system (see related). Reform is expected to take ten years and will be implemented in three stages. From 2001 to 2002, a 100 percent state-owned Russian Railroads Company will be established to assume the economic management of the railroads, while the Ministry of Railways will continue to regulate the system. In a second stage, from 2003 to 2005, the new company will be divided into sub-divisions responsible for different parts of the railways system (long-distance, suburban, cargo, repairs, etc...). Finally, from 2005 to 2010 shares in the sub-divisions will be auctioned (*Vremya Novostei*, 22 May).

**IRKUTSK CRITICIZES RAILROAD REFORM.** At last the Ministry of Railways is proceeding with its reform program. On 27 April an expanded collegium of the ministry agreed to the reform measures, which the Russian government approved on 22 May. Aleksei Sobol, Deputy Governor of Irkutsk Oblast, took part in the collegium's deliberations.

According to Sobol, reform will affect all aspects of railway activities. The most fundamental change is the establishment of the 100 percent state-owned Russian Railroads Company, which will focus on key economic tasks such as securing funds for needed equipment upgrades (costing approximately 700 billion rubles), strengthening financial control, and increasing wages.

Proponents of the reform believe that the measures will improve efficiency, increase profits by 30 percent, and lower shipping costs by 25 percent. Nevertheless, despite all of the efforts that went into the reform process, several important questions remain unanswered. In Sobol's view, the reform is disadvantageous for the regions in several respects.

The railroad system is responsible for many social institutions, from sports complexes to kindergartens. After restructuring, neither the Ministry nor the new Russian Railroads Company will cover their costs and the localities will have to come up with funds to continue their operation.

Moreover, after restructuring it is unclear how suburban trains will be financed. According to the reform, cross-subsidizing among various types of rail transportation will be phased out. Thus, cargo shipment will no longer pay for local train service. This change means that the regional governments will have to pay for it. Since they lack the funds, the cost may be passed on to the population.

Finally, the railroad reform will deprive the regional budgets of funds they previously received. Just like the budget reform, railroad reform also will result in a centralization of revenue and the regions will find it difficult to recover their due from the center. According to Sobol, the interests of the population should be taken into account when these issues are addressed. - Teleinform in Irkutsk

## **OLIGARCHS IN THE REGIONS**

**VOLGOGRAD GOVERNOR APPOINTS LUKOIL MAN TO KEY POSITION.** On 14 May Volgograd Governor Nikolai Maksyuta appointed Yurii Sizov, who until recently worked for the Volgograd branch of LUKoil's insurance company as first deputy governor for relations with the oblast дума, social organizations, and the mass media. Observers view the appointment as payback for LUKoil's support in the December 2000 gubernatorial elections. Now a representative of the oil company occupies the third most important position in the administration, following the governor and his deputy for economic issues, Vladimir Kabanov. - Ivan Kurilla in Volgograd

## **PATTERNS OF REGIONAL DEVELOPMENT**

**TVER GOVERNOR INCREASES POWER IN HIS DISTRICT.** On 10 May Tver Governor Vladimir Platov issued a decree reforming his administration that could serve as a prologue to his campaign for a third term in 2003. He declared his intention to reduce the size of his staff, increase the effectiveness of its work, and reduce its expenses. By 15 July, a working group led by Deputy Governor Yurii Krasnov should make recommendations on its reform and by 20 July the new structure should be in place.

The reform should significantly cut the number of deputy governors, of which there are now 16. All deputy governors except Krasnov, Andrei Stroev, Anatolii Kapitonov and Yurii Danilov have been asked to resign. The staff cuts should reach 15-20 percent (*Veche Tveri*, 15 May).



According to current plans, the new staff will work at three levels. The governor, deputy governors, and the governor's staff will focus on strategic issues. At the second level, administrative departments will implement the strategic plans. At the third level, various enterprises and agencies will implement laws and specific operating instructions.

Superficially, the plans look like a miniature version of Putin's reform of the federal executive branch. The similarity is no coincidence since Platov is clearly trying to use this reform to pave the way for a third term. The reform weakens the position of Krasnov, who may now be relegated to being the "eternal successor" to the governor. In pushing ahead with the changes, Platov will most likely rely on the "pro-Moscow" wing of his administration personified by Stroev and Danilov, seeking Kremlin support and Moscow capital. The logic of these developments will leave those public officials and local oligarchs who do not want to be vassals to Moscow out of power.

On 31 May the oblast legislature will adopt a new oblast charter that will significantly limit the governor's ability to make personnel decisions. However, his reform of the executive branch will significantly limit the impact of these changes.

Last week, one of the deputy governors who will lose his influence, Anatolii Golovkin, appealed to the oblast procurator, complaining that the executive branch reform is "premature," and the dismissal of civil servants contradicts federal law (*Veche Tveri*, 17 May). The Tver Union of Industrialists and Entrepreneurs was also critical of the reform. The head of the union, Sergei Potapov, sees the reforms as a threat against his own plans to run for governor. The union adopted a declaration calling on the oblast first to adopt its new charter and then implement changes in the executive branch structure (*Veche Tveri*, 19 May). However, Platov now holds the upper hand and will likely be able to deal with these objections. - Boris Goubman in Tver

## **THE CENTRAL FEDERAL DISTRICT**

*This week the RRR publishes the second in a series of profiles of the seven federal districts and the presidential representatives in them. The profile of Presidential Representative to the Northwest Federal District Viktor Cherkesov appeared on 2 May.*

### **GEORGII POLTAVCHENKO: PUTIN'S PETERSBURG ALLY IN THE CENTER.**

The Central Federal District covers only 3.4 percent of Russian territory, but its residents make up one quarter of the population and they produce 28 percent of the country's GDP. This district also accounts for 37 percent of Russia's exports, and contributes 37 percent of the overall federal budget. The Central Federal District has the largest number of regions (18) of the seven districts. It is the only district made up of exclusively of predominantly ethnic Russian oblasts and includes no republics. Among the key regional leaders in the district are the politically powerful Moscow Mayor Yurii Luzhkov and Orel Governor and Federation Council Speaker Yegor Stroev.

Beyond dealing with these regional elite, Putin's representative to the district, Georgii Poltavchenko, must address the stark contrast between the relatively wealthy city of Moscow

and very poor regions, such as Bryansk and Tambov. Poltavchenko constantly says that Moscow should not live worse, but the other regions should improve.

Poltavchenko was the least well known of the seven representatives in May 2000 when Putin appointed him to oversee the Central Federal District. He is considered a member of Putin's inner circle and part of the Petersburg clan that Putin brought with him to the capital (*Dengi*, 8 November 2000). In Leningrad Oblast, the rural area surrounding the city of St. Petersburg, Poltavchenko served in the KGB, as head of the tax police, and then as President Yeltsin's representative to the region. During his tenure as representative for Yeltsin, Poltavchenko never once spoke with Yeltsin, even on the phone (*Izvestiya*, 17 November 2000). Before his appointment, Poltavchenko was largely unfamiliar with the Central Federal District and had only visited the cities of Moscow and Kostroma (*Nezavisimaya gazeta*, 12 May).

Poltavchenko's name constantly comes up in rumors spread by the media that he will soon replace Presidential Chief of Staff Aleksandr Voloshin (*EWI Russian Regional Report*, 29 November 2000 and TV Tsentr, 14 April). However, Voloshin remains in his position, though the rumors that he will soon be ousted continue unabated. Despite his potential appointment as presidential chief of staff, Poltavchenko remains relatively unknown in his district. According to *Izvestiya* on 12 May only 3 percent of the people in district knew who he was.

Poltavchenko's top staff members represent an eclectic mix of high-flying civil servants, security officials, and factory directors. His first deputy is essentially his former boss: Anton Fedorov, who served on Yeltsin's staff as the coordinator for the 80 plus presidential representatives that Yeltsin had assigned to monitor the regions (*Izvestiya*, 17 November 2000). Viktor Denikin, who had set up the State Committee on Youth Affairs, works with the chief federal inspectors, the people who represent Poltavchenko at the regional level. Vladimir Volkov, the former head of the Volgograd Federal Security Service (FSB), deals with the law enforcement agencies and the military in the district, and Vasilii Kichedzhi, the former director of the gigantic Chelyabinsk Tractor Factory, handles economic issues.

### **Functions of the representatives**

After marking their first anniversary, one of the key questions surrounding the presidential representatives to the regions is their position and powers within Russia's governing structure. *Izvestiya* (17 November 2000) has dubbed Poltavchenko "a general who does not have the authority to make a single decision."

Like Cherkesov, Poltavchenko clearly wants to gain responsibilities beyond the task of coordinating federal agencies in the regions that Putin assigned his representatives in his original 13 May 2000 decree. He has an unquenched thirst for greater economic power. In late March, he criticized the government's chaotic economic policy, provoking an angry rebuke from the deputy chief of the government staff, Aleksei Volin.

According to Poltavchenko, the presidential representatives currently do not coordinate the distribution of federal funds, but rather coordinate the agencies that actually carry out this oversight. If these agencies find a problem, then Poltavchenko notifies the Ministry of Finance,

procurator, or Ministry of Internal Affairs so that they can take appropriate action (*Segodnya*, 21 March). Poltavchenko, unlike Cherkesov who is coordinating the projects associated with St. Petersburg's 300th birthday celebration, does not directly manage any economic projects in the regions. However, he claims the president's 13 May decree gives him the right to participate in the approval of projects that affect specific regions and the district as a whole (*Afanasiibirzha*, [Tver], 6 April).

Poltavchenko asserts that it would be logical for the presidential representatives to have wider financial powers because they are not beholden to any one federal agency or region. The representative is an "absolutely impartial person," he asserted. His staff works in the regions and it is easier for him to monitor the financial flows, he claims. He says that the representatives should "Not only monitor, but make decisions about the rationality of using this or that amount of money in this or that region (*Segodnya*, 21 March)." Poltavchenko has expressed a strong interest in assigning part of the federal budget to the federal district so that he could distribute among various regional needs. This idea remains on paper, however, and is not being actively developed. In the past, Poltavchenko had discussed the idea of creating a regional development fund to which all 18 regions of his district would contribute. Poltavchenko and the governors would then jointly decide how to spend this money (Russian Television [RTR], 10 December 2000). The governors had no interest in such a fund, and the idea disappeared from Poltavchenko's public statements in 2001.

Poltavchenko praises the increasing centralization of financial flows under Putin. In the past, he points out, some tax revenue was left in the region for resolving specific social needs. But the governors often used this money for other purposes. Instead of paying children's benefits, for example, the region might use the funds to build roads or improve its communication system. Today the system is different. The center collects all money for social needs and then sends this money to the regions for specific purposes, Poltavchenko said. This system fits well into his conception of federalism: there is a clear division of responsibility between the federal and regional governments and the federal government makes the key decisions while not getting involved in the minutiae of regional life.

### **Relations with law enforcement agencies**

Despite his constant demands for increased economic power, Poltavchenko spends most of his time with the law enforcement agencies that operate in his district. Like Cherkesov in the Northwest, Poltavchenko identified an increase in crime in 2000 compared to 1999. He said that the figures went up 3-4 percent, with jumps in economic crime and corruption. He has noted that law enforcement agencies in the Central Federal District arrested significantly more bureaucrats for abusing their offices in 2000 than they did in 1999 (Russian Television [RTR], 12 December 2000). Poltavchenko claims that in the past, the coordination between law enforcement agencies worked poorly. "There were not always normal relations between various law enforcement agencies and the natural arbitrator for them was the governor because Moscow was far away. Today it is possible to solve all these problems more effectively: there is an arbiter who is not just interested in making sure that one side wins, but in insuring that all sides work together (*Nezavisimaya gazeta*, 12 May)." He cited Smolensk Oblast as a key

example of where there was no cooperation between law enforcement agencies in fighting crime. He said it was very difficult to fight the well organized crime there. "The conflict between the procurator and representatives of the Ministry of Internal Affairs contributed greatly to the problem." Overall, he suggested that during his frequent meetings with the law enforcement agencies, "people react correctly," but that it was still too early to speak of a breakthrough (RTR, 10 December 2000).

### **Relations with regional executives**

Since Putin came to power, the status of Moscow Mayor Yurii Luzhkov has shrunk considerably (see separate article on Luzhkov elsewhere in this issue.) Beyond Luzhkov, Federation Council Speaker and Orel Governor Yegor Stroevo is the other regional heavyweight in the district. Poltavchenko has tried to neutralize him by having him serve as the chairman of the federal district's Council of Governors, which was created in December. Generally, Poltavchenko claims to have good relations with the other governors and it is hard to find public statements by the governors criticizing him.

However, Poltavchenko has had little success in determining who wins the gubernatorial elections in his region. His one major success was in Voronezh, where the local FSB chief, Vladimir Kulakov, replaced Communist Ivan Shabanov. But in that region, the voters had long been unhappy with the incumbent. In Kursk, Poltavchenko had a partial victory when the courts removed former Kursk Governor Aleksandr Rutskoii from his race seeking a second term. However, Communist Aleksandr Mikhailov eventually won that race, defeating the local FSB chief. Nevertheless, Poltavchenko did not concede this as a loss, claiming that "Mikhailov is a responsible person. I think that we will not have any difficulties (*Vek*, 8 Dec. 2000)." Of seven other gubernatorial races since Poltavchenko came to office, Communists won in five and in Kaluga a candidate backed by both Yedinstvo and the Communists won.

Poltavchenko has made many statements threatening the governors' power. He argued that in heavily subsidized regions where the governor lack the means to deal with all the problems that he faces, the president should appoint an assistant to handle all economic matters. He has also reminded the governors that if they break the law, the president can remove them. "Unfortunately, the voters do not always make the right choice, entrusting their fate to [incompetent governors]," Poltavchenko told *Nezavisimaya gazeta* on 12 May.

In addition, Poltavchenko has sought other allies against the governors. A November meeting led to the establishment of a mayor's council. The mayors often seek federal aid to increase their leverage over the governors. In the beginning of March, Poltavchenko also met with a group of State Duma deputies from his district and they discussed the idea of setting up a faction to work with him. Poltavchenko's alliance with the Duma would be directed partly against the governors and partly against groups within the presidential administration seeking to reduce the power of the seven presidential representatives.

The governors outside of Moscow see Poltavchenko as an ally in their struggle to benefit from the city of Moscow's wealth. Voronezh Governor Vladimir Kulakov backs Poltavchenko's attempts to solve the district's economic problems by encouraging Moscow to import fewer goods from abroad and buy them from other regions in the Central Federal

District. "The economy of Moscow and say Voronezh Oblast should complement each other. At the moment such partner-like ties are extremely insufficient," Kulakov said (*Vek* 23 March).

## **Conclusion**

Like Cherkesov, Poltavchenko still is seeking to define his position. He desperately wants to have greater control over economic decision-making in the region, but he and his colleagues have yet to convince Putin to give it to them. In the meantime, Poltavchenko seems to be making progress in gaining better coordination among the law enforcement agencies, but evaluating his real achievements in this area will require further research.

## **Biography - GEORGII POLTAVCHENKO**

1953 born in Baku

1976 - graduated from a Leningrad aviation institute, worked as an engineer and Komsomol instructor

1979 - began serving in the KGB

1980-1990 - served in the Leningrad Oblast KGB and was head of the Security Ministry's Vyborg (Leningrad Oblast) department

1990-1993 - served as a deputy in the Leningrad Soviet

1993-1999 - headed the Federal Tax Police in Leningrad Oblast

1998 - lost elections for a seat in the St. Petersburg Legislative Assembly

July 1999 - appointed presidential representative to Leningrad Oblast

18 May 2000 - appointed presidential representative to the Central Federal District

**LUZHKOVA IN PUTIN'S RUSSIA: CUTTING THE MAYOR DOWN TO SIZE.** One of the key changes in the Central Federal District is Moscow Mayor Yurii Luzhkov's diminished stature since the middle of 1999, when he was considered one of the front-runners in the presidential race. Poltavchenko is not responsible for much of this change, but he is in a position to take partial credit for it. Most likely, Luzhkov's status would be much reduced even if Putin had not decided to create the seven federal districts because of his reforms in other areas, such as enforcing federal laws and strengthening federal control of the police.

To examine what Luzhkov has and has not lost over the last two years, it is useful to look at the sources of his power. Until recently, he controlled politics in Moscow by directly appointing neighborhood chiefs, managing the City Duma by filling it with his political allies, appointing a sympathetic police chief, keeping much of the local media on a short leash, maintaining vast property in holding companies like Sistema, and running his own national party. The mayor even regulates who can and cannot live in Moscow in flagrant violation of the Russian constitution. Luzhkov generally did not have to worry about acting illegally because he made the laws and could change them whenever he decided it was necessary.

Since Putin came to power, many cracks have begun to appear in this system. On 30 March the Russian Supreme Court ruled that Luzhkov's power to appoint and fire local chiefs violated federal legislation (*Kommersant Daily*, 4 April). Placing his allies in these

positions makes it possible for Luzhkov to control many of the details of Moscow's life. The court also overturned the provision in city law giving the Moscow City Duma the right to overturn decisions of the raion heads. In place of the existing system, the court ruled that the Russian law on local government must apply to the election of neighborhood chiefs in the city of Moscow. This law requires that the 125 local chiefs in the city be elected directly by popular vote. Despite this direct threat to his power, Luzhkov has managed to blunt the impact of the court ruling by postponing elections for the local leaders until December 2003, when their current term runs out. Leaving the Luzhkov appointees in place will help the mayor win a third term in office. Additionally, the mayor's staff hopes that Poltavchenko will back a special federal law on the city of Moscow (as provided for in the constitution) that will exempt it from Russian legislation on local government. Whether Poltavchenko would go along with such a law remains to be seen.

In December 2001, Moscow will elect a new City Duma. The current City Duma is fully loyal to Luzhkov, but the mayor fears that the new one could be much less so. According to *Kommersant Vlast* (17 April), the people who won the Supreme Court case are now organizing to work against Luzhkov in the City Duma elections. They had hoped to use the pro-Putin Yedinstvo party against the mayor in the city. However, the fear of losing the Duma forced Luzhkov to agree to the merger of his Otechestvo party with the pro-Putin party. Luzhkov and Yedinstvo head Sergei Shoigu announced this decision on 12 April. However, even with this merger, it will be more difficult for Luzhkov to control the City Duma through the poorly coordinated Otechestvo-Yedinstvo alliance. Additionally, by giving up control over his Otechestvo party, Luzhkov conceded his status as an independent national politician.

Luzhkov has long been at war the Ministry for Internal Affairs, Russia's police service. When President Yeltsin removed Moscow City Police Chief Nikolai Kulikov at the end of 1999, Luzhkov refused to give his approval to the ministry's chosen replacement for him, Viktor Shvidkin (see *EWI Russian Regional Report*, 8 December 1999). According to Russian law, a police chief must be appointed with the approval of the regional authorities. The result has been a stalemate, with Moscow refusing to approve Shvidkin, leaving him in limbo as the acting police chief. At the same time, Luzhkov has appointed Kulikov as his assistant for relations with the federal law enforcement agencies, thereby thumbing his nose at the federal authorities (see *Nezavisimaya gazeta*, 9 February). Chief Federal Inspector for Moscow Oblast Protogen Andreevskii, considered a candidate to replace Shvidkin earlier this year, says that the Moscow police are funded from city budget when they should be funded from the federal budget and that this situation needs to be fixed so that the police are no longer loyal to Luzhkov (*Vremya novostei*, 8 February). The State Duma is trying to change the law on the police so that MVD could appoint Shvidkin directly and this bill was approved in its first reading on 21 March (*Moskovskii komsomolets*, 23 March)

In the very near future, Luzhkov could face considerable problems with the law enforcement agencies. According to MVD Major General Mikhail Zotov 30 criminal cases are now being investigated against Moscow bureaucrats. Their alleged crimes amount to 426 million rubles (*Kommersant Vlast*, 17 April). Additionally, more than 70 city laws have been declared out of line with federal norms, the largest number in the Central Federal District.

The mayor retains firm control over other resources. Luzhkov has his own television network, Center TV, that broadcasts in the capital and many regions outside of Moscow. The mayor's office also subsidizes several newspaper in the city, such as *Moskovskii komsomolets*. He helps many other papers by charging them less than market rents for their offices and giving them discounted access to utilities. While these holdings seem untouched, Luzhkov had been close to Vladimir Gusinskii and his Media-Most empire, which owned NTV. This network had backed Luzhkov's party in the 1999 State Duma race and its capture by Gazprom and the Kremlin certainly weakened Luzhkov's position.

Luzhkov and his allies control a vast amount of city property through the Sistema holding company, which was established in 1994. Sistema used city money to buy over 100 companies in the telecommunications, oil and gas, agriculture, marketing, construction, real estate, and tourism sectors. Additionally, the Moscow government owns its own energy company, the Central Fuel Company. So far it seems that these holdings are secure, but perhaps Luzhkov's loss of power in other areas will allow Luzhkov's adversaries to grab these assets in the future.

One area where Luzhkov has held firm is ability to continue operating a residency permit system despite repeated Constitutional Court rulings that these permits violated the Russian constitution, which grants Russian citizens the right to live where they choose. Poltavchenko apparently has made an about face on this issue: initially he sought to overturn the permit system, but now appears willing to let it stand. Upon taking office, he said that he would require Moscow to bring its laws, including the residency regulations, into line. He argued that the Moscow law violated the rights of many citizens in his district who wanted to move to Moscow but were prevented from doing so. However, he did not make the residency permits his top priority and began working in other regions to bring their laws into line with federal legislation. Later Poltavchenko announced that he believed that abolishing the residency law would violate the rights of the more than eight million Muscovites because the influx of new residents would put an excessive strain on the city's social infrastructure (*Nezavisimaya gazeta*, 25 April). Poltavchenko claims that he is addressing the residency issue, but that while the "power of representative is high, the power of mayor is real"

Critics of the permit system point out that it is a source of corruption since many non-Muscovites are willing to pay bribes to passport offices and housing committees to win a Moscow residency permit (NTV, 21 March). They also point out that the permit system creates a black market for labor. People living and working in Moscow illegally can be paid lower wages and given fewer benefits because their illegal status discourages them from complaining to the authorities about their treatment. - Robert Ortung

## **FURTHER READING**

Virginie Coulloudon, "Moscow City Management: A New Form of Russian Capitalism?" in Peter Rutland, ed., *Business and the State in Contemporary Russia*, Boulder, CO: Westview Press, 2001.

**REGIONAL RESOURCES ON-LINE**

**Russian Constitutional Court** (<http://ks.rfnet.ru/>) - The Court's official site includes texts from all of its decisions, including key decisions affecting the regions.

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## GOVERNOR'S ELECTIONS IN PRIMORSKII KRAI

**NAZDRATENKO-BACKED CANDIDATE LEADS AFTER FIRST ROUND, KREMLIN ROUTED.** Businessman Sergei Darkin, who was backed by former Governor Yevgenii Nazdratenko, will face State Duma member Viktor Cherepkov in a runoff on 17 June after they took first and second place in Primorskii Krai's 27 May gubernatorial election. With turnout around 40 percent, Darkin scored about 24 percent of the vote and Cherepkov won about 20 percent, according to preliminary results. Deputy Presidential Representative to the Far East Gennadii Apanasenko, who had the backing

of Presidential Representative Konstantin Pulikovskii and the Kremlin, failed to make the cut, taking only third place with about 14 percent of the vote. More than 8 percent of the voters cast their ballot marked "against all."

The surprise election results essentially mean that the fight between Nazdratenko and Cherepkov now continues. Considerable evidence exists to link Nazdratenko and Darkin. Darkin is the head of the Primore Bank, which Nazdratenko set up during his governorship under Darkin's leadership and appointed as the bank to serve the krai's business needs. He is also head of the Roliz fishing company. Nazdratenko's former press secretary, Natalya Vstovskaya, allegedly worked for Darkin's campaign. Before the campaign began, Darkin was largely unknown in the region. Local observers believe that his alleged ties to the criminal world helped him establish his businesses. He is married to the widow of the well-known krai underworld leader (*avtoritet*) Karpov, whose nickname is Karp. Unlike the other candidates in the race, Darkin was not connected to any of the krai's recent political scandals. According to his income declaration, he owns a house with 240 square meters of space, three Japanese cars, and has annual income of less than 200,000 rubles.

During the campaign, Darkin gave money and yellow t-shirts to hundreds of students, paying them to sweep the streets in the cities and villages of the krai. Many local pensioners were extremely grateful for these activities, since they never expected such attention to their day-to-day lives from the authorities. Darkin also promised to raise living standards fourfold during the campaign.

Cherepkov's supporters remember that when he was mayor he built new city roads that eliminated many of the most severe traffic bottlenecks on key highways. As mayor, Cherepkov also helped local pensioners by providing additional pension payments from the city and giving them free access to the public transportation system. Current Mayor Yurii Kopylov, who backed Apanasenko, is planning to cancel this benefit.

Apanasenko hoped to rely on his access to the state machinery to win. He cancelled an audit of Kopylov's activities as mayor and helped restore Nazdratenko-associate Konstantin Tolstoshein as acting governor. However, this strategy proved ineffective.

In the end, the local law enforcement agencies came out against Apanasenko. The day before the election, representatives of the krai branches of the Ministry of Internal Affairs, procurator's office, and Federal Security Service (FSB) issued a warning that 100,000 falsified ballots in favor of Apanasenko would be cast. A letter from Deputy Chief of the Primorskii Krai FSB Gromov cited "data that requires confirmation" that workers from the krai's raion administrations were preparing to cast the false ballots. This letter may have prevented Apanasenko from manipulating the votes, if he had ever intended to do so.

Apanasenko still has some hope of joining the runoff despite his third place finish. On 28 May two Apanasenko supporters filed a court case claiming that Darkin had bought votes. The case claimed that Darkin handed out the t-shirts in exchange for a promise to vote for him. The Kremlin would be extremely happy to see Darkin disqualified from the race since now it faces the prospect of dealing either with a governor backed by Nazdratenko or Cherepkov, both of whom the federal leadership considers unmanageable. Pulikovskii flew to Moscow on 28 May and local observers believe that the Kremlin will dictate a decision to the court based on its political interests. The court has promised to hear the case by 31 May. By then the Kremlin will have decided whether to continue backing Apanasenko or allow the elections to continue.

Also on 27 May, Vladivostok elected a city Duma for the first time since Yeltsin disbanded the soviets in 1993. The twenty attempts to elect a city legislature since then all failed due to low turnout. - Oleg Zhunusov in Vladivostok

## **CENTER-PERIPHERY RELATIONS**

**CHERKESOV, YEGOROV DISAGREE OVER STATUS OF KALININGRAD ECONOMIC ZONE.** In Kaliningrad, as in many other regions, there is an intense battle going on between Putin's presidential representative and the governor over who will control the region's financial flows. In particular, they are fighting over federal funds designated for the realization of the federal program to develop Kaliningrad.

Last week Presidential Representative in the Northwest Federal District Viktor Cherkesov announced that he had prepared a bill that would subordinate the management of the Kaliningrad Special Economic Zone to the federal government. Currently, the regional government manages the zone. Cherkesov admitted, however, that it would be a long time before the State Duma approved the bill.

Kaliningrad Governor Vladimir Yegorov expressed deep skepticism about Cherkesov's statement. He said that if the bill were approved, there would be two structures seeking to manage the zone simultaneously: the oblast administration and the new agency appointed by the federal government. Yegorov, who is opposed to the bill, warned that if it were adopted as law, it would divide power in the region and leave the oblast administration with nothing to do. Therefore, the governor is categorically against the adoption of this bill. - Yekaterina Vasileva in Kaliningrad

**KIRIENKO SEEKS TO USE REGIONAL LEGISLATORS AGAINST GOVERNORS.** On 18 May, Presidential Representative to the Volga Federal District Sergei Kirienko met with the chairmen of the regional legislatures in his district. This was the second such forum, following an earlier meeting between Kirienko and the legislators in February in Nizhnii Novgorod. The participants at the meeting established a coordinating council for the regional legislative chairmen. The council should develop a united approach for drafting regional legislation and bringing regional laws into line with federal norms. Putin is planning to meet with representatives of similar councils from all seven federal districts in June, so the regional legislators will have direct access to the president (*AiF Bashkortostana*, no. 21, May 2001). Kirienko said Putin would meet with the regional legislators once a quarter. The leadership of the council will rotate once a quarter among the different legislative chairmen so each will have a chance to meet with the president over time.

In setting up such an informal council, the Kremlin seems to be pursuing several goals. First, the Kremlin is seeking the support of regional legislatures on the eve of the State Duma's consideration of planned reforms of the judicial system, fiscal federalism, housing, labor relations, and other issues. Second, by devising a united regional approach to legislation, the Kremlin hopes to diffuse the separatist mood in regions like Tatarstan and Bashkortostan whose leaders oppose bringing their legislation into line with federal norms. Third, by giving the regional legislatures high political patronage, the federal authorities hope to change the political landscape in the regions where the governors often control the legislatures. By increasing the independence of the regional legislatures, the federal government will deprive the governors of a reliable partner in their efforts against the federal government.

Overall, the creation of such coordinating councils in the federal districts complements Putin's efforts to revive the federal executive's strength. Additionally, Putin's plan to meet with the legislative leaders is a useful supplement to the State Council, where Putin meets with the governors. The main condition for this project to work is the understanding in the center and the regions that liberal reform will not move forward in Russia without agreement between the center and the regions. The seven presidential representatives play the key role in this effort. They were able to advance the process of harmonizing laws because they were able to get the Justice Ministry, general procurator, and other federal agencies to work together.

One of the key issues discussed at the 18 May meeting was the federal government's plans to reform the system of fiscal federalism. According to First Deputy Finance Minister Aleksei Ulyukaev, the regions should stop seeking money from the federal budget and find investors. The regional leaders, however, are uncomfortable with this idea and would prefer to continue receiving money from the federal government. In this area, the regional legislative chairmen have more in common with the governors than they do with the federal government.

The main question for the regional leaders is the distribution of revenue between the federal and regional governments. The majority of representatives at the meeting represented donor regions and were angry that the federal government had taken a greater share of the revenue last year and planned to continue doing so this year. The regional leaders called for leaving the money under regional control. In doing so, they said that they were willing to take on the job of supporting federal agencies working in their regions and carrying out federal social programs. Tatarstan State Council Speaker Farid Mukhametshin said that his republic was willing to sponsor the neighboring depressed region of Marii El and invest in it all income that remained in Tatarstan above a 50:50 division of overall tax revenue between the federal and regional governments.

Kirienko wound up the discussion by pointing out that the state, at the federal or regional levels, should not have any responsibilities for which it did not have budget funding. This statement signified that Kirienko supported the government program of redistributing money from the donor regions to less well off regions. - Igor Rabinovich in Ufa

## **FISCAL FEDERALISM**

**GOVERNMENT EXTENDS FINANCIAL VICTORY OVER GOVERNORS.** At a 23 May meeting, Prime Minister Mikhail Kasyanov set the parameters of Russia's 2002 budget. As in 2001, the government plans to assign 55 percent of all tax revenue collected in the country to the federal government, leaving 45 percent to the regions (*Kommerant Daily*, 24 May). Maintaining this distribution is one of the key goals of the Finance Ministry. Before Putin's reforms, the regions had controlled over 50 percent of the tax revenue and the governors have complained bitterly about their loss of control over these money flows.

In 2002, the federal government will require firms to pay taxes in the regions where they actually conduct their activities rather than where they are registered. Since many companies are registered in Moscow, the capital currently gets a much larger share of tax revenue than it will under the new system. The government also plans to set up a social program co-financing fund, which will match every ruble a region spends on social programs with a federal ruble, regardless of the level of income in the region.

The 2002 budget seeks to end "unfunded mandates," costs regional governments must bear without adequate sources of financing to cover them. The government estimates that such mandates amounted to 600 billion rubles in 2001 or 8 percent of the country's GDP (*Nezavisimaya gazeta*, 24 May).

## **OLIGARCHS IN THE REGIONS**

### **ALFA BANK SIGNS AGREEMENT WITH CHELYABINSK ADMINISTRATION.**

Traditionally any serious bank seeking to work in Chelyabinsk has signed a bilateral agreement with the oblast administration. Such was the case with Tveruniversalbank, which during the non-payments crisis in the mid-1990s, offered the oblast veksel instead of cash. The same was true of SBS-Agro (then called Stolichnii Bank), which brought the region new means of non-cash payments. Soon after that bank signed an agreement with the governor, oblast and city employees, workers at major enterprises, and university professors and staff received their pay by means of the STB-Card, a debit card which they could use in local stores. SBS-Agro had close ties with former Governor Vadim Solovev, who lost his 1996 reelection bid to Petr Sumin, the current governor. Since Promstroibank was associated with Sumin, its fortunes rose after the election, while those of SBS-Agro declined. These banks sought special relations with the oblast, such as the right to issue the oblast's short-term obligations, provide credit for oblast programs, and receive and disburse oblast budget funds.

After the crash of 1998, when several major banks, including SBS-Agro, Promstroibank Rossii, and Inkombank, crashed, oblast officials began to cooperate with local banks. For a long time, the oblast officials saw Chelindbank, the largest regional bank, as the possible core of a gubernatorial bank, which would invest in the oblast and handle the oblast's finances. However, such a gubernatorial bank was never created, most likely because Chelindbank decided to preserve its independence. Then the main partner for the oblast became Snezhinskii Bank, where many of the best employees of Promstroibank had gone to work.

Against this background, Alfa-Bank Deputy Bank Council Chairman Oleg Sysuev signed a cooperation agreement with the oblast administration on 25 May. Alfa-Bank opened its first branch in the oblast at the end of 2000. The bank hopes to work with medium and large businesses in Chelyabinsk. However, it is the first of the major banks to come to the region and not seek special relations with the administration.

The bank has expressed an interest in working in major investment projects in the region. In the largest single project, Sysuev and Sumin signed an agreement for the bank to provide a 550-600 million ruble loan to finish construction of a local energy station. Overall, Alfa-bank has agreed to several projects worth over \$5 million. Because the value of the loans is more than double the value of deposits Alfa has collected in the region, Alfa-Bank boasts that it is bringing money to the region, not taking it away. Judging by its first steps in the region, Alfa-Bank is not counting on good ties with the oblast authorities to increase its business, but a more pragmatic, commercial approach. - Igor Stepanov in Chelyabinsk

## **POLITICAL PARTIES IN THE REGIONS**

*On 28 May Yedinstvo leader Sergei Shoigu stated that the anticipated merger between Yedinstvo and Moscow Mayor Yurii Luzhkov's Otechestvo, announced on 12 April, would not take place after all. At most the two parties will try to form a common electoral bloc. Reports from the regions, like this one from Perm, show that whatever the two parties' national leaders planned to do, there was little chance for the merger to succeed at the regional level in most places.*

**ATTEMPT TO CREATE YEDINSTVO FACTION IN PERM LEGISLATURE FAILS.** Perm Yedinstvo leader Vladimir Rybakin made an unsuccessful attempt to establish an Yedinstvo faction in the Perm Oblast Legislative Assembly on 24 May. Currently the Perm Oblast legislature does not have any factions linked to national political parties. There are three groups of deputies: Industrialists of the Kama River Region, which has 18 members who are mainly the directors of local enterprises; Dialog, made up of 7 members elected from constituencies in Perm city, and Matter of Life (*Delo zhizni*), with 4 members. The other deputies are independents (<http://parlament.perm.ru/deputats/>). The industrialists work in support of local industry, while the other two groups have political goals. Dialog backs a liberal ideology, while Matter of Life is more social-democratic.

By noon 24 May, 12 deputies had agreed to join Yedinstvo. However, it failed to secure registration because the other deputies decided that establishing such a faction would interrupt the normal work of the legislature (Region-inform-Perm, 24 May).

Faced with this setback, the leaders of Yedinstvo and their allies in Otechestvo could lose a considerable amount of time in organizing for the Perm Oblast legislature elections which are set for the fall. Rybakin and Otechestvo leader Mariya Batueva so far have only agreed on creating a coordinating committee. Part of the Otechestvo leadership has blocked any attempts to speed up the merger of the two parties (*Permskii obozrevatel*, 21 May). - Konstantin Kolyvanov in Perm

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ALTAI REPUBLIC REJECTS ALTAI KRAI CALLS FOR MERGER.** Against the background of a national discussion about combining some of Russia's 89 regions into a smaller group of larger regions, a serious scandal has driven a wedge between the leadership of the Altai Republic and the Altai Krai, of which the republic was once a part. Recently the head of the krai's legislature, Aleksandr Nazarchuk, said that he thought the time was right for the republic to once again be reunited with the krai. Nazarchuk suggested that the merger would help revive the wheezing republican economy by bringing in new investors. Observers believe that Nazarchuk's statement reflected the interests of some entrepreneurs who would like to invest in the republic, but only under the patronage of the Altai Krai leadership. Such guarantees can only be implemented if the krai controls the republic. Altai Krai Governor Aleksandr Surikov has indirectly supported the idea.

However, the republican leadership has denounced the proposal. Altai Republic Governor Semen Zubakin said that carrying out the merger would require amending the Russian constitution and that the desire of some politicians to make such a change would not be enough to do so. He also said it would be insufficient to conduct a referendum in the region that would be merged, declaring that a national referendum on the issue was needed instead. Additionally, Zubakin argued that the republic had gained more than it had lost from becoming an independent region. In contrast to the krai, the republic does not owe any payments to its civil servants, pensioners, or veterans. Zubakin characterized the

proposal by the krai leaders as an attempt to take over the republic, which has a strategic location at the crossroads of Russia, Mongolia, China, and Kazakhstan and would benefit from the construction of a gas pipeline and highway to China. Zubakin called on all who supported the republic's independence to join the ranks of a non-political organization called Zolotoi Altai (Golden Altai).

Much of the controversy in the region about the issue is a result of the upcoming gubernatorial elections. Zubakin, the only governor in Russia associated with the Union of Right-wing Forces, faces strong opposition in the republican parliament. Although none of the republican politicians supports the merger proposal, several are considering campaigns against Zubakin and plan to work separately to preserve the republic's independence. - Maksim Shandarov in Novosibirsk

**KURSK GOVERNOR IMPROVES FEDERAL RELATIONS, STRENGTHENS HAND AT HOME.** After six months in office, Communist Kursk Governor Aleksandr Mikhailov has dramatically improved his region's ties with the federal government and strengthened his position at home. Even though Mikhailov won office on the basis of the slogan "Denounce the Anti-People Regime," he has been relatively restrained in his comments on Putin's policies. He notes that Putin has much in common with the Communist Party of the Russian Federation in his solutions for Russia's problems and that these common links provide the basis for joint work (*Kurskaya Pravda*, 22 May). Mikhailov has already convinced Prime Minister Mikhail Kasyanov and several other ministers to provide 136 million rubles in federal funding to continue the program of supplying natural gas to the region, 180 million rubles for social needs, and 69 million rubles to complete the Kurskaya Duga memorial complex begun under former Governor Aleksandr Rutskoï. The oblast also has signed an agreement with the Agriculture Ministry on leasing farm equipment worth 36 million rubles. All these agreements suggest that the oblast has improved its relationship with the federal center. Putin's administration had backed the local head of the Federal Security Service in last year's gubernatorial campaign and Mikhailov's victory was a significant defeat for the Kremlin.

At home, Mikhailov has strengthened his position by putting his people in place in the oblast and raion administrations. The personnel replacements at the oblast level proceeded smoothly, but Mikhailov has run into trouble at the raion and city level. According to Kursk's charter, the governor has the right to name the heads of 28 raion administrations, while the heads of 511 municipalities are elected directly by popular vote.

Mikhailov has used his powers to strengthen executive power (mimicking Putin) within the oblast in the interests of the Communist party. He has replaced 10 raion chiefs whom Rutskoï had appointed on the basis of personal loyalty. These moves were popular because the law enforcement agencies had accused these officials of taking bribes. However, Mikhailov's decision to replace raion heads in other raions were unpopular.

In the middle of April, Mikhailov created a new post: gubernatorial representative to each of the 28 raions within the oblast. This position is similar to that of Putin's presidential representative. By the end of May, 17 of these officials had started working in their new capacity. These representatives are subordinate to Deputy Governor Igor Astapov and their duties include monitoring the implementation of federal laws, presidential decrees, government orders, governor's directives, and other instructions. It is not clear how they will coordinate with the raion procurators. The other task of the representatives is to collect information about the true state of affairs in each of the raions. Since the governor assigned his representatives this task, it is clear that the administration does not trust its own appointees to head up



each of the raions. The representatives also are supposed to coordinate the work of regional and local officials in conducting elections and referendums. Such an assignment suggests that their priority is to ensure that the electoral results favor the governor.

All of the representatives that Mikhailov has appointed so far are members of the Communist Party. Mikhailov says that relying on his fellow party members makes sense given that all of them think alike, have good working relations, and maintain party discipline. Many of the appointees are unpopular. Unfortunately, Mikhailov's reliance on ideology to appoint state officials violates the oblast charter. - Sergei Sarychev in Kursk

## **LAW ENFORCEMENT AGENCIES**

*One of Putin's main purposes in establishing the seven federal districts was to fight corruption in the regions. However, on this score his representatives have so far failed to make much headway. The following reports show significant problems in the northwest and in Smolensk, one of the most crime-ridden regions of the Central Federal District.*

### **CHERKESOV CONCERNED ABOUT POOR LAW ENFORCEMENT IN NORTHWEST.**

On 23 May, after a meeting of the district's council to coordinate the work of law enforcement agencies, Presidential Representative to the Northwest Federal District Viktor Cherkesov said that he was unhappy with the work of law enforcement agencies in the battle against corruption in Novgorod, Leningrad Oblast, and Kareliya. The meeting dealt with measures to fight corruption among regional and local officials and in the law enforcement agencies.

Cherkesov said that law enforcement work in the three regions was deteriorating. He also expressed alarm about the situation in the Nenets Autonomous Okrug "where there is a complete absence of such work." He blamed the inadequacy of law enforcement in the Nenets Okrug on the local agencies' lack of qualified and experienced employees. Cherkesov hopes to merge the Nenets law enforcement agencies with those of Arkhangelsk Oblast. While the Nenets okrug is an independent member of the Russian Federation, it is simultaneously part of Arkhangelsk Oblast. Cherkesov identified St. Petersburg, Arkhangelsk, and Murmansk as positive examples where the success rate against economic crimes and corruption has jumped 50 percent since the beginning of the year. - Maksim Timofeev in Petrozavodsk

**JAILED SMOLENSK DEPUTY GOVERNOR CHARGED.** After jailing former Deputy Governor Yurii Balbyshkin more than six months ago, the authorities finally filed charges against him. The procurator officially charged Balbyshkin with participating in a deal to sell the Bakhus factory to the Bryntsalov group, concealing taxes, and violating workplace rules with the goal of making a personal profit. Charges that Balbyshkin participated in the contract killing of the well-known "Vesna" radio journalist Sergei Novikov and Bakhus Director Sergei Kolesnikov were dropped. Moreover, Balbyshkin will not face any further investigations into his activities as the alleged head of the Smolensk mafia. However, the oblast procurator asked the Russian procurator to extend Balbyshkin's stay in jail for another two months. This request was granted immediately.

The arbitration court is still investigating the deal to sell the Bakhus factory (*Smolenskie gubernskie vedomosti*, 8 May). The tax evasion charges focused on Balbyshkin's use of a mobile

phone. The former deputy governor reportedly ran up a large bill, which was covered by the company that provided the phone. Balbyshkin should have reported this sum as income and paid taxes on it. The charges of violating workplace rules resulted from Balbyshkin taking additional vacation days, allegedly to draw additional money from the state. These official charges are extremely minor compared to allegations in the media that Balbyshkin took bribes as large as \$500,000.

While Balbyshkin sits in jail, the crime wave continues in Smolensk. Assassins continue to pick off members of Tigran Petrosyan's group. Petrosyan was killed in Moscow at the end of 2000. Aleksei Sidorenkov, a well-known member of the group, was hit at the end of April and his friend Aleksandr Tachanov was murdered on 7 May. On 4 May one of the most important underworld bosses (the only official "criminal in law" [*vor v zakone*] in the region), Bezhan Kukav, was killed. Police attempts to solve the cases have proven unsuccessful (*Smolenskie novosti*, 8 May).

Smolensk Governor Aleksandr Prokhorov continues to call Balbyshkin his friend and hopes that he will quickly return to his official duties in the governor's administration. - Arsentii Ledovskoi in Smolensk

## LOCAL GOVERNMENT

**EX-MAYOR, A FOE OF SARATOV GOVERNOR, ARRESTED.** On 25 May Saratov Procurator Anatolii Bondar arrested former Balakovo Mayor Aleksei Saurin, who achieved national prominence for his conflict with Saratov Governor Dmitrii Ayatskov. Bondar denied that the arrest was politically motivated.

Saurin's conflict with Ayatskov began at the end of 2000 when the governor tried to remove him from office. Members of the city council elect all mayors in Saratov Oblast cities except Balakovo, where Saurin sought to stand for popular election as provided for by the city charter. The elections were supposed to take place on 24 December 2000, and Saurin seemed assured of victory. However, Ayatskov, with the support of the local Federal Security Service, police, oblast government, and oblast electoral commission tried to disrupt the elections (*Moskovskii komsomolets v Saratove*, 25 January). Despite these efforts, the governor did not succeed and Saurin won a spot in the runoff. Subsequently, Ayatskov fired Saurin from his position as mayor and the electoral commission deprived him of his seat in the city council. At Ayatskov's urging the city council then elected Valentin Timofeev mayor in violation of city law, which requires that the mayor be elected directly by popular vote.

Saurin then filed suit in the Russian Supreme and Constitutional courts, seeking to restore his position. Recognizing that a decision in favor of Saurin could hurt him politically, Ayatskov sought to defend himself by ordering an investigation into Balakovo's finances under Saurin's leadership. As a result of those investigations, Saurin was arrested. To prevent observers from describing the arrest as being politically motivated, the procurator also arrested two raion administration heads, something that had not happened in Saratov since September 1996, when Ayatskov was first elected to office. Procurator Bondar denied that the arrest was political and said that Saurin refused to cooperate with the investigation.

The investigators believe Saurin may have committed crimes in several cases. First they allege that the city apparently paid 8 million rubles for tractors that should have cost 2.1 million rubles. Additionally, the city acquired an Audi A8 for just 2,000 rubles. The procurator also cited a case where state money was paid to the newspaper *Komsomolskaya pravda v Saratove* for a favorable article

about Saurin. Saurin said that he could not come to the procurator's investigative sessions because he was in Moscow awaiting the decision of his court cases.

On 28 May, outside the oblast procurator's office in Saratov city, where Saurin is being held, citizens protested the former mayor's arrest. Numerous protests also are taking place in Balakovo, including protests against the city's illegally elected leadership. - Yuliya Eliseeva in Saratov

## **THE REGIONAL ELITE**

**WHO ARE RUSSIA'S GOVERNORS?** On 24 February 2000 the RRR published an article examining the makeup of Russia's governors. Since then more than half of Russia's 89 regions held gubernatorial elections. With nearly two-thirds of the incumbents reelected, the face of Russia's regional elite remains much like it was at the beginning of last year. However, there are a few incipient trends worth noting.

The average age for a governor is just under 53, down slightly from the average age of 53.5 at the beginning of 2000. All the governors are male, as Koryak Autonomous Okrug Governor Valentina Bronevich, the only female, was defeated in her reelection bid. While nearly half of the governors were in some way active in the Communist Party, only two -- Yegor Stroevev of Orel and Aleksandr Dzasokhov of North Ossetia -- held politburo positions before the collapse of the Soviet Union. Eight of the governors are former military men, up from seven at the beginning of 2000. There are a half-dozen businessmen, reflecting the increased activities of national and local oligarchs in politics. Most of the other governors started their careers in either agriculture or some form of industry prior to entering politics.

Of the 46 elections held in 2000 and 2001, only eleven incumbents were defeated by challengers, although in three other cases the governor's designated successor was defeated. Aleksandr Nazarov, who had been the governor of Chukotka, withdrew from the campaign one week before the election with the promise that he would be appointed by the new governor (Roman Abramovich) as his delegate to the Federation Council. Another governor, Aleksandr Rutskoii of Kursk, was removed from the election by the courts. Two other new governors were backed by their outgoing predecessors. All in all, 18 new men have been elected, with another on the way in Primorskii Krai to replace Yevgenii Nazdratenko who resigned in February.

While Putin's administration generally has not been very effective in determining who Russia's governors will be, it has removed some of the most notorious figures from among the regional elite. Putin secured Primorskii Krai Governor Yevgenii Nazdratenko's resignation in February 2001. Former Kaliningrad Governor Leonid Gorbenko fell to defeat at the hands of Vladimir Yegorov in elections at the end of 2000.

The most obvious trend in the recent elections is the growing number of businessmen among the governor's ranks. The two most notable businessmen are the 35-year-old Roman Abramovich in Chukotka and his 36-year-old counterpart in Taimyr, Aleksandr Khloponin. Abramovich has major holdings in oil and aluminum, while Khloponin is in charge of Norilsk Nickel. Others with business backgrounds are Vladimir Loginov of the Koryak autonomous okrug, Aleksandr Tkachev of Krasnodar, and Yurii Trutnev of Perm - all recently elected.

The Communists also have done reasonably well in the last year. Currently, twelve governors identify themselves with the Communist party, which represents an increase from October 1999. In the

2000 and 2001 elections, Communists won three new governorships and successfully defended four more. In Krasnodar, the Communist incumbent chose not to run, and while the victor, Aleksandr Tkachev, is not a party member, he did have the outgoing governor's support. The Communists lost two seats: in Tambov, Oleg Betin regained the post that he had lost in 1995, and in Amur, the winner was Leonid Korotkov, who was a member of the Communist Party until he was excluded in 1999 for running as an independent for the State Duma. Korotkov is an interesting case: while most Communist governors are in their 50s or 60s, he is only 35, perhaps explaining some of the conflict between him and the party.

The success of incumbents in the 2000-1 elections means that their average level of experience has increased. When 2000 began, 52 governors were in their first terms of office; today the figure is 37. On average, governors have spent approximately 4.6 years in office.

Some of the most prominent governors of the past now have considerably reduced stature. Moscow Mayor Yurii Luzhkov and Krasnoyarsk Governor Aleksandr Lebed were once presidential contenders. Now they are increasingly hemmed in by the federal authorities.

These trends suggest that future governors will be younger and more pragmatic. With the exception of the Communists and some of the veteran governors such as Sverdlovsk's Eduard Rossel and Tatarstan's Mintimer Shaimiev, there is little organized opposition to Putin. On the other hand, the governors are not beholden to Putin either, and therefore will be happy to work with him when it serves their interests and go their own way when that seems more profitable. The continuing lack of national political parties and the various interests of the regions means that there will be little reason for cohesion among the governors in the future, just as has been the case in the past. - Marc Weinstein, EWI Intern

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## **GOVERNOR'S ELECTIONS**

**DARKIN SET TO WIN PRIMORSKII GUBERNATORIAL ELECTIONS.** The Primorskii Krai Court rejected the suit filed by pro-Kremlin candidate Gennadii Apanasenko on 1 June and allowed Sergei Darkin, a relatively unknown candidate backed by former Governor Yevgenii Nazdratenko, to face State Duma member Viktor Cherepkov in Primorskii Krai's gubernatorial runoff set for 17 June. Apanasenko will return to his job as first deputy presidential representative in the Far Eastern Federal District in Khabarovsk without appealing the court decision.

Nazdratenko scored a decisive victory in the elections. His protégé Darkin not only entered the second round against all expectations, but also beat back the court case. In Moscow, Nazdratenko set up a warm reception for Darkin at the presidential administration where he met with Chief of Staff Aleksandr Voloshin (but not Putin) and presented Darkin to the capital's political establishment. Now Nazdratenko is mobilizing his Primorskii Krai network of state employees to help Darkin.

The task for Darkin in the second round will be much different from the one that he faced in the first round. Where he faced 12 opponents in the first round, Darkin only challenge now is to defeat Cherepkov, an enemy that Nazdratenko has long fought. Nazdratenko will be able to employ all of the administrative resources that he successfully and effectively employed against Cherepkov during their long-standing conflict.

Nazdratenko's longtime associate Konstantin Tolstoshein remains the acting governor. Apanasenko said that he saw no way of removing Tolstoshein from the office. Tolstoshein should have given the position of acting governor back to Valentin Dubinin, but instead has moved Dubinin's office from the "governor's floor" of the administration building to the less prestigious third floor. No one doubts that Tolstoshein will support Darkin in the second round, particularly since in the first round he called the heads of the krai's raions and ordered them to secure Darkin's victory or prepare their resignations.

Although Darkin is new to krai politics, he is well known in its business circles. According to some reports, in the early 1990s, Darkin set up his fishing firm Roliz (Russian Leasing) with \$2 million from his father-in-law by his first marriage. His father-in-law was Anatolii Golovizin, the former first secretary of the Communist Party of the Soviet Union's krai committee (14 May 1990 - August 1991). According to some sources, Darkin received funds from the Communist Party. When the party allegedly asked for the money back, Darkin fled to the USA for six months. Darkin denies that he received any money from the Communist Party (*Kommersant Daily*, 1 June). He was able to return to the region thanks to the widow of Karpov, a well-known organized crime leader. Darkin married Karpov's widow after divorcing his first wife. Darkin claimed that attempts to link him to the criminal world were "completely baseless" (*Izvestiya*, 2 June). Thanks to his personal connections, however, he established good relations with Nazdratenko who appointed him to the newly created position of president of the Primore Bank, which provided banking services to the Primorskii Krai administration.

Observers believe that with his strong financial and administrative backing, Darkin will have no trouble winning the governorship. His victory demonstrates the limits of Putin's newly created presidential representatives in the regions. Both Kremlin candidates failed to reach the runoff: Admiral Igor Kasatonov dropped out of the race before election day and Apanasenko took third place. Having fired Nazdratenko, Putin will now have to work with his protégé and face the same problems that Moscow traditionally has had with Primorskii Krai. - Oleg Zhunusov in Vladivostok

## **PATTERNS OF REGIONAL DEVELOPMENT**

**RESIDENTS SEEK RECALL OF NOVOSIBIRSK GOVERNOR.** The situation at the Novosibirsk Electrode Factory is continuing to deteriorate, causing considerable problems for



Novosibirsk Governor Viktor Tolokonskii. The factory is one of Russia's largest producers of electrodes for the aluminum industry. The taxes it generates make up a large part of the oblast budget and it is the main employer in the city of Linevo, where thousands of its workers and their families live.

A year ago Energoprom, a company close to the Trans World Group, took control over this factory from its previous owners, the Siberian Ural Aluminum Company (SUAL). Trans World once owned a large share of the Russian aluminum sector, but has since been forced out of many of its plants. Currently the courts are hearing several cases seeking to determine who actually owns the factory, but Energoprom is in effective control.

Most observers believe that Tolokonskii helped Energoprom take control over the plant after he was elected governor in January 2000. Energoprom contributed to Tolokonskii's election effort. The plant exports millions of dollars worth of goods a year.

However, after a year of Energoprom's leadership, production levels at the plant have dropped. The new owners have transferred a large part of the raw material and valuable equipment from the plant to the Chelyabinsk Electrode Factory, one of the Novosibirsk's plants main competitors. The new owners of the Novosibirsk Electrode Factory have paid for a major campaign in the media claiming that the situation at the factory is fine. Linevo residents do not believe these assertions and have sought unsuccessfully to win a hearing from the Novosibirsk Oblast Soviet. Now, in order to have their concerns addressed, the citizens have launched a drive to gather signatures in support of recalling Governor Tolokonskii, who, the residents believe, is destroying the plant by doing nothing. - Maksim Shandarov in Novosibirsk

**IRKUTSK, UST-ORDA BURYATIYA START MERGER PROCESS.** Irkutsk Oblast and the Ust-Orda Buryatiya Autonomous Okrug, which is simultaneously a separate region and part of Irkutsk Oblast, agreed on 31 May to merge their agricultural budgets under the operational control of the oblast. According to Ust-Orda Buryatiya Governor Valerii Maleev the two regions will sign a preliminary agreement in June and a final agreement before the end of the harvest season.

"We cannot wait for the oblast and okrug to merge. These processes depend more on Moscow than on us," Maleev said. Therefore the two regions decided to go ahead with the smaller step of merging their agricultural budgets. A similar agreement was signed last year on healthcare, giving residents of the okrug the same access to oblast hospitals that oblast residents enjoy. Additionally, the budgets of the federal tax police for the oblast and okrug already have been merged. Maleev said that now negotiations are underway between the okrug and oblast tax inspectorates (a separate service from the tax police). The merger treaties must be signed by both governors and ratified by both regional legislatures before they take effect, according to Ust-Orda Buryatiya Duma Chairman Aleksei Khorinoyev. - Teleinform in Irkutsk

## **TAX ISSUES**

*On 27 April the federal government introduced a bill into the Duma that would change the way Russia taxes the extraction of natural resources. The effect of the tax would be to reduce the income of the country's oil companies and the regions, concentrating this*

*money in the hands of the federal government. Governors of hydrocarbon-rich regions, such as Tyumen Oblast, Khanty-Mansii, Yamal-Nenets, Krasnoyarsk, and Perm have denounced the proposal. Tyumen Oblast would lose the most of all regions: 21 billion rubles a year (Izvestiya, 1 June). Perm analysts believe that the tax would deprive the region of 1.5 billion rubles a year at a time when its budget for 2001 is 23 billion rubles. This bill and other federal initiatives have aroused considerable concern in the oil and gas industry.*

**OIL FIRMS, GOVERNORS BLAST FEDERAL ENERGY POLICY.** At the third Congress of Oil and Gas Industrialists held in Ufa 23-25 May, representatives of Russia's major oil companies and regional leaders from oil producing regions sharply criticized the federal government's energy policies. The conference included representatives of more than 60 Russian companies from the oil and gas sector and key government officials.

The participants accused the government of not preparing a unified development strategy for the oil and gas sector, particularly in terms of tax policy. Oil executives are concerned about the State Duma's discussion of a new tax on extracting oil that would replace existing taxes. LUKoil Vice President Vitalii Lesnichii said, if adopted, this law would increase oil company tax payments by 150 percent and cut investments by 25 percent. He claimed that the new tax also would force the companies to cut their output.

Khanty-Mansii Governor Aleksandr Filipenko charged that the tax code adopted in 2000 has significantly damaged the development of the oil and gas industry by canceling benefits regional government had provided to stimulate growth at oil and gas enterprises. Filipenko demanded the reduction of taxes on oil companies. He also complained that the government's decision to keep a larger share of the money generated by oil taxes deprived the regional authorities in oil and gas regions of a stimulus to develop the industry and their regions in general.

Oil industry representatives argued that the state should implement protectionist measures to improve conditions for developing the energy sector. According to Union of Oil and Gas Industrialists President Vladimir Medvedev, Russia should align its geopolitical goals and all industrial sectors with the commercial interests of the oil and gas sector. The oil and gas industry's main problem now is the need to modernize its equipment. Medvedev noted that the industry could not finance the necessary upgrades with its own money. He suggested the creation of a special state investment bank, which would receive money from the federal tax on the companies' super profits and rent payments. He also suggested the creation of a state oil reserve, which would serve as collateral in attracting strategic foreign investment, of which \$17-20 billion a year is needed for the sector to grow to its full potential. Simply maintaining oil production of 300 million tons a year requires \$3 to 3.5 billion annual investment. - Igor Rabinovich in Ufa

## **BUSINESS AND POLITICS**

**LEBED, DERIPASKA, CHUBAIS BATTLE OVER KRASNOYARSK POWER, ELECTRICITY, ALUMINUM.** Two weeks ago Krasnoyarsk's electricity utility

(Krasnoyarskenergo, a subsidiary of the national monopoly Unified Energy System -- EES) reduced power to the Krasnoyarsk Aluminum Factory (KrAZ), which is one of the key factories in Oleg Deripaska's Russian Aluminum holding company. The power reduction shut down 7 of the factory's 24 electrolysis wings, costing the factory millions of dollars and sending toxic fumes into the atmosphere, according to factory managers. KrAZ representatives also said that the shutdown did irreparable damage to their machinery, which is designed to operate without interruption. The utility then carried out a second blackout, this time shutting down the factory's social services complex (hospitals, cultural centers, etc.) rather than its production lines.

The electricity providers said that the shutoffs could have been avoided. The conflict between the utility and factory began in September 2000 when the Regional Energy Commission, which is controlled by Governor Aleksandr Lebed's administration, decided to stop selling KrAZ electricity at preferential prices. From then on, KrAZ had to pay 28 kopecks per kilowatt-hour instead of 18. The factory did not accept the decision and filed suit. Factory managers also declared that they would pay the old price for electricity until the court issued a ruling.

On 28 April, the court ruled in favor of the utility. The electricity providers immediately announced that the factory owed them 814 million rubles since September and 5 billion rubles overall. The utility carried out its threat to cut electricity supplies when the factory did not pay, cutting supplies by 20 percent, from 1.62 megawatts to 1.3 megawatts. The utility said that it gave the legally required one-week warning before the cutoff; the factory managers said that cutoff was illegal.

Krasnoyarsk Governor Aleksandr Lebed has backed the utility, which he sees as a likely sponsor in the region's next gubernatorial election. Of the 120 million rubles per month that KrAZ did not pay for its electricity, 16 percent should have gone to the oblast budget. Overall, the oblast has lost \$5.3 million in unrealized revenue. It is also well known in the region that Lebed gets along much better with EES Director Anatolii Chubais than Deripaska.

Lebed said that he thought Krasnoyarskenergo's prices were completely justified, especially since the utility would not be able to prepare for winter if it did not receive the money it expected from KrAZ. However, Lebed did not mention that Irkutskenergo, which like Krasnoyarskenergo is able to generate electricity from hydro-electric dams, charges much less than Krasnoyarskenergo. Lebed also claimed that Russian Aluminum had bought insurance protecting its factory against a blackout. As a result, he claimed, the holding company's owners were indifferent to the fate of the factory and its workers. Russian Aluminum representatives mentioned their concern about the factory as one of their top priorities.

Krasnoyarskenergo is itself a debtor to the national electricity wholesale market (FOREM) and FOREM managers have been pressuring the utility to crackdown on its customers to ensure that they pay their bills. At the moment, the situation remains extremely tense. Any further blackouts will be illegal, but the utility does not want to recognize this fact. In 1998 Lebed declared "this court decision does not suit us and therefore we will not implement it." He is likely to operate similarly in this case. The only thing that both sides agree on is that continuing the battle will only harm Krasnoyarsk. - Mikhail Mishkin in Krasnoyarsk

**KURSK GOVERNOR, INVESTOR AGREE TO NEW DIRECTOR FOR METAL PLANT.** Relations between recently elected Kursk Oblast Governor Aleksandr Mikhailov and the leadership of the Mikhailov Mining and Processing Plant, the largest enterprise in the region, have been difficult since the beginning of his term. The plant, owned by the Metalloinvest holding company, is Russia's second largest producer of iron ore and the oblast budget depends heavily on its tax revenue.

Relations between the plant and former Governor Aleksandr Rutskoï were much better. Rutskoï secured the Metalloinvest's favor because Rutskoï won an agreement with the federal government for a 50 percent reduction in electricity prices for the plant and kept this discount in place during his entire term. Rutskoï also reached an agreement with the Moscow railroad to carry ore from Kursk Oblast at a lower price in exchange for subsidies from the Kursk budget for passenger routes in the region. The tripartite deal (governor, factory, railroad) suited everyone since the oblast increased its tax income, the railroads increased their volume of cargo and passengers and received money from the oblast budget, and Metalloinvest received lower rates in transporting its iron ore. However, this contract was based on Rutskoï's personal connections and collapsed after he lost his reelection bid.

The post-Rutskoï conflict between Metalloinvest and the Kursk branch of the Moscow railroad over the price for transporting iron ore resulted in the ore being transported through Orel, thanks to the special efforts of Orel Governor Yegor Stroev. As a result the Railroads Ministry has merged the Kursk branch of the railroad into the Orel branch. The conflict between Metalloinvest and the Unified Energy System, the national monopoly that owns Kurskenergo, led to a week-long blackout at the factory and a decision to lift the previous discounts leading to higher prices for the iron ore and the steel made from it. The utility always wins these disputes because it can simply switch off the electricity. As a result of such conflicts, the oblast government lost out on hundreds of rubles of income for the 2001 budget.

Confounding Metalloinvest's difficulties in coping with higher electricity and transportation prices, conflict erupted between the company and the new oblast administration in February 2001. Members of the Mikhailov Mining and Processing Plant Board of Directors who are also members of the Oblast Duma actively blocked Governor Mikhailov from placing an ally in the chairmanship of the Duma and as the Duma's representative to the Federation Council. Mikhailov Plant Director Vsevolod Vukolov orchestrated this political maneuvering. Vukolov was not able to thwart the governor's plans, but his opposition required Mikhailov and his Communist allies to work harder to achieve their goals.

Since only the utility seemed to gain from the conflict, the governor, factory, and railroad had a strong incentive to work together and the governor ordered the drafting of a new agreement between the oblast administration and Metalloinvest. After three months of negotiations, the administration and Metalloinvest signed an agreement on 30 May.

Under the terms of the agreement, Metalloinvest agreed to invest 250 million rubles to refurbish the plant. It also agreed to pay its oblast taxes on time and set up a schedule for paying back its debts. In exchange, the oblast government agreed to give the firm a "free hand" in management issues and support in seeking lower electricity prices. However, the plant made some key personnel moves to please the governor. Director Vukolov will leave his post as head of the plant and instead become a vice president of the Metalloinvest holding company in charge

of new investment projects. Sergei Shcherbin, the former deputy general director of the Orel Steel Rolling Mill, will serve as acting director and handle all day-to-day operational and strategic issues. Additionally, one of the governor's allies was appointed first vice president of the Metalloinvest company. - Sergei Sarychev in Kursk

## **STATE COUNCIL**

*On 29 May, the State Council discussed the issue of housing reform. In past State Council meetings, there have been significant disagreements over substantive policy and institutional issues such as how to restructure the electricity monopoly or how to divide power between the federal and regional governments. In the 29 May meeting, the president, government, and governors largely agreed on what needed to be done. The main dispute was over who would pay for it, with the governors seeking more from the federal government than it wanted to give.*

### **PRESIDENT, GOVERNMENT, GOVERNORS DISCUSS HOUSING REFORM.**

Well-off Russians could soon be paying for 100 percent of their communal services, according to a discussion of housing reform at the State Council on 29 May. However, the government has yet to determine who is well-off and who is not. The plan's author, Chairman of the State Construction Committee Anvar Shamuzafarov, also does not know where the state will find the money to help poor residents cover the increased costs they may soon face. Currently federal, regional, and local authorities provide about 130 billion rubles a year in subsidies for the housing and communal services sector (*Nezavisimaya gazeta*, 31 May). Shamuzafarov believes that direct aid to families this year will be 30 billion rubles, 10 times more than last year. Families that spend more than 22 percent of their income on housing and communal services can expect aid.

Housing reform has been under discussion for ten years, but little has happened. The main idea now is to end direct state subsidies for housing, which would force everyone to pay for 100 percent of the cost of rent and housing subsidies. The government would then provide aid to poor families that could not cover the costs.

The governors agree that something must be done because much of the burden for unfinanced housing now lies on regional and local governments. The main political and economic deal-making between federal and regional authorities focuses on how to divide the responsibility for the increased costs the population will face. The State Council believes that assuring a stable transition in the housing sphere over the next ten years will cost 554 billion rubles.

The federal government and governors agree that some federal financing is necessary, but disagree on the exact amount: the federal government wants to cover 10 percent of the costs, while the governors want the federal budget to cover 20 percent of the costs. The federal government will only establish guidelines stating what households should pay for their apartments and services, leaving the regions free to set prices within this framework. Guidelines for each region will be based on the inflation rate, energy prices, and regional income levels. Naturally, the governors can be expected to lay the blame for the new costs on the federal government and seek greater compensation from the federal budget.

Following up on the State Council discussion, on 30 May the government approved a decision to require the population to pay for 100 percent of housing and communal service costs beginning on 1 January 2004. As the president and governors agreed, families can expect assistance if they pay more than 22 percent of their income. - Pavel Isaev in Moscow

## **CENTER-PERIPHERY RELATIONS**

**LUZHKOVA CONTINUES TO LOSE STATUS.** Moscow Mayor Yurii Luzhkov's attempts to return to the center of the national political stage, even if only as a vassal loyal to the federal authorities, have failed. Last week, the plans to merge the pro-Kremlin Yedinstvo party and Luzhkov's Otechestvo collapsed. Yedinstvo leaders rejected an Otechestvo proposal that both parties should disband and then merge as equals. Yedinstvo leaders want Otechestvo to join their party without preserving any of its own structures. Otherwise, Yedinstvo leader Sergei Shoigu suggested that the merger should really just be a coalition to field joint candidates in elections rather than a full unification. In short, the process of merging the two parties has been abandoned. On 5 June Luzhkov announced that Otechestvo would itself become a political party in the fall.

For members of Otechestvo, the break means that they cannot count on spots on the Yedinstvo party list and may provide another reason to criticize Luzhkov. For the mayor, the collapse of the merger means that his attempt to block confrontation with the federal authorities has failed. As a result, the federal authorities may continue attacking Luzhkov's positions in Moscow (see *EWI Russian Regional Report*, 23 May).

In the latest example of such attacks, the federal Culture Ministry has unilaterally decided to impose federal control over the various monuments located in the heart of the capital. The city currently controls many of these monuments. This move is expected to deprive the city of considerable sums to be earned from the use of these properties.

Money is now very tight for the city. Head of the Moscow City Government Department of Finances Yurii Korostelev announced that the city would cut profit tax benefits given to enterprises working on priority programs. Now these programs will be funded directly from the budget. Additionally, Head of the Moscow branch of the federal Tax Collection Ministry Valerii Gorbunov announced plans to place the city's largest enterprise tax payers, which provide 50 percent of the city's tax revenue, under federal control, taking them away from Moscow inspectors. Although the division of tax revenue is defined in federal law, Gorbunov said that "resolving this apparently intra-agency [Tax Collection Ministry] problem would take the interests of Moscow more fully into account." Moscow city officials fear that loss of control over the financial flows will hurt their interests.

Due to his lack of ready funds, Luzhkov has now given up many of the populist campaigns that made him popular in the city. For example, he has said that Moscow would be the first to switch over to a system in which residents pay 100 percent for their housing services. Theoretically, all regions should make the switch by the beginning of 2004. In the past, Luzhkov said that Muscovites could not pay full fees before 2007. - Pavel Isaev in Moscow

## **LAW ENFORCEMENT AGENCIES**

**PRESIDENT TO APPOINT FEDERAL DISTRICT POLICE CHIEFS.** Interior Minister Boris Gryzlov announced at the end of May that President Putin would appoint police chiefs to head the police forces in each of Russia's seven federal districts. These chiefs will be directly subordinate to the interior minister (*Izvestiya*, 31 May). Gryzlov also announced that soon there will be a new law on the police under which the governors' approval will no longer be required for the appointment of regional police chiefs. Currently, the governors have to approve the appointment of police chiefs.

## **AGRICULTURE**

**NEW KRASNODAR GOVERNOR IMPOSES MORE STATE CONTROL OVER AGRICULTURE.** In his first major address since becoming governor, Krasnodar's Aleksandr Tkachev claimed that he was making major changes in the region's agricultural sector. He pointed out that the krai's agricultural enterprises owe the regional government 2.5 billion rubles for credits, which were never paid back. Some individual firms owe up to 100 million rubles. For the krai to produce 60-65 billion rubles worth of produce, investments of 45 billion rubles are needed. In such conditions, the governor stated that he must make all key personnel decisions in the agricultural sector. Tkachev believes that there is a shortage of good managers in the region requiring the imposition of external management for collapsing enterprises and merging weak farms with stronger neighbors.

The new agricultural policy includes two key innovations. First, enterprises that cannot repay their credits with goods they produce or money will have to give up property. Second, the krai has stopped giving credits directly to farms. Instead it provided money to banks so that they can offer loans with lower interest rates, cutting them from 17-18 percent to 5-6 percent. The farms now will have to apply for loans from banks and other financial institutions. By supplying 180 million rubles in subsidies to the banks, the krai was able to generate 1.6 billion in credits for the agricultural sector. - Ariadna Popova in Krasnodar

## **LOCAL GOVERNMENT**

**KALMYKIYA CONTINUES TO DEFY MOSCOW ON LOCAL GOVERNMENT.** Effective 31 May, the Kalmykiya parliament assigned itself the right to approve local government charters despite protests from the republican procurator that this right belongs to the federal Justice Ministry (*Izvestiya Kalmykii*, 31 May). In March, the Kalmykiya parliament assigned the right to approve local charters its staff (see *EWI Russian Regional Report*, 14 March). However, Republican Procurator Niolai Khazikov protested. Now the parliament has assigned itself this right. Nevertheless, the correction does not address the procurator's main complaint: that federal, not republican, authorities should approve the charters.

The parliament's move makes clear that the republican authorities do not want to allow local government to slip from their control. All charters that were approved by the republican branch of the federal Justice Ministry must now be confirmed by the republican parliament within the next six months. - Vladimir Volgin in Elista

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## GOVERNOR'S PROFILE: ROMAN ABRAMOVICH

**QUESTIONS REMAIN IN OLIGARCH'S RELATIONSHIP WITH KREMLIN.** In December 2000, more than 90 percent of the Chukotka Autonomous Oblast's electorate chose Roman Abramovich as the new governor of their desolate Far Eastern region. A year earlier, he had won election as the okrug's representative in the State Duma. Despite this career as a public official, very little is known about Abramovich's political ambitions. He is a major player in Russia's lucrative oil and aluminum sectors and seems to have intimate access to the Kremlin. Although his vast business holdings place him in the same ranks as the outspoken Boris Berezovskii and Vladimir Gusinskii, Abramovich has preferred to operate in the shadows and many questions remain about his activities and goals.

It is difficult to find reliable information about Abramovich since most articles about him (and the other oligarchs) are based on unverifiable sources. Nevertheless, since Abramovich is a public figure who holds elected office and reportedly wields considerable behind-the-scenes power, an understanding of Putin's Russia and center-periphery relations would be incomplete without trying to figure out Abramovich's role.

The life of Roman Abramovich is a classic post-Soviet rags-to-riches story. Born in 1966 to Jewish parents, he was orphaned by the age of four and raised by grandparents in the northern Komi Republic. When Mikhail Gorbachev's perestroika opened new opportunities for entrepreneurship, he started a cooperative making plastic toys (*Financial Times*, 6 January

2001). He apparently made his first fortune in selling automobile parts. He also sold oil from Komi and Omsk (Panorama Database).

Despite these successes, there are also clouds over his early career. In 1992 the Procurator General issued a warrant for Abramovich alleging that he was an accomplice in stealing an entire train full of diesel fuel, but the case never went forward. According to NTV (30 May 1999), a fictitious power of attorney for delivery of the fuel was made out to AVK, a small company which Abramovich led. From 1993-1996 he headed the Moscow office of Swiss company Runicom.

Abramovich's inclusion in the top of Russia's business elite comes from his association with Boris Berezovsky and the oil company Sibneft. In 1995 and 1996, Berezovsky played a leading role in the privatization of Sibneft as a series of firms with ties to the tycoon snapped up the company for a modest price in separate loans-for-shares auctions. The loans-for-shares scheme itself, under which investors lent the government money in return for the right to manage state-owned stakes in partly privatized companies, was widely criticized, as stakes often went to the very companies organizing the loan tenders for the government.

Abramovich apparently gained control of Sibneft through an extremely complicated web of companies with opaque ownership structures. According to the monthly Oil and Capital magazine, Abramovich stood behind four front firms - Sins, Rifain Oil, Runicom, and the Financial Oil Corporation - which together held 91.6 percent of Sibneft as of mid-April 1999 (*Moscow Times*, 11 April 2001). Sibneft officials denied that Abramovich was the controlling partner in Sibneft at that time.

Abramovich's success drew on his close ties to then-President Yeltsin's daughter Tatyana, and her husband, Alexei Dyachenko. Former Yeltsin bodyguard Aleksandr Korzhakov called him "the cashier" for the Yeltsin family. Many other sources listed Abramovich as one of the people behind The Family, the closest associates of Yeltsin. Dyachenko reportedly also had strong ties to Sibneft, as his East Coast Petroleum trading company resold oil products from the Sibneft-affiliated Omsk refinery in Siberia (*Moscow Times*, 1 June 1999).

Abramovich's political muscle first came to public attention during the formation of Prime Minister Sergei Stepashin's government. Yeltsin appointed Stepashin prime minister on 19 May 1999 to replace Yevgenii Primakov. After nearly two weeks of negotiating, he and Yeltsin finally settled on a cabinet. Abramovich threw his weight behind Nikolai Aksenenko, who was made first deputy prime minister despite Stepashin's resistance. The cabinet was divided into two factions, Aksenenko's and Stepashin's, and according to *Kommersant-Daily*, as many as 13 of the two dozen government ministers reported to Aksenenko - including the heads of three cash-rich ministries: Fuel and Energy Minister Viktor Kalyuzhnyi, Customs chief Mikhail Vanin, and Railways Minister Vladimir Starostenko (*EWI Russian Regional Report*, 10 June 1999). Kalyuzhnyi, who like Aksenenko was close to Abramovich, rewarded him within hours of his appointment by placing Sibneft on the list of Russian companies that would develop Iraqi oil once sanctions were lifted (*Moscow Times*, 28 May 1999).

In November 1999, Abramovich announced his bid for Chukotka's seat in the State Duma. At the time, it was generally believed that he was doing this to obtain immunity from prosecution. It was presumed that Abramovich, though officially an independent, was helping to

finance the pro-Kremlin Yedinstvo party, though none of these contributions were being officially reported (*EWI Russian Regional Report*, 14 Nov 1999). Abramovich won the election easily on the strength of promises to use his inside connections to bring aid to the poor region (*Moscow Times*, 30 November 1999).

In the weeks before Putin's eventual election in March 2001, Abramovich began expanding his empire to include aluminum. In February, a group of shareholders in Sibneft acquired controlling stakes in the Krasnoyarsk and Bratsk aluminum plants, two of the world's largest smelters, from British-based metals trader Trans-World Group. Boris Berezovskii's LogoVAZ bought Russia's fifth-largest aluminum producer, the Novokuznetsk Aluminum Factory. Between them, the three enterprises churned out 1.98 million metric tons in 1999, almost two-thirds of total Russian production (*EWI Russian Regional Report*, 3 May 2000). The companies eventually were combined with some other acquisitions placed under an umbrella holding company called Russian Aluminum, which became responsible for 75 percent of Russian aluminum production and is second in the world to Alcoa (*Financial Times*, 6 January 2001). The new company makes partners of Abramovich and Oleg Deripaska of Siberian Aluminum (*EWI Russian Regional Report*, 24 May 2000).

In November 2000, Abramovich decided to run for the governorship of Chukotka. Abramovich's precise motives for seeking the governorship remain obscure. On becoming governor, he gave up the prosecutorial immunity he held as a Duma member. Nonetheless, his campaign plowed ahead, following much the same strategy that he had used to win the Duma seat. As a part of his campaign, he distributed massive amounts of money to the people of Chukotka. Abramovich's donations included:

- a shipload of food aid for the coastal settlements. Each registered inhabitant - adults and children - received 50 kilos of flour, 25 kilos of sugar, 1.5k of dried milk, 5 packets tea, 4k rice, 6k kasha, 5 liters of oil, 10k of salt, and 5k of pasta;
- paid summer vacations for 3,300 schoolchildren in Central Russia and the Black Sea, and
- grants to cover electricity bill debts, plane tickets for would-be émigrés, kindergarten fees, etc.

As a result, he collected a whopping 90 percent of the vote and enjoyed a substantial lead even before the incumbent, Aleksandr Nazarov, withdrew late in the race on the promise that he would be Abramovich's representative to the Federation Council. When asked why they voted for Abramovich, many Chukotka voters appeared genuinely to hope that he would be the region's savior - young, rich, clever, and energetic. Others just seemed to think that he could not possibly be any worse than Nazarov. All were grateful for the food aid and noted that he already had done more for Chukotka than anyone else in the past nine years. "We've had enough words, we want somebody who actually does something" was the general cry (*Moscow Times*, 6 February 2001).

In early 2001, Abramovich acquired Berezovsky's 49 percent share in ORT, the country's most important state-controlled television broadcaster. Speculation was that

Abramovich would give the share to the federal government, which already controlled the other 51 percent, in exchange for the oil company Slavneft, which was due to be privatized sometime in 2001 (*Novaya Gazeta*, 26 February 2001). That transfer has yet to take place. Critics claim that the state made Sibneft the exclusive distributor of Slavneft's oil, to the great profit of Sibneft. Nick Halliwell, a Sibneft spokesman, disputed these charges on the grounds that the State Customs Committee carefully regulates the export of oil to prevent companies from skimming off the top (letter submitted to Johnson's Russia List, 2 March 2001). However, the president of the State Customs Committee is still Mikhail Vanin, who had been part of Aksenenko's faction in the Stepashin government. Abramovich appears to profit by controlling the state agencies that are supposed to monitor his work. Whether or not Abramovich actually transferred his stake in ORT to the state, he certainly appears to be taking a much less active role in the station than had Berezovsky, who frequently used the station as a mouthpiece for his opposition to Putin. The government has already used its new power over ORT to nominate all eleven members of the board of directors (*Moscow Times*, 6 February 2001).

In May 2001, unconfirmed reports alleged that Abramovich's allies purchased a 29 percent stake in Aeroflot, which, like ORT, is 51 percent owned by the state. Those close to the sale say that the acquisition was similar to that of ORT, meaning that while Abramovich himself does not own the shares, companies secretly under his control do. However, Sibneft, Russian Aluminum and Chukotka officials deny that Abramovich bought the stake (*Moscow Times*, 11 May 2001).

Russian Aluminum is also one of the shareholders in Irkutskenergo, which is one of four regional electricity generators that is not controlled by the Unified Energy System national monopoly. The company owns 25 percent, and another 15 percent is owned by the Siberian Urals Aluminum Company (SUAL), which is run by US-based Russian businessman Victor Vexelberg. The state owns a 40 percent stake, but the Kremlin and Irkutsk Governor Boris Govorin disagree over how this stake should be managed. All three sides in this dispute (the aluminum industry, the Kremlin, and Govorin) represented different interests, so Abramovich could not be viewed as either being allied with the Kremlin or directly opposed to it in this case. However, the temporary solution reached in May was one in which the state and the aluminum companies won out at the expense of the oblast (*EWI Russian Regional Report*, 9 May 2001).

As a result of these various recent events, it is not entirely clear what Abramovich's current relationship is to the Kremlin. When Putin began leading a campaign against the oligarchs in 2000, the Kremlin did not seem interested in Abramovich. Then it appeared that the new president was mounting a campaign only against the two most rebellious oligarchs, Gusinsky and Berezovsky. Abramovich reportedly was considered untouchable, perhaps due to his close connections to Presidential Chief of Staff Alexander Voloshin (*Moscow Times*, 31 May 2001).

However, in May 2001, the Tax Police opened an investigation against Sibneft concerning allegations that Sibneft failed to pay 12 million to 14 million rubles (about \$450 million) in value-added taxes and obtained various tax privileges illegally. The Prosecutor General's office also opened an investigation into alleged embezzlement by the management of Sibneft. The case began in August 2000 when the Ministry of Taxes and Duties organized an audit of the Omsk region, where the Sibneft oil company has most of its assets. As a result of

that investigation, criminal charges for tax evasion were filed against Sibneft President Yevgeny Shvidler (who went to school with Abramovich) and accounting manager Tatiana Breeva. The case against Sibneft was then closed for unspecified reasons (*Novaya Gazeta*, May 2001; *Monitor*, 31 August 2000).

The Tax Police's decision to open a case against Sibneft may indicate the beginning of a federal campaign to curtail Abramovich's political and economic power. However, it is too soon to say where this campaign will lead. Much greater transparency in the Russian political and economic sphere will be needed to answer the numerous questions that remain about Abramovich's activities. - Marc Weinstein

## **CENTER-PERIPHERY RELATIONS**

**DRACHEVSKII, DERIPASKA OVERSEE SIBERIAN TELEVISION.** More information is now becoming available about the plans to start a new Siberian television channel, Sibir-TV. Beginning on 1 September the station plans to broadcast its own programs 24 hours a day across much of the Siberian Federal District, stretching from Omsk to Chita. Oleg Deripaska's Russian Aluminum is the main sponsor of the project and has already promised \$10 million in support.

The federal authorities are the main backers of the project. The federal Press Ministry presented the project in the offices of the Siberian Federal District. Presidential Representative to the Siberian Federal District Leonid Drachevskii will personally supervise the establishment and work of the station. Well-placed sources claim that Drachevskii's staff is particularly concerned that the media is too close to the governors, especially in Novosibirsk Oblast. Drachevskii's staff also believes that the media is too critical of federal agencies.

The Novosibirsk media's loyalty to the governor was displayed in particular during the continuing conflict around Novosibirskenergo, the region's utility. In a dispute that has been raging since last year, Russia's electricity monopoly Unified Energy System (EES) has tried to replace the leadership of the regional utility, but the governor has supported that leadership. Local newspapers and broadcasters have generally sided with Novosibirskenergo General Director Vitalii Tomilov and Novosibirsk Governor Tolokonnikov, while attacking EES, painting it as a Moscow monster, seeking to subordinate the independent utility to itself. (Novosibirskenergo is one of four regional utilities that EES does not control. EES only owns a 14 percent stake in Novosibirskenergo). Additionally, the new television channel is expected to help Kremlin-sponsored candidates in upcoming State Duma and presidential elections.

Novosibirsk State Television and Radio Company Director Yakov London claims that the new broadcaster is not pursuing any political goals and is a "purely commercial project." London said that no state funds would go into the station. The station will be incorporated as a closed stock company in which a 25 percent plus one share stake will go to the All-Russian State Television and Radio Company. The other shares will be distributed among private owners. Several local television stations are expected to contribute to the project, although it remains unclear which stations will be involved.

The project makes little economic sense since it is unlikely to be profitable. The market of paying advertisers in Siberia is very small and advertisements would not provide sufficient

revenues to recoup the money invested into establishing the station. At best the station could hope to take some of this advertising revenue from existing stations. However, there is no guarantee that advertisers would want to abandon their relationships with regional stations to reach a Siberian market through a untested channel.

Even though the station is set to go on the air soon, it is not clear who will produce the actual shows to be broadcast. Also undecided is which of Siberia's television stations will be the base for the new broadcaster. London denied suggestions in the media that Novosibirsk State Television and Radio Company would play this role. Krasnoyarsk's television station is the current top candidate to serve as the base station since it has greater technical capacity to broadcast to a large region than does Novosibirsk's television station. - Maksim Shandarov in Novosibirsk

## **GUBERNATORIAL ELECTIONS**

*Even though the Russian government wants to move ahead with plans to transfer the cost of housing and municipal services to Russian consumers by the beginning of 2004, it will meet with plenty of resistance from Russian governors who must seek reelection in the near future. The case of Irkutsk, which will elect its governor on 29 July is a good example of this problem.*

**IRKUTSK GOVERNOR DENIES SUPPORT FOR HOUSING REFORM.** As Irkutsk prepares for its 29 July gubernatorial election, falsified campaign literature claiming that Irkutsk Governor Boris Govorin backs a policy of quickly raising prices for electricity, water, and heat and then forcing all residents to pay for 100 percent of the municipal services they consume is now circulating in the region. Govorin's administration quickly denied the claims in the pamphlets. The governor's chief aid for housing and communal services claimed that Govorin does not back the Russian government's proposal to force the population to pay for 80 percent of its housing and communal services costs by 1 January 2004 (see *EWI Russian Regional Report*, 6 June). Currently Irkutsk residents pay 36.2 percent of the total costs. Govorin instead proposes carrying out housing reform in Irkutsk by restructuring the communal services system to significantly reduce costs. Only after these reforms have been implemented, Govorin says, could the population be expected to cover the full costs. The governor sees the population paying full fees beginning in the period 2005-2008.

Despite his opposition to the federal plans for housing reform, Govorin has the backing of the pro-Kremlin Yedinstvo party and its leader Sergei Shoigu in the race. Govorin's main opponent will be the Legislative Assembly's representative to the Federation Council, Valentin Mezhevich. The Irkutsk parliament is controlled by the former managers of Irkutskenergo, who have been locked in battle with Govorin for more than a year (see *EWI Russian Regional Report*, 9 May). Some members of the Legislative Assembly who support Govorin said that they would seek to recall Mezhevich. - Teleinform in Irkutsk

## **ETHNIC CONFLICT AND REGIONAL SEPARATISM**

**PRO-RUSSIA DAGESTANI MINISTER WOUNDED IN BOMB BLAST.** An 8 June bomb blast severely injured Dagestan Information Minister Magomedsalikh Gusayev in Makhachkala. Gusayev holds one of the most sensitive posts in the republic where terrorism is often used as a tool to settle scores among political rivals. Two weeks ago Dagestani police averted an attempt to assassinate the speaker of the republican parliament.

In August 1999, when Islamic militants under the command of Chechen warlord Shamil Basayev took control over several villages in western Dagestan, Gusayev spearheaded the information campaign against the invaders. He coordinated a public relations campaign by the media and think-tanks against rebel propaganda distributed by pro-separatist web sites. The official site of the Dagestani government, which he set up as part of that campaign, ranked among Russia's most popular non-Moscow-based sites for two weeks toward the end of conflict, according to Rambler.ru. The Islamic Shura (Ruling Council) of Dagestan, a governing body set up by Shamil Basayev on the occupied territories, publicly sentenced Gusayev to death in absentia. Despite these threats, Gusayev refused to use body guards and lives with his family in an ordinary apartment building. He was attacked just outside his home.

As an ethnic Agul, one of the smallest ethnic group in Dagestan, Gusayev does not share the clan interests of Dagestan's larger nationalities struggling for power in the republic. He has survived several government reshuffles during the last decade.

"I believe that this murderous assault was motivated exclusively by political concerns and is related to Gusayev's official position," Zagir Arukhov, Dagestani Deputy Information Minister said in a telephone interview. "He always supports integrating Dagestan into the Russian Federation and reinforcing Russia's presence in the republic."

Thanks to quick medical intervention, Gusayev's life is not in danger. The authorities have opened an investigation to determine the identity of the perpetrators. - Nabi Abdullaev in Makhachkala

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## **OPINION: RUSSIA UNDER PUTIN**

### **CONSOLIDATING THE CENTRALIZED STATE, WEAKENING DEMOCRACY AND THE FEDERAL SYSTEM**

by Nikolai Petrov, Macalester College

MOSCOW - In his first year as president, Vladimir Putin has made essential changes in Russia's political landscape. In particular, he caused a sharp recentralization of political power and shifted the balance in state-society relations. Putin's rise also changed the shape of Russia's elite as the new president placed allies from his KGB and St. Petersburg careers in the country's highest offices.

#### **Recentralization in Center-Periphery Relations**

The development of center-periphery relations during the 1990s followed the oscillations of a pendulum, reflecting the changing balance between the alternative processes of decentralization and centralization. These oscillations used to be uneven with rather long periods of decentralization (1990-August 1991, 1992-93, 1994-96, 1997-98), followed by short but energetic bursts of centralization. Given

momentum by the upcoming State Duma and presidential elections, in 1999 the centralization-decentralization pendulum swung dangerously toward decentralization as the federal government handed power to the regions in exchange for political support. This swing exceeded the limits of the usual oscillations and seemed to mark the beginning of a new political system. This did not happen; instead, the pendulum changed direction and swung past the former extreme of centralization.

The year 1999 was thus one of great change, during which we witnessed the rise and fall of regionalism in Russia. The cavalry of regional leaders who decided to attack the Kremlin was badly wounded during the last Duma campaign, and then crushed in the war against Chechnya. Until May 2000, changes in the center-regions balance of power were occurring in a "natural" way, i.e., they fell within the normal oscillations of the pendulum. Due to the strengthening of the center, which was more effectively realizing its own prerogatives without changing the legal foundation, the regions were losing ground.

After the presidential elections, President Putin undertook several steps that fundamentally altered center-periphery relations in favor of the center. His policies amounted to a shift of the axis, rather than another oscillation of the pendulum. The center outmaneuvered the regional leaders, who reacted as if paralyzed. The process of centralization redefined the power balance. Early in his term, Putin began to concentrate on the regions, which had been a focus of his interest since 1997, when he headed the presidential administration's Main Oversight Department.

Of Putin's new initiatives, the following are most significant for the balance of power between the center and regions:

- The establishment of the seven federal districts (sometimes called "super-regions") headed by presidential representatives, most of whom are generals;

- The adoption of a new system for selecting Federation Council members;

- The adoption of laws that allow the president to remove governors and dismiss regional parliaments;

- Changes in inter-budgetary relations, which give the federal government greater control over federal finances;

- Increasing central control over federal agencies in the regions, including the courts, police, and television.

The delineation of federal districts appears to be the third attempt to enlarge Russia's regions (the first took place in the late 1920s-early 30s, the second in the late 1950s-early 60s--both failed). It also represents a shift towards territorial rather than sectoral management, since it emphasizes geographical entities at the expense of the government ministries (which deal with issues like the energy sector, railroads, etc).

The Security Council designed the federal districts and drew their borders to match the districts used by the Ministry of Internal Affairs, which are quite different from both Russia's eleven economic regions and its eight interregional economic cooperation associations. Although the federal districts' functions are not clearly defined, they are growing over time.

The construction of a new intermediary level of government between the federal and regional governments can mean both centralization (if powers are transferred formally and informally from the regional level to the federal district) or decentralization (if the federal government devolves some of its powers to the districts). In this case, Putin's goal is clearly centralization, although some elements of decentralization are evident in conflicts between presidential envoys and federal ministries. Presidential envoys are elements of a new "power vertical" with both the presidential administration and the Security Council at the top. As such, they present a way to bypass the Russian government and the governors.

Why did the Kremlin succeed in shifting toward recentralization? First of all, Putin argued that centralization of the state was a vital necessity for Russia, a view supported by the majority of Russia's elites and society. Second, for the first time since 1993, Russia's leader has a strong political will and the backing of public opinion. Third, the Federal Security Service (FSB) provided the organizational and personnel support to realize the policy of centralization. Fourth, the federal government benefited from high oil prices, which provide additional resources.

Putin was able to adopt his federal package of reform during a few weeks in the summer of 2000 because of the confluence of three phenomena. First, on the eve of numerous gubernatorial elections, many governors felt vulnerable and were keen to court federal support. Second, the regional elites were fragmented and public opinion was turning against them. And, third, the center was able to gather significant amounts of compromising material to blackmail the regional elite.

### **The Shifting Balance Between Society and Elites**

The general balance of forces becomes clearer if one pictures a matrix showing the three major actors--society, regional elites, and central elites--at two basic levels: federal and regional. In light of developments during 1999, society appears to have changed the least. While very weak and disorganized at the federal level, *society* is stronger--though almost totally controlled by local administrations--at the regional level. Furthermore, *regional elites* are increasingly weak at the federal level. While once strong at the regional level, they are now weakening there as well. *Central elites* used to be relatively weak at the regional and federal levels, but are now rapidly strengthening at both levels.

What we are seeing now in Russia is the strengthening of the centralized state. Due to the weakness of Russian society, this process undermines and could destroy certain elements of Russian democracy, which was always the democracy of a weak state, not of a strong society. The weakness of society in the regions, now accompanied by the powerlessness of regional elites, may eventually lead to the disappearance of Russian federalism. Democracy and federalism are not Putin's major targets, but their weakening is a side effect of his efforts to strengthen the centralized state.

Now, in the less than two years since Putin came to power, every player on the political stage except for the president, army and security services is much weaker than it used to be. The Communists no longer control the State Duma, which now has a strong pro-presidential majority. For the first time, there is a strong pro-Kremlin faction in the upper house of the parliament, the Federation Council, and this body is no longer the locus of the governors' opposition. Governors themselves are generally able to win reelection, but no longer have full mastery of their regions because the center has increased its control over the courts and law enforcement agencies. Oligarchs are no longer independent political players, but are strongly controlled by the new political machinery. Political parties have been marginalized and the state almost totally controls the mass media either directly or indirectly.

What is crucial to this transformation is not only the weakening of all independent players, but the weakening of legal institutions as such. The president's already enormous power is growing, while

legal institutions are increasingly replaced by new, opaque ones with poorly defined powers: the Security Council instead of the government and the presidential administration; the State Council instead of the Federation Council; the presidential representatives in the federal districts and chief federal inspectors instead of the former presidential representatives in regions; and the Audit Chamber as a kind of law enforcement agency. What is this, if not growing authoritarianism? The emergence of less legally legitimate structures parallel to existing state bodies represents the construction of an entirely new political machine that will work for a while in parallel with Yeltsin's old one, and soon replace it entirely.

### **The Origins of Putin's Centralization**

In trying to define the new Russian politics, the concept of counter-revolution is often used. However, this term is not accurate. Rather, Putin seeks to keep certain external features of Yeltsin's regime, while replacing its content. There is essential continuity between Putin's current activities and the approaches of Yeltsin and his former chief of staff Anatolii Chubais in 1996-99. The recent radical changes would be impossible had they not germinated both institutionally and psychologically within the previous regime. What is currently happening is an accelerated counter-*evolution* rather than a revolution. Putin is thus a kind of crisis manager, invited to carry out certain plans that were worked out (but not realized) in the previous administration.

This continuity between the Yeltsin and Putin administrations is evident in many ways:

- the establishment of *federal districts* is a logical continuation of the reform of the power ministries' districts and the implementation of a one-man principle of management, which was begun two years ago (this helps to explain why Putin appointed several generals as his representatives);

- *federal intervention* schemes, including mechanisms to remove governors, were "invented" by the presidential administration in 1996-97;

- *coordination of all federal agencies in a region* and reinforcement of a presidential representative's functions first appeared in Yeltsin's decree on presidential representatives adopted in 1998;

- *reform of the Federation Council* has been discussed for many years;

- all the current *inter-budgetary issues*, including the tax code and redistribution of revenues in favor of the center, had roots in the previous administration;

- *control over expenditures* in regions by means of treasury branches first became a priority under the Yeltsin administration;

- the *Chechen war* had deep roots in the Yeltsin era, and

- *the weakening of the Duma and political parties* has long been a presidential goal.

These ideas were not only developed during Yeltsin's second term, there were even attempts to implement them at that time, although they failed due to a lack of coordination within the federal government, a general lack of political will, and a shortage of resources. Putin has overcome these shortcomings to actually implement the policies talked about under Yeltsin. Thus, Putin's reforms are not only deeply rooted, they appear almost inevitable.

### **The Political Regime under Putin**

The emerging Putin regime draws on two major sources from the president's background: occupational (KGB-FSB) and geographic (Petersburg). The strengthening of the state, which was of vital importance for Russia, is proceeding in the wrong direction, one that is very dangerous for society. This direction, involving the growing influence of the FSB over political life, entails the following:

- the increased presence of FSB representatives in the executive and legislative branches, and FSB control over all spheres of societal life including the economy, politics, and the mass media;

- the growing societal role of the FSB, the police, and the military in general, along with the restoration of public trust in them and public support for the imposition of order and security (especially after the Moscow apartment building bombings of 1999, which almost restored the atmosphere of total fear that characterized the 1930s);

- federal actions explained by the principle "the ends justify the means," and the priority of "the highest interests of the state" (as construed by officials) above all others;

- a lack of transparency in the functioning of the executive;

- manipulation of public opinion using methods of "information war," by issuing provocative statements or haranguing the public with "noise" (i.e. offering different, sometimes contradictory, versions of current events, with no attempt to present an official explanation);

- exposing allegedly compromising materials about opponents through anti-corruption campaigns which really are a form of political blackmail. Such tactics are becoming "normal" political instruments (the flip side of the coin is that authorities are interested in having corrupt governors since they are more manageable); and

- the manipulation of the law by the general procurator's office and the court system, at the bidding of the authorities, to constrain undesirable individuals, instead of instituting the rule of law.

Society wrongly sees Putin's regime as effective because it interpreted the relative economic stabilization caused by the default of 1998 and high oil prices as the product of the new president's actions. After their initial success, however, the country's current leaders may revert to giving orders and using force to implement their plans, which in turn could lead to the adoption of semi-militaristic principles and the direct subordination of society.

St. Petersburg's growing clout can be considered, at least partly, to be the consequence of Putin's reliance on his former colleagues from the Leningrad-St. Petersburg FSB. However it's more

complicated than this even in terms of personnel policy. There are at least three other sources of Petersburg elite recruitment in addition to the FSB: lawyers and former colleagues from Mayor Anatolii Sobchak's administration (represented by Kozak, Kozhin, Medvedev, Sechin); liberal economists (Chubais, Gref, Illarionov, Kokh, Dmitriyev, Vasilyev); and "unallied individuals" (Matviyenko, Klebanov, Reiman, Stepashin, Shevchenko).

The presence of "the second capital" representatives in Moscow's corridors of power used to be only at the highest levels. Now, however, there is a snow-ball effect and numerous mid-level officials commute back and forth each week. While officials travel from Petersburg to Moscow, the Kremlin is sending money flows back to Petersburg (particularly \$1.5 billion in federal investment for the celebration of city's 300th anniversary in 2003 and the restoration of the Constantine palace as an official president's residence). There is increasing coverage of St. Petersburg life in the media, and numerous projects have been proposed which would restore some capital city functions to St. Petersburg. If the construction of a new Parliamentary center in Petersburg may not happen until the distant future, now state visits are more frequently taking place in "the northern capital."

## **Conclusion**

One should not overestimate the rationality, coordination and effectiveness of the authorities' actions in Russia. The process of taking power remains conflictual at all levels. Rather this analysis has focused on general trends rather than the realization of a well-defined strategy.

What are the implications of the ongoing centralization for Russian society? It has both positive and negative consequences. Let's start with the good news. First of all, central authoritarianism, if that is what is being constructed, is better for individuals than regional authoritarianism, due to the fact that the rulers are farther away, and there is at least the hope of keeping local rulers in check. Second, centralization provides for political, legal, economic, elite, informational, and other kinds of unity that until recently did not exist in Russia.

The bad news regarding Putin's centralization is connected not only with centralization itself, but with the undemocratic ways of achieving it, since means do matter. These anti-democratic methods include:

- the weakening of democracy and of federalism (even if Russia's federal divisions were more decorative than real, these divisions played a very important role in forming beneficial traditions in society);

- the unification/standardization of political life with the inevitable weakening of strong regions, which previously served as laboratories for political and social-economic development;

- the further desertification of the political landscape with the president as the sole important political player; and

- the growing governmental control over society with a return (to a certain extent) to the Soviet past.



Yeltsin's destruction of alternative power centers at the federal level by sending tanks against the parliament in 1993 was counterbalanced in part by the existence of clan-based competition within the executive branches at both the federal and regional levels of government and by a limited vertical division of power. These clan, sectoral, and regional divisions worked to maintain a minimal level of political pluralism and democracy and built a kind of federalism. The weakening of this rather complicated system of checks and balances now taking place makes it easier for the president to control the whole system, but increases the separation of society from the state. Decision-makers now have greater power, but their mistakes are more costly. There is no full-scale authoritarianism in Russia now, but the country is becoming better prepared for its establishment.

## **LAW ENFORCEMENT AGENCIES**

### **POLICE REFORM BENEFITS PRESIDENTIAL REPRESENTATIVES, LIMITS**

**GUBERNATORIAL POWER.** On 5 June Interior Minister Boris Gryzlov announced the president's plans for reforming Russia's police force. Putin sent Gryzlov, the former head of the pro-Putin Yedinstvo State Duma faction, to the Interior Ministry for the purpose of strengthening the federal government's control over the police. The reforms strike a serious blow against the powers of the governors and the regional elite. In doing this work, Gryzlov is seeking to implement one of the tasks laid out by Putin in his address to the Federal Assembly: imposing order on the federal agencies working in the regions and strengthening the president's control over the "power" ministries.

In 1998 then Interior Minister Sergei Stepashin laid out the first proposal for reforming the police. He suggested combining the three agencies that made up the so-called "criminal bloc" of the ministry under purely federal control: the Department for Criminal Investigation (GUUR), the Department for Combating Economic Crime (GUBEP), and the Administration for Combating Organized Crime (GUBOP). Under this plan, the regional authorities would only provide financial support to the regular police. At that time neither the leadership of the Ministry of Internal Affairs (MVD) nor the governors supported the reform. The ministry leadership did not want to reorganize its staff. The governors did not want to have to fund the police and traffic police from their budgets.

Last year, after Putin divided Russia into seven federal districts, then Interior Minister Vladimir Rushailo immediately signed a decree creating district branches of the ministry and at the same time formally carried out his long-cherished dream of creating a unified state structure, the Federal Criminal Police Committee, that would fight corruption among state bureaucrats and organized crime. This committee included the GUBOP, the department for combating high-tech crime, the investigatory branch of the ministry, and its operational branch. Thus, Gryzlov's plan builds on the work of his predecessors.

Putin's 4 June decree reforming the MVD creates departments of internal affairs in each of the seven federal districts. These branches will be powerful bureaucratic players. Their chiefs, with the rank of colonel general, will be appointed by presidential decree and will report directly to the minister of internal affairs. The heads of the regional police departments in their districts will be directly subordinate to them. The district chiefs will have a staff of up to 150 individuals. Their responsibilities will include coordinating the work of the MVD within the federal districts, collecting and analyzing information and presenting it to the presidential representatives, and combating organized crime.

Another step in the effort to remove the police from the governors' control is the reinvigoration of the Federal Criminal Police Committee. The committee now includes the GUBOP, GUBEP, GUUP,

and the investigative agencies. This committee will fight corruption and organized crime. Until now, only the regional branches of the federal anti-organized crime agency (GUBOP) were free from gubernatorial control. The regional heads of the GUBOP were only subordinate to their superiors within the GUBOP, but not the regional heads of the MVD. This situation led to constant conflicts between the heads of the GUBOP and the heads of the MVD, who were loyal to the local governors. Such conflicts were particularly apparent in Irkutsk and Krasnoyarsk. Now the criminal police fighting economic crimes will receive similar independence and their leaders will no longer have to be approved by the heads of the regional MVD, whose appointment must be approved by the governors.

Thus, the gist of the reform is to concentrate power in one place so that there will be a clear hierarchy within the ministry and the heads of the regional branches will bear full responsibility for what happens in their district. The regional branches of the MVD will give up their horizontal coordination with the governors for vertical subordination to the ministry leadership in Moscow. Either the president, at the recommendation of the ministry, or the interior ministry will appoint all the chiefs in the hierarchy. The governors, according to Gryzlov, will maintain "influence" over the general police and units dealing with street crime. They will lose all control over law enforcement agencies dealing with major crimes. The reform will severely limit the governors' ability to use "their" power ministers against the federal government and for protecting businesspeople close to them. As a result, the reform of the MVD will significantly constrain the influence of the regional elite on the local political situation and open the regions to greater action by Moscow.

The reform of the police, in contrast to the reform of the judicial system, does not require the adoption of any laws and can largely be implemented through presidential decree. The State Duma is in the process of approving an amendment to the law on the police removing the governor's right to approve the appointment of police chiefs.

The reform of the police is part of the overall trend of Putin's state-building efforts in Russia and fits logically into the larger context of judicial reform and the reform of the budgetary relations between the center and regions, both of which take power from the regions and hand it to the center. Reorganizing the police force in line with the federal districts shows that the federal government intends to give the districts real power. Shortly after the federal districts were created, the general procurator and Justice Ministry announced plans to restructure themselves in line with the federal districts. However, these reforms did not lead to any clear successes. The seven presidential representatives to the federal districts, who insist on their right to coordinate all federal agencies including the law enforcement agencies, have every reason to support the reorganization of the MVD. The new system, which requires the MVD to work in close contact with the presidential representatives is a victory for the representatives, who will attempt to use it to increase their political power. - Pavel Isaev in Moscow

**LUZHKOVA GIVES UP CONTROL OVER POLICE IN MOSCOW.** On 6 June the Moscow city government altered its statute on the city police force, giving up the city's ability to influence the appointment and dismissal of the city police chief. The city police will now be exclusively subordinate to the federal Ministry of Internal Affairs (MVD). Luzhkov will only have jurisdiction over the police responsible for street crimes (*Vremya MN*, 7 June).

Currently, Viktor Shvidkin is the acting head of the city police. Luzhkov had blocked his appointment to this post since the dismissal of the previous police chief in December 1999. MVD officials said that the ministry would appoint an as yet unknown "compromise figure" to the post and that Shvidkin had gone on leave and would not return to the job (*polit.ru*, 8 June).

## **GOVERNOR'S ELECTIONS**

**PRIMORSKII VOTERS ELECT DARKIN GOVERNOR.** On 17 June Primorskii Krai voters elected Sergei Darkin as their new governor. Until his election, Darkin was an obscure businessman with close ties to former Governor Yevgenii Nazdratenko, who apparently backed his candidacy. In the runoff, Darkin won about 40 percent of the votes and his opponent First Deputy Presidential Representative to the Far Eastern Federal District Gennadii Apanasenko won 24 percent. About 34 percent of the voters marked their ballot "against all." Turnout was 36 percent, off a little from the 40 percent turnout in the first round.

The runoff was once again marked by scandal when the regional court removed the second place finisher, State Duma member Viktor Cherepkov, Nazdratenko's long-time opponent, from the race on 14 June charging that he had received free access to the media illegally. The large number of ballots cast against both candidates is a reflection of the high level of voter protest about the way the elections were conducted. Cherepkov has been removed from numerous elections in the region's history. Primorskii Krai Electoral Commission Chairman Sergei Knyazev said that there were no serious legal violations that would call into question the legitimacy of the elections.

Apanasenko accepted the results and did not plan any protests against them. However, Krai Duma Deputy Vladimir Gilgenberg is seeking to revoke Darkin's registration as a candidate for the same reason that Cherepkov was removed from the race: he did not pay for an appearance on the Ekho Moskvyy radio station. Krai Duma Speaker Sergei Zhekov, who won 4.57 percent of the vote in the first round, said on the eve of the election that the Duma planned to protest the results whatever the outcome because he had evidence of significant legal violations, including a video tape of Apanasenko ordering mayors to work for his election.

Lawyers, however, point out that the courts can overturn a candidate's registration before the election, but not after it, so Gilgenberg's protest is likely to go nowhere. Additionally, most deputies in the regional legislature are unlikely to back Zhekov because they do not want to alienate the new governor when they will face legislative elections in December.

Cherepkov is planning to protest his removal from the campaign to the Russian Supreme Court, but this appeal is also likely to fail. There are no precedents in Russia where the results of a gubernatorial election runoff have been overturned. Most likely Cherepkov would have to demonstrate that the results of the elections would have been different if he had participated, and that would be extremely difficult. Darkin plans to hold his inauguration ceremony by 7 July. - Oleg Zhunusov in Vladivostok

## **PATTERNS OF REGIONAL DEVELOPMENT**

**SARATOV ANALYSTS SEE MAJOR POLITICAL SHIFT IN OBLAST.** Participants in a round table discussion about the political situation in Saratov Oblast concluded that conditions today are radically different from those that existed in 1996-1998. The discussion took place 6 June at the Volga Civil Service Academy. This informal group has been meeting since 1993. Participants include local politicians, academics, journalists, and independent observers.

During 1996-98, when Governor Dmitrii Ayatskov had first come to power, there was a mechanism for providing agreement between various social and political groups. Now the observers believe that the time when the authorities exerted a positive influence on the politics and economics of the region has passed. They believe that the oblast is returning to the situation that existed before 1996,

when competing clans waged an open war for power. Since the 2000 gubernatorial elections, political conflict has been pervasive and opponents are seeking to destroy each other. After the events in Balakovo, in which Ayatskov effectively removed a popular but independent-minded mayor from office and later had him arrested, the region has been afflicted by a level of conflict not seen since 1993-1994 (see *EWI Russian Regional Report*, 30 May).

The populism and authoritarianism that always characterized the governor's style are now appearing in their worst form. Ayatskov's plans are completely unreasonable. He seeks to collect five times the amount of grain the oblast normally produces in a year, hopes to produce four times the yearly output of oil, and has announced a number of new projects (from an automobile plant, to an international airport on an island in the Volga river, to a metro system), but with no funds to implement them.

Instead, the oblast is heavily in debt. In particular, the region owes major sums to the natural monopolies, Unified Energy System and Gazprom, and these debts severely constrain the oblast's ability to develop. By May 2001, Saratov's debts to these two companies were equal to the oblast's annual budget. The burden of the debts has significantly reduced the overall power of the governor.

The roundtable participants argued that Ayatskov made a strategic mistake by focusing on agriculture in 1996. Agriculture had never been the most important sector of the oblast economy and cannot be because three years out of five the region faces droughts. The significant resources invested in this sector in 1996-7 did not produce any results and became one of the reasons for the subsequent crisis in the oblast economy.

Additionally, the governor faces a number of political problems. According to the roundtable participants, he has lost the trust of the people. The use of dirty tricks in local campaigns has alienated voters. The federal authorities are now investigating the removal of the Balakovo mayor. Moreover, in the last year, the region has attracted only 20 cents per capita in direct foreign investment.

The impact of Putin's federal reforms has reduced Ayatskov's powers. The governor can no longer use federal property for his own purposes as he did in the past. The result is that now the oblast administration is fighting the elites of the three major cities in the oblast (Saratov, Engels, and Balakovo) that provide the lion's share of budgetary contributions. The cities do not want to spend money collected in urban areas in what they believe are hopeless attempts to save the oblast's dying rural regions. All business, communications, and the potential for innovation are located in the oblast's cities. The oblast is the main loser of this battle because many businesses are leaving the region: branches of key national monopolies such as Saratovenergo, the local railroad administration, and Sberbank have left Saratov for Samara. Among foreign investors, the British-American Tobacco Corporation is no longer investing in its Saratov factory and is instead channeling funds to St. Petersburg.

At the local level, Ayatskov is facing new opposition while his own team is disintegrating. Among the new competitors are groups centered around Chief Federal Inspector Rinat Khalikov, recently reelected Saratov Mayor Yurii Aksenenko, and First Deputy head of the Otechestvo-Vsya Rossiya faction in the State Duma Vyacheslav Volodin. Numerous factions have appeared within Ayatskov's own team reducing the quality of management and provoking considerable turnover among the staff.

In the near future, the analysts expect that all regional groups who are unhappy with Ayatskov's rule will seek support for their cause from the federal government. Accordingly, the role of the federal government will increase in regional affairs. Chief Federal Inspector Khalikov will be able to use his position to serve as a mediator in the battle between the regional elite. The 2002 elections to the Oblast Duma will indicate likely trends for the future gubernatorial elections. In determining the course of the

elections, the governor's personal position will be less important than the complicated interaction of federal and regional groups.

The local enterprise directors and bank managers are tired of the tyranny of the oblast authorities and therefore are taking a wait-and-see approach, while carefully tracking the development of events. The analysts see this attitude as most dangerous for the governor. If he does not have business's support now at the peak of his power, he is unlikely to get it later.

The enormous debts that Saratov owes to its energy providers and the sharpening political battle means that local residents most likely will not have heat and electricity for parts of the 2001-2002 winter. Such blackouts would likely lead to further accusations that Ayatskov has failed in his job of managing the economy. Most likely in the fall, Ayatskov will face a much better organized opposition, one that controls various financial and media resources (such as the Saratov State Television and Radio Company, independent television stations, and the newspapers *Moskovskii komsomolets v Saratove*, *Saratovskie vesti*, *Saratovskaya panorama*, *Bogatei*, and others). - Yuliya Yeliseeva in Saratov

## **MEDIA ISSUES**

**MORDOVIYA AUTHORITIES SEEK TO CENSOR INTERNET, CENTRAL PRESS.** In the early run-up to the 2003 republican presidential elections, the Mordovian authorities are concerned that while they control the republic's broadcast media and most of its print publications, they have little control over the way Mordoviya is presented in Russia's national media and on the Internet. Mordoviya is a poor region with few natural resources; its enterprises produce goods that are not competitive on the domestic or foreign market; and local salaries are not only lower than the Russian average, but usually paid with great delay. Generally, Mordoviya President Nikolai Merkuskin uses methods common in other regions to build up his image: he takes credit for any local success and claims that any problems are the fault of dishonesty among specific leaders or factors beyond the control of the republican leadership.

In the absence of any criticism in the local press, the authorities are extremely concerned about negative articles about Mordoviya that appear in the national press. For example, the presidential administration recently published a collection of articles in a book called *Prezidentskii kontrol* that included an article by Political Scientist Aleksandr Kiselev entitled "Mordovian Metamorphoses." The article was widely read in the republic when it was reprinted by *Moskovskii komsomolets v Saranske* despite criticisms by the chief of the president's analytical department questioning the article's content and the author's integrity.

The administration is even more concerned about information that appears on the Internet, which is even harder to control than publications or broadcasters. Often it is difficult to determine the author of Internet articles because the writer's name is not given or the author uses a pseudonym. The authorities are concerned about the Internet's ability to distribute information to local journalists and ordinary consumers of Internet information. Merkuskin views any reports that critically describe the economic situation in the republic as an attempt to cast doubt on his effectiveness as president.

To combat this criticism, the administration has adopted the strategy of questioning the objectivity and quality of the journalists writing it and accusing them of working for an unidentified "third force." The republican leadership charges that critical articles harm attempts to create a positive image for the republic at home or abroad. In May, the newspaper *Izvestiya Mordovii* published an article entitled "Who Hinders Mordoviya's Economic Success?" which analyzed the work of journalists working for on-line publications or national publications that have websites. As befitting an official

publication, the article evaluated the journalists on the basis of how much positive information their articles conveyed. The *Izvestiya Mordovii* article suggested that unidentified sponsors with an interest in discrediting Mordoviya were publishing the material.

Merkushkin is starting to worry about the media two years before he must make a reelection bid because of his concern that he will not win a new term owing to his increasingly difficult relationship with the federal authorities. During his last campaign in 1998, Moscow did not intervene in the campaign at all since Mordoviya was of little political or economic significance. Then the republican electoral commission refused to register Merkushkin's closest competitor Communist Yevgenii Kosterin, charging that he had violated the law while collecting signatures. The situation has changed under Putin. While Merkushkin does not face any real opposition on the regional level, many are expecting Moscow to name its candidate in the future. One likely possibility is Deputy Presidential Administration Chief of Staff Vyacheslav Soltaganov, who served in the past as republican minister of internal affairs and as director of the federal tax police. Soltaganov's past service in Russia's law enforcement agencies makes his nomination more likely since the Kremlin seems to favor such candidates. Merkushkin and Soltaganov met privately at the beginning of June. Although there is no public information about the content of their discussion, observers assume that Merkushkin tried to extract a pledge that Soltaganov would not compete against him in the upcoming presidential election. - Igor Telin in Saransk

## **TRANS-FRONTIER COOPERATION**

**BELGOROD, UKRAINE'S KHARKOV INCREASE TIES.** A 13 June meeting of businesspeople and politicians in the Ukrainian region of Kharkov discussed cross-border relations between Kharkov and Belgorod. There is currently a significant amount of trade between the two regions, and both sides would like to see this increase. To this end, a free economic zone between the oblasts may be created, along with a "green card" that would make border crossing easier. Belgorod Governor Yevgenii Savchenko pointed out the necessity of widening economic cooperation and said that the next decade should see an increase in meetings between Ukrainian and Russian entrepreneurs. Belgorod is currently working to organize a follow-up forum, in what is likely to become the next in a series of frequent meetings between the two regions.

Currently, 60 percent of regional exports from Belgorod go to Ukraine. The amount of interregional trade between the two more than doubled in 2000 and continues to grow (the governor's official website: [www.savchenko.ru](http://www.savchenko.ru)). Leaders of the oblasts are hoping that large-scale plans to improve Russian-Ukrainian relations in the coming years will have particular impact in these border regions.

Belgorod and Kharkov became part of their respective countries' frontiers with the break-up of the Soviet Union in 1991. As they were part of the same nation for so long, ties run far deeper than in many border areas. Nearly 80 percent of Belgorod residents have Ukrainian relatives - including Governor Savchenko. Thus, in addition to business meetings, there are plans for future cultural exchanges. - Sergei Sarychev in Kursk

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## PATTERNS OF REGIONAL DEVELOPMENT

**PRIMORSKII'S DARKIN FACES DAUNTING PROBLEMS WITH ENERGY, OPPOSITION.** Primorskii Krai Governor Sergei Darkin took the oath of office on 25 June and the next day held a meeting in Vladivostok with Prime Minister Mikhail Kasyanov, who told him, "You face a daunting legacy, but you can and must succeed."

President Putin ordered Kasyanov to visit the krai to address its most pressing problem: the energy crisis. At the president's instruction, Kasyanov will personally oversee planning of winter energy supplies. Putin warned that holding the elections had caused delays in these preparations.

The members of the Krai Duma believe current preparations are "extremely unsatisfactory." They note that the funds available to prepare the region's residences for the upcoming cold season have three times as much money as last year, but still only enough to pay for 17.8 percent of the planned expenses.

The Dalenergo utility says that its coal supply is barely sufficient to meet the region's electricity needs. Dalenergo has many outstanding debts. The utility currently owes coal miners 300 million rubles, fuel oil suppliers 400 million rubles, and the railroads 105 million rubles. Customers have yet to pay 3 billion rubles to the company, but it has so far failed to collect any of this money.

To address these problems, Darkin declared that "the most important task is to consolidate the budget of the krai and municipalities to ensure strict financial discipline." The new governor is apparently seeking greater control over the region's local governments, a common practice in Russia but one that is not constitutional. He also said that "We must resolve these energy problems regardless of who owns what. Unfortunately, we must replace the management of these enterprises [the utilities] although we must also work together with them." It remains unclear how Darkin would be able to remove the managers of private companies, much less maintain good relations with them while doing so.

Energy issues are not the only problems Darkin faces. The same people who opposed former Governor Yevgenii Nazdratenko during his tenure made clear their opposition to Darkin as well. The new governor took his oath of office at a special session of the Krai Duma on 25 June so that he would be vested with his full powers in time for his meeting with Kasyanov on 26 June. However, the Duma session barely achieved a quorum of 26 deputies when only 28 of the 38 deputies showed up for the ceremony. This silent protest failed to disrupt the ceremony but foreshadowed the difficulties the governor will have working with the regional legislature.

During the ceremony, picketers stood outside the Duma building holding up banners with slogans like: "Primore: a hostage of the mafia," "Putin! We don't trust you!" "A fish rots from the head," [Darkin made his fortune in the fish business] and "Lawlessness rules in Primore."

Darkin also has difficult relations with the presidential representative in the Far Eastern Federal District. Neither Presidential Representative Konstantin Pulikovskii nor his assistant Gennadii Apanasenko, who is responsible for the krai in the presidential administration and ran against Darkin in the gubernatorial elections, attended the inauguration. Instead Pulikovskii sent another one of his deputies.

At his inauguration, Darkin appointed three deputies. The governor shares economic interests with all three: Aleksandr Linetskii, the vice president of Darkin's fish company Roliz, Sergei Peredrii, the deputy general director of Roliz, and Aleksandr Kostenko, the deputy mayor of Ussuriisk. Observers claim that Kostenko helped Darkin acquire the Ussuriisk company, Primorskii Soy. - Oleg Zhunusov in Vladivostok

**DAGESTANI LEADER ANNOUNCES PLANS TO SEEK ANOTHER TERM.** At the 20 June session of the Dagestani State Assembly, republican leader Magomedali Magomedov announced his intention to seek another term as the republic's leader in June 2002. Magomedov has ruled the republic since 1990, changing the Dagestani constitution in order to do so.

According to the 1994 constitution, the republican leadership should alternate between representatives of one of Dagestan's officially recognized 12 ethnic groups. Magomedov, an ethnic Dargin, became the republic's leader in 1994 for a term of two years. The constitution established an two-year "transitional" term for the first president, with all future terms stretching four years.

In 1996, Magomedov asked the Dagestani parliament to extend his term to four years. He based his request on the need for stable leadership to address the republic's difficult political and criminal situation. After a relatively tense debate, the parliament granted Magomedov an additional two years as the republic's leader.

In 1998, republican parliament amended the constitution to remove the requirement that the Dagestani leadership rotate among representatives of different ethnic groups. However, then the legislators decided to limit the Dagestani leader to two terms in office. On the basis of the new rules, Magomedov secured another term.

In May 2001, the Russian State Duma revised an October 1999 law that limited regional leaders to two terms in office, by exempting current office holders from the effects of the law by not counting their pre-1999 terms against the two they were allowed to serve. Two weeks later the Dagestani legislature also declared that its 1998 law did not count Magomedov's previous terms in office, meaning that he was entitled to seek a "second" term.

Quickly after Magomedov's announcement that he would run again for Dagestan's highest office, the authorities started a campaign to win his election. In particular, his staff published an article in the republic's largest weekly, *Novoe delo*, urging voters to support Magomedov because he was the most authoritative political figure in the republic and because he had good relations with Moscow, which would enable him to secure federal aid. In making his announcement to run again, Magomedov cited the recent attacks on republican parliament's Speaker Mukha Aliev and Dagestani Information Minister Magomed-Salikh Gusaev as a further impetus to seek another term. Magomedov said that if the attacks were an attempt to intimidate him, they would fail. - Nabi Abdullaev in Makhachkala

## **BUSINESS AND POLITICS**

**ROSSEL, OIL COMPANY ALLY FOR MUTUAL GAIN.** Last week Sverdlovsk Oblast Governor Eduard Rossel and the Tyumen Oil Company (TNK) announced the formation of the Urals Oil Company (UNK). TNK, Russia's second largest oil company, will own 51 percent of the new company and the oblast will own 49 percent. The UNK plans to seek and extract oil in Sverdlovsk Oblast. Additionally, TNK could start selling gasoline on the region's market, which is currently divided between Sibneft, Bashneftkhim, and LUKoil.

The decision to create UNK was more political than economic. In the January 2001 Tyumen Oblast gubernatorial elections, TNK backed the incumbent Leonid Roketskii, who served as the chairman of its board of directors. However, Deputy Presidential Representative to the Urals Federal District Sergei Sobyenin handily defeated Roketskii. Since the election, TNK has not been able to establish good relations with the new governor. Therefore the company must seek new sources of oil outside its traditional base of Tyumen Oblast.

Rossel is looking for allies among the business community who will support him in his own battles with Presidential Representative to the Urals Federal District Petr Latyshev. Latyshev has met with such big business leaders as LUKoil President Vagit Alekperov and United Heavy Machinery General Director Kakha Bendukidze and apparently is forming close ties to them. Rossel will need strong business support if he is to win a third term in 2003.

Despite the strong political reasons for the alliance, the economic basis of the project remains in doubt because no one knows if there is actually much oil to be found in the oblast. Traditionally, Sverdlovsk's economy is based on machine-building and metallurgy. TNK is resisting the oblast's proposal to build a refinery in the region.

The creation of UNK will not have a major impact on the oblast's budget for 2002. In fact, even in the best case, the company will not become a major source of oblast revenue for at least five years. However, the oblast authorities already are counting on the benefits of their region becoming a major oil producer. They claim that oil-producing regions have the resources to exert greater independence from the federal government. They also are anticipating new investment and financial help for the oblast's depressed rural areas. So far, however, TNK is only talking about investing a relatively modest \$18 million in exploratory work in 2002. - Sergei Pushkarev in Yekaterinburg

## **CENTER-PERIPHERY RELATIONS**

**SIBERIANS SEEK PRICE CONTROLS ON ENERGY.** At a meeting last week held at the initiative of Presidential Representative to the Siberian Federal District Leonid Drachevskii, Siberian governors and Unified Energy System Director (EES) Anatolii Chubais signed an agreement to hold down prices on energy in the region. Kemerovo Governor Aman Tuleev was the first governor to sign the accord and the other are expected to sign as well. The gist of the agreement in holding prices down means that even if the price of coal jumps precipitously, it will not affect the price of electricity during the 2001-2002 winter. Since the agreement is limited to the Siberian Federal District and to specific industries, the possibility of price spikes remains, but it is not expected to be great.

The agreement does not freeze prices, but tries to put limits on their growth. Prices can be raised, but a 45-day warning must be provided. The idea is to help the region build up necessary coal supplies during the summer to prepare for the next winter.

The agreement set up a conciliation committee to implement the plan headed by First Deputy Presidential Representative to the Siberian Federal District Igor Prostyakov and including several governors and a representative of EES. The Russian government hopes to replicate these practices in other regions, such as the Far East Federal District. - Maksim Shandarov in Novosibirsk

**PSKOV CITY COURT CONVICTS FEDERAL BANKRUPTCY OFFICIAL WHO OPPOSED GOVERNOR.** In late June, the Pskov city court found Vladimir Fedorov, the head of the Pskov branch of the Federal Bankruptcy Service (FSFO), guilty of exceeding his official duties and refusing to implement a decision of the arbitration court. Fedorov has long been an opponent of Governor Yevgenii Mikhailov's economic policies and competed unsuccessfully in the region's November 2000 gubernatorial elections, winning less than 3 percent of the vote. Fedorov claims that the case was politically motivated and plans to appeal the decision.

Fedorov has worked as the head of the Pskov branch of the bankruptcy service since 1994. He came into conflict with the governor in many bankruptcy cases because the governor usually wanted the state to take control of bankrupt enterprises, while Fedorov publicly sought outside investors to take over the bankrupt firms. In these conflicts, the governor told investors "Please invest, but the state should maintain a controlling stake in any enterprise." With such different views between the two officials over the development of the oblast economy, the

governor clearly had an interest in seeking Fedorov's removal. Fedorov's decision to compete in last year's gubernatorial elections, with the support of the Union of Right-Wing Forces, against Mikhailov only sharpened their confrontation.

The case against Mikhailov accused him of not fulfilling an arbitration court decision to transfer the relatively modest sum of 56,000 rubles worth of cars, computers, and office equipment to the oblast administration. In 1997, the federal bankruptcy agency had taken this property from an organization set up under the oblast administration, and at Fedorov's orders, given Fedorov personal control over it. In 1998 the arbitration court ordered Fedorov to give the property back to the oblast. However, before the court order could be implemented, Fedorov transferred the property to a non-profit organization he had established the Pskov Oblast Partnership for Anti-Crisis Management. When the court officers came to claim the property, Fedorov told them he no longer had it.

Fedorov charged that the case was politically motivated. He said that the case, originally begun in February 2000, had been closed in September 2000 for lack of evidence. The case resumed only after Fedorov decided to participate in the gubernatorial elections.

The court ordered Fedorov to pay a 25,000 ruble fine, but then immediately offered him amnesty. The well-known Pskov human rights organization, Veche, described the case as a transparent attempt to remove Fedorov from his job. (This report draws on information from the independent news agency, Pskovskaya liniya novostei). - Andrei Scherkin in Pskov

## **MEDIA ISSUES**

**FEDERAL GOVERNMENT ASSERTS BROADCAST RIGHTS IN BASHKORTOSTAN.** At a meeting at the end of May in Ufa, All-Russian State Television and Radio Broadcasting Company (VGTRK) Chairman Oleg Dobrodeev and Bashkortan President Murtaza Rakhim announced an agreement to restore federal broadcasting in Bashkortostan. This agreement marked the end of a difficult, multi-year series of negotiations about the inclusion of the republic's "Bashkortostan" Radio and Television Company into VGTRK, the federal holding company, a deal long sought by the federal authorities.

The Bashkortostani authorities founded their own broadcasting company at the beginning of the 1990s after rejecting federal participation in its creation. The republican authorities also paid for the reconstruction of the local television station. Naturally, the republican authorities used their media to express their own interests. They resisted federal efforts to include the republican company in VGTRK because they feared that such a move would limit their monopoly rights on disseminating information in the republic. Additionally, incorporating the Bashkortostani company into the federal VGTRK could jeopardize the plans of Rakhimov and the other Urals governors in the Greater Ural Interregional Association to set up their own interregional Eurasia Television and Radio Company.

Ultimately the federal government threatened to limit the Bashkortostani company's broadcast time since the republican station broadcasts on airwaves belonging to VGTRK. The result was a compromise decision in which the Bashkortostani company will join VGTRK. For the time being, the Bashkortostani station will continue to broadcast for four hours, but this time will be eliminated completely by the end of 2002.

At the same time, the republican authorities announced plans to create their own station that would broadcast to the entire republic twenty-four hours a day. To achieve this goal, Rakhimov has already set up a company called Satellite Communications of Bashkortostan (STB). The overall project will cost 200 million rubles. The republican government will invest 50 million rubles and own 34.5 percent of the stock in the new broadcaster. Bashinformsvyaz, the republic's monopolist state-owned telecom, will invest 36 million rubles for a 24.1 percent share. The republican leadership has also ordered all local governments in the republic to contribute to the project and many have already complied. The republican station expects to go on the air by the end of 2002, when the federal VGTRK takes full control of its channel. - Igor Rabinovich in Ufa

## **FOREIGN RELATIONS**

**LITHUANIANS PROTEST KALININGRAD OIL DEVELOPMENT PLANS.** The Russian government is completing a draft for the federal program to develop Kaliningrad Oblast during the period 2001-2010. However, the Lithuanians already are protesting a proposed project to extract oil from a site just off the Kaliningrad coast in the Baltic Sea. The Lithuanians point out that the site is just 23 kilometers from the Kurshskaya kosa national park and could present severe ecological problems for the unique ecology of this small spit of land extending into the sea.

In October 2000, the Lithuanians sent a protest to Moscow about plans to develop the site, but the Russian government has yet to respond, according to [lenta.kaliningrad.ru](http://lenta.kaliningrad.ru). Since LUKoil is the main company developing the project, by protesting the development of the deposit, the Lithuanian government is essentially fighting with LUKoil.

The Lithuanians already have poor relations with LUKoil, Russia's largest oil company. In 1998, the Lithuanian government chose the American company Williams over LUKoil to acquire the Mazeikiu Nafta refinery, selling it a 33 percent share and the option to buy another 33 percent. The Lithuanians rejected LUKoil's guaranteed delivery of 6 million tons of oil a year in exchange for a 33 percent share. However, the Russian government backed LUKoil, making it the coordinator of crucial Russian oil deliveries to Lithuania, and the company effectively blocked the development of the refinery.

Now the Lithuanians believe that they have the support of other Russian oil companies who are looking for sales in Lithuania and do not support LUKoil's particular corporate interests there. Accordingly, the Lithuanian government feels secure in its opposition to the project. - Yekaterina Vasileva in Kaliningrad

## **FISCAL FEDERALISM**

*The next meeting of the State Council, which brings together President Putin with Russia's governors once every three months, will discuss issues of financial relations between the central and regional governments, particularly focusing on the Russian government's Program for the development of budgetary federalism in Russia for the*

period through 2005. The text of the plan is available at the Finance Ministry's website: <http://www.minfin.ru/fvr/ffpr02.htm>.

*At a 19 June meeting of the State Council working group on the issue, the governors expressed severe reservations about the federal government's policies (Vremya novostei, 20 June). Most importantly, they are angry that the federal government is taking control of a larger share of public funds than it did in the past. At the same time, the federal government is assigning more responsibility for meeting the populations' social needs to the regions, without providing the necessary sources of funding. Such practices are commonly called unfunded mandates. While the federal government says that it is working to equalize the regions, the governors believe that the government is simply making the rich regions poorer.*

*Below we publish an article from the point of view of the federal government that seeks to explain its policy. The discussion at the upcoming State Council session will likely be very difficult since the federal government claims to be working to abolish unfunded mandates, while the governors claim it is making them worse. Because the fiscal flows are so complicated and opaque, it is difficult to find the hard data necessary to evaluate the relative merits of the arguments presented by the federal government and the governors.*

## **FINANCE MINISTRY SEEKS IMPROVED CENTER-PERIPHERY BUDGET RELATIONS BY 2005**

by Olga Kuznetsova, Working Center for Economic Reforms

MOSCOW - In 2001 the Russian Finance Ministry will complete the implementation of its Conception for Reforming Inter-budgetary Relations in the Russian Federation in 1999-2001. This reform plan, adopted by a government directive in July 1998, sought to improve fiscal relations between the federal and regional governments by improving the way money is distributed from the Fund for the Financial Support of the Regions. It also sought to address the problem of "unfunded mandates," in which the federal government requires regional or local governments to provide specific services without providing the financing to pay for those services, by creating a Compensation Fund. The reform plan also created lines in the federal budget for establishing a Regional Development Fund and a Fund for Developing Regional Finances. However, the 1999-2001 plan did not address many issues and now a new medium-term action plan for the period 2001-2005 has been prepared.

One of the most important recommendations is to implement the federal law that creates three levels of government in Russia: federal, regional, and local. According to Russian legislation, local governments have the right to create their own budgets. In practice, however, only half of Russia's 29,000 local governments actually enjoy this right. The situation differs from region to region: most regional governments give local governments the right to create their own budgets, but some do not. The current situation causes many problems: the officials who control public finance are unaccountable to the public; government officials do not have an interest in spending public money effectively; regions without control over their own budgets do a poor job

of collecting revenue; and there is a poor division of revenue and expenditures between different levels of government. Additionally, the lack of independent budgets restricts the autonomy of local governments.

To address these problems, the reform program suggests amendments to the Budget Code that would clarify what a local government is, what budgetary rights it has, and how a local government can raise money. The reform program also recommends amendments to the Tax Code that clarify the taxing rights of local governments.

The program suggests clarifying the distribution of taxing power among federal, regional, and local governments and increasing the independence of regional and local budgets from the federal budget. Regional and local governments lack the freedom to draw up their own budgets because they are regulated by numerous federal laws, regulations, and federally-established financial norms.

One of the most important parts of the program is the gradual shift away from the current system, in which Russia's various taxes are divided among different levels of government, to one where one tax would go entirely to one level of government. Thus, if now Tax A is divided among federal, regional, and local governments by a proportion of 40:30:30, Tax B is divided 80:10:10, etc. then in the future the federal government would receive all the revenue from Tax A, the regional governments would gain all the revenue from Tax B collected in their respective jurisdictions, and the local governments would have all the revenue from Tax C. The current system is not unique to Russia and has some advantages. It is simple to regulate the relative amount of revenue for federal and regional budgets (the proportion of specific taxes given to each level of government changes often) and gives the regional authorities a stake in collecting federally-defined taxes.

However, the system has led to negative consequences in Russia. First, despite their designation as "joint" federal and regional taxes, these taxes are basically federal taxes and regional leaders tend to treat them as "other people's money," spending them irresponsibly. Second, the regional leaders' almost complete lack of taxing authority prevents them from carrying out one of the necessary conditions of an effective budget system: maintaining a connection between the level of taxation and the services the population receives. The result is that the regional leaders resort to illegal methods of raising and spending money, such as the creation of off-budget funds and the introduction of additional revenue producing methods. Third, the too frequent changes in the distribution of taxes among the different levels of government has deprived the regional leaders of the ability to develop their own tax bases. Fourth, regional leaders increased the collection of taxes by using money surrogates with the goal of increasing their share of federal taxes.

Regional leaders have criticized the proposals contained within the federal reform program. This is a normal process, since the federal, regional, and local governments all have an interest in increasing their own revenue and demonstrating that they spend it effectively. Additionally, the relatively rich regions complain that the federal government is taking too much money from them, while the relatively poor regions believe that they are not getting sufficient aid. Naturally, a plan prepared by the Finance Ministry is going to reflect the interests of the federal government. However, the arguments of the regions are not always convincing.



For example, the Tyumen Oblast authorities have complained bitterly about the proposed amendment to the tax on natural resources. Under the current system, 40 percent of the tax on hydrocarbons goes to the federal government, 30 percent to the regional government, and 30 percent to the local government. However, in regions like Tyumen Oblast where there are autonomous okrug subdivisions, the okrug receives half of the funds that would otherwise go to the federal government. Thus these regions unfairly receive more revenue than other Russian regions. The reform seeks to maintain the integrity of the federal share while leaving it up to the oblast, okrug, and local governments to work out an agreement dividing their own shares.

The regional leaders also complain that the federal government is assigning itself the taxes that are easiest to collect, such as customs duties, value-added tax, and taxes on oil, natural gas, and automobiles, while giving the regions the taxes that are hard to collect. However, the federal government uses other criteria besides how easy it is to collect a tax in determining whether it should go to federal or regional coffers. The federal government has taken the taxes that are least easy to assign to specific regions. For example, it would not make sense to give Moscow city control over the customs duties collected on its territory because there 6 percent of the population would obtain 40 percent of the income from import duties. Similarly, Moscow city and oblast collect taxes for 20-25 percent of Russia's natural gas production even though these regions do not have any natural gas deposits.

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## CENTER-PERIPHERY RELATIONS

**PUTIN ESTABLISHES COMMITTEE TO DIVIDE POWER BETWEEN LEVELS OF GOVERNMENT.** On 26 June President Vladimir Putin decreed the creation of a 22-member presidential commission to develop the legislative basis for dividing power among the federal, regional, and local governments ([press.maindir.gov.ru](http://press.maindir.gov.ru)). Currently the Russian Constitution assigns many responsibilities to joint jurisdiction meaning that nobody really knows who is in charge of what. Deputy Presidential Administration Chief of Staff Dmitrii Kozak, who just finished drafting a package of legislation on judicial reform, will head the committee. Kozak said that the committee will draw up an inventory of state functions and divide them among the various levels of government. The result, Kozak said, is that any citizen should be able to understand the responsibilities of each level of government.

The first step the commission will take is examining the 42 power-sharing treaties (signed with 46 regions) and approximately 200 specific agreements signed between the federal and regional governments in the 1990s. Some of these treaties gave specific regions (especially republics like Tatarstan, Bashkortostan, and Sakha) the right to retain a significant share of the taxes they collected and the natural resources mined on their territory. No treaties have been signed since 1998, and a 1999 law on the treaties significantly limited their influence. However, the treaties still give significant benefits to a number of republics.

The commission aims to reduce the importance of the treaties. Kozak argues that the treaties should only address issues that are not covered by the Russian Constitution, federal law, presidential decrees, and federal government directives. Formally the agreements will survive since the constitution guarantees their existence, however, the federal government wants to reduce the numerous documents that now govern center-periphery relations and replace them with a tidy set of laws. The federal government believes that the various treaties hinder the development of a unified legal space. Kozak seeks to replace the treaties with a common set of rules for the regions and provide them with equal rights.

Although Omsk Governor Leonid Polezhaev has voluntarily given up his treaty, the Kremlin has little hope that other regions will follow (see *EWI Russian Regional Report*, 7 February). For example, Sverdlovsk Governor Eduard Rossel threatened that anyone who wanted to overturn his region's treaty with the federal government would have to sue President Boris Yeltsin who signed it in the name of the federal government. However, Moscow seeks to avoid engaging the governors in a noisy battle on this issue. The committee's membership includes Tatarstan President Mintimer Shaimiev, Vologda Governor Vyacheslav Pozgalev, and Kabardino-Balkariya President Valerii Kokov. The commission will also include regional legislative chairmen from Rostov, Novosibirsk, and Tver. [Tver Speaker Vyacheslav Mironov was removed from his speakership on 28 June, two days after he was appointed to the commission and it is not clear if he will remain as one of its members -- see related story in this issue.]

In a further concession to the governors, Putin's decree specifically says that the commission must take into account the conclusions of the State Council working group on this topic headed by Shaimiev. The proposals Shaimiev and his colleagues developed were so antithetical to the Kremlin that the president removed them from the State Council agenda in February (*EWI Russian Regional Report*, 28 February). At that time, Kozak declared that Shaimiev's proposal "would lead to the destruction of the unity of the country's legal system, ... and would lead to separatism among Russia's well-off regions."

Despite these concessions, the Kremlin's desire to get its way should not be underestimated. The commission may include questions of fiscal federalism in its work, giving it significant leverage over all but a handful of well-off regions.

Once the commission has finished dealing with the treaties, it will take up proposals from the seven federal districts on dividing power, prepare a program of reform, and write legislation to enact its proposals as law. Putin ordered each of the seven federal districts to establish a commission of its own by 1 August. These seven commissions have to deliver their recommendations to the federal commission by 15 December. The federal commission should prepare its recommendations to Putin by 1 June 2002, but plans to play an active role in the policy debate even before then. - Svetlana Mikhailova in Moscow

**PRIMORSKII BUDGET TO BE PLACED UNDER FEDERAL CONTROL.** Following the election of Sergei Darkin as governor of Primorski Krai and the embarrassing defeat of the Kremlin candidate, the Kremlin is now imposing greater federal control over the region. In the financial sphere, the federal government is imposing stronger oversight over the krai budget and the energy sector.

During his recent visit to the region, Prime Minister Sergei Kasyanov announced that in order to "help Primorski Krai prepare for the winter," he had reached an agreement with Darkin to manage the krai budget through the federal treasury. The new system means that the federal authorities will know exactly how the new governor is spending krai funds. This plan results in a significant loss of power for

the oblast authorities, who in the past were not subject to such close financial scrutiny. Additionally, according to Kasyanov, municipal budgets should be transferred to the krai treasury. Such a system effectively imposes strict hierarchical oversight, which gives the federal and regional governments detailed information about how the governments subordinate to them are spending money.

In a related announcement, Unified Energy System Chief Anatolii Chubais said that a new company will be created to manage the day-to-day accounts of the regional energy companies Dalenergo and LuTEK. The purpose of this company is to put in place greater financial monitoring. In addition, a deputy fuel and energy minister will work permanently in the region to coordinate preparations for next winter by directing the transfer of resources from the federal government to the regional fuel and energy complex.

The deputies of the Primorskii Krai Duma also increased their power over the governor by modifying the krai's charter to deprive the governor of the right to appoint his deputies independently. According to the amended charter, the governor must submit an organization chart of his government for the approval of the deputies. Additionally, the krai legislature now has the right to confirm deputy governors and recall members of the cabinet.

Once changes in federal legislation about the police are in place, the governor will likely have less control over the local law enforcement agencies (see related story in this issue). Instead, the presidential representatives to the federal districts will gain much greater oversight over the law enforcement agencies. The presidential representatives will be able to recommend candidates for high office and evaluate the work of current officials.

Thus Darkin has much less power than did former Governor Yevgenii Nazdratenko. First, he is apparently losing control over the law enforcement agencies and other power ministries in the region. Second, he no longer manages the money designated for the energy sector, while the federal government will strictly monitor the rest of the budget. Third, he can no longer freely appoint his own cabinet. With less power, Darkin will also have much less responsibility than Nazdratenko did. It is possible that if this system works in Primorskii Krai, the federal government will seek to transfer it to other regions. - Oleg Zhunusov in Vladivostok

**RAKHIMOV AGREES TO GREATER FEDERAL CONTROL IN EXCHANGE FOR AID TO DEFENSE PLANT.** Deputy Prime Minister Ilya Klebanov and Bashkortostan President Murtaza Rakhimov have publicly backed the idea of establishing a holding company that would include the Yaroslavl, Rybinskii, (Yaroslavl Oblast) and Ufa (Bashkortostan) aircraft engine plants. All three are near bankruptcy because the federal government has not paid for defense orders it commissioned from the plant. In the past, regional leaders supported the plants by freeing them from various taxes, but following Putin's reforms, such practices are no longer allowed.

Klebanov initiated the government's plan for reorganizing the defense sector that the State Council discussed in March 2001. The gist of the plan was to integrate technologically compatible factories into large holding companies. Klebanov argued that these larger entities would be more competitive in both domestic and international arms and high-tech markets. Integration would presumably also increase the likelihood that the federal government would pay off some of its debts for unpaid defense orders and help in restructuring the plants' tax debts. Few regional leaders were interested in the plan because special federal defense agencies controlled by Klebanov would regulate the process of the mergers.

Rakhimov is the first regional leader to back the government program. Presumably he hopes that whatever power he loses over the plant will be compensated by increased federal financial support in the form of at least partial payment of previous defense orders and restructuring of the factory's tax debts.

In working directly with Klebanov, Rakhimov is circumventing the Volga Federal District, which is headed by Sergei Kirienko. Rakhimov has refused to cooperate with the Volga Federal District interregional aerospace commission headed by Samara Governor Konstantin Titov. Rakhimov claims that the federal district leadership simply does not have the resources and power to address serious economic problems in the regions. Thus, the old system in which regional leaders appealed directly to the federal government for help remains in place. - Igor Rabinovich in Ufa

## **LAW ENFORCEMENT AGENCIES**

**FEDERATION COUNCIL BLOCKS PUTIN POLICE REFORM.** On 29 June the Federation Council rejected amendments to the law on Russia's police force that would have removed the need for governors to agree to the appointment of regional police chiefs in their regions. On the morning of the vote, Putin summoned Federation Council Speaker Yegor StroeV to the Kremlin and expressed the hope that the Federation Council would approve the bill. The governors were strongly opposed to the bill since it would cost them control over the regional law enforcement agencies and weaken their ability to violate the law without consequences. However, only 54 senators voted in favor, when 90 "yes" votes were required for passage (*Kommersant Daily*, 30 June).

In this vote, the governors demonstrated that they had more power over the members of the national legislature's upper house than does the president on this particular issue at this time. The generally pro-Putin faction of senators in Federatsiya, which has more than 100 nominal members, decided not to vote as a bloc on this issue.

This battle is far from over since Putin is intensely interested in removing the police from under the governors' control and subordinating them directly to federal authorities (see *EWI Russian Regional Report*, 19 June). Putin can be expected to bring considerable pressure on the senators to vote in his favor in the coming weeks. Likewise, the governors will try to block the proposal from being implemented or extract as many concessions as possible to preserve their ability to influence the law enforcement agencies. The Federation Council will seek a new version of the bill and plans to vote on it by 20 July. - Robert Ortung

## **BUSINESS AND POLITICS**

**CONFLICT BETWEEN TVER GOVERNOR, LOCAL BUSINESSMEN LEADS TO REMOVAL OF SPEAKER.** On 28 June, the Tver Oblast legislature removed Speaker Vyacheslav Mironov from the leadership of that body. The change was the result of a long-running confrontation between Governor Vladimir Platov and the local business elite grouped around the Tver Union of Industrialists and Entrepreneurs who oppose him. Platov is currently carrying out a reform of his administration designed to bolster his own power in alliance with financial and industrial groups based in Moscow (*EWI Russian Regional Report*, 23 May). The local business elite sought to counter the governor's initiatives by amending the oblast charter to subordinate the governor to the regional



legislature. However, with Mironov's help, the governor managed to block the attempt to rewrite the charter. Mironov paid for his decision to help the governor against the local business groups with his job.

Removing the speaker requires a simple majority of the legislature and 19 out of 33 members voted to remove Mironov, two more than necessary. The deputies allied against Mironov did not even offer him the chance to speak in his own defense before the vote. - Boris Goubman in Tver

### **URALS FEDERAL DISTRICT OFFICIAL MEETS WITH CHELYABINSK BUSINESS**

**ELITE.** Deputy Presidential Representative to the Urals Federal District Viktor Basargin recently met with the members of the Chelyabinsk branch of the Russian Union of Industrialists and Entrepreneurs. The federal official took the initiative in arranging the meeting with the business leaders.

Federal officials and Chelyabinsk business people all agree that increased contacts are beneficial. Basargin believes that contacts with business leaders will give him a good source of information and forecasts about the economic situation in the region. Overall, he is concerned about the state of the Chelyabinsk economy because the growth rate dropped from 9.5 percent in 2000 to 3.5 percent in 2001.

The business elite also sought to extract information from the official. They were particularly interested in how the state plans to use its stock in Urals factories and what type of cooperation among factories the state wants to encourage within the federal district. The business community is very concerned about the actions law enforcement agencies were taking against Ural enterprise directors for not paying their taxes. The enterprise directors were particularly glad to hear that Presidential Representative to the Urals Federal District Petr Latyshev said that he had ordered the law enforcement agencies to stop harassing directors of enterprises (particularly defense plants) that were operating legally.

Basargin also addressed an issue that is of great concern to many of the local business elite: whether they should support the governor or federal officials. Basargin said that one simply had to obey the law and then it was not necessary to take sides. - Olga Smirnova in Chelyabinsk

### **GUBERNATORIAL ELECTIONS**

**GOVORIN LEADS IRKUTSK GUBERNATORIAL RACE.** Irkutsk voters face a choice between Governor Boris Govorin and Valentin Mezhevich, the oblast's legislature's representative to the Federation Council in the region's 29 July gubernatorial elections. Three other candidates in the race have little chance of winning.

As the governor and leader of the Siberian Agreement Interregional Association, Govorin is the front-runner and has the enormous advantage of incumbency in the region. In contrast, Mezhevich has the backing of the oblast legislature, which is in opposition to the governor, and is supported by the former leadership of the Irkutskenergo utility, where he used to work as deputy general director. The utility's leadership came into conflict with Govorin a year ago and moved into control of the oblast legislature. Mezhevich also once served as deputy governor under Govorin.

The federal government has essentially backed Govorin. Putin called Govorin on 27 June to wish him a happy birthday and inquired about Gazprom's potential role in developing the Kovykta natural gas deposit in the region. Gazprom's new leader, Aleksei Miller, is expected to meet with

Govorin in the next few days. Additionally, the pro-Kremlin Yedinstvo party has endorsed Govorin. Party leader Sergei Shoigu described Govorin as a "man of action." However, Govorin's relations with the federal government generally are not warm. He has frequently criticized the federal government for poorly thought out and irresponsible economic policies in the local press. He has also battled federal officials to maintain oblast control over a stake in Irkutskenergo utility.

At the end of June, Govorin met with Mikhail Shmakov, the president of the Russian Federation of Independent Trade Unions, in another move to garner support. As the federal government forces residents to pay for a greater share of their municipal services, the governors are turning to trade unions to help mobilize grassroots support among those unhappy with federal policy. Govorin has been very critical of this aspect of Putin's reforms, charging that it is necessary to raise the quality of municipal services before charging higher prices for them. As part of his campaign, Govorin has been traveling through the region and criticizing local officials for doing a poor job in providing municipal services. Govorin also signed a treaty on merging the agricultural and social sectors of Irkutsk Oblast and Ust Orda Buryat Autonomous Okrug on 1 July.

Mezhevich has the backing of the Union of Right-Wing Forces. The local branch of the party is split, but the arrival of party leader Boris Nemtsov on 6 July to participate in a regional party political council meeting is expected to bring clarity to the party's position. Like many other gubernatorial elections, this one is characterized by the appearance of numerous freely distributed "newspapers" with compromising material about the candidates. - Based on reports from Umar Izvekov in Omsk and Teleinform in Irkutsk

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## POLITICAL PARTIES IN THE REGIONS

*Both houses of the national legislature have now approved a new law on political parties, backed by President Putin, that would sharply reduce the number of political parties in Russia and make them easier for the Kremlin to control, according to some critics. Russia currently has more than 200 political parties, the vast majority of which have essentially no influence over policy.*

*The bill places strict limits on party financing, though such restrictions have meant little in the past. To secure state financing, the party must win more than 3 percent of the vote in national elections. The law also requires that each party have 10,000 members across the country and no fewer than 100 members in 45 regions. The Federation Council backed the bill with 110-3, with 6 abstentions, on 29 June even though it effectively bans the regional parties that some governors have established.*

*The new law promises to restructure the Russian party system. In this issue we present several articles reflecting some aspects of the state of party systems in several Russian regions.*

**PERM: LIBERAL PARTIES POPULAR, BUT POORLY ORGANIZED.** Perm Oblast's liberal parties face a strange paradox: they win most of the votes, but their party organizations are extremely weak. The overall economic situation in the region has facilitated the formation of strong liberal parties. In the 1999 State Duma elections, the Union of Right-Wing Forces (SPS) came in second to the pro-Kremlin Yedinstvo in the oblast and took first place in the city of Perm. Yabloko also did reasonably well.

Yabloko has the weakest organization of the two liberal parties. Overall, there are just over 100 Yabloko members in the oblast. The party long depended on its leader, former Perm Deputy Mayor Vladimir Zotin. However, after Zotin was killed in an automobile accident, the party never recovered. When Zotin died, the party lost many of its contacts among the city's high-level officials.

Zotin had served under Yurii Trutnev, the former mayor who is now Perm's governor. In an interview with *Nezavisimaya gazeta*, Trutnev announced that he supported Yabloko's platform. However, despite his kind words, Trutnev had no contacts with the Yabloko party leaders in the region after the interview was published. The party is simply too weak to attract the governor's attention.

SPS does have a charismatic leader in State Duma Member Viktor Pokhmelkin, a member of the party's national political council who ranks third in the State Duma faction. The oblast newspaper *Dose 02* is widely believed to represent his opinions. He was won election to the State Duma from his district three times in a row. However, observers believe that Pokhmelkin's heavy workload in the Duma prevents him from working actively at building the regional party. Despite these constraints, at the oblast party's last conference, Pokhmelkin scored a tactical victory when many of his allies were elected to leadership positions (*Novyi kompanon*, 24 June). Until then, Pokhmelkin had been at odds with the regional party leadership.

Beyond the parties' internal problems, conditions in the oblast contribute to their weak structure. None of the oblast and city officials are members of political parties. Former Governor Gennadii Igumnov was a member of Our Home is Russia, but only because he thought membership would be economically beneficial to the oblast. Moreover, until very recently, there were no party factions in the regional legislature. The first party faction, representing SPS, appeared in the oblast legislature only on 21 June. A May attempt to create a Yedinstvo faction failed (see *EWI Russian Regional Report*, 30 May).

Party leaders want to strengthen their positions in hopes of setting up party factions in the oblast legislature after the Fall 2001 elections. However, public opinion polls suggest that party candidates are unlikely to win election. If political parties want to form factions, they will have to draw on successful candidates who won election without partisan backing. - Konstantin Kolyvanov in Perm

**VORONEZH: TWO REGIONAL YABLOKOS FINALLY MERGE.** At the end of June, Yabloko formed a single unified party branch in Voronezh Oblast, merging the two long-standing party branches that had operated independently of each other in the region

until then. Yabloko is experiencing difficulties nationwide, so the party leadership is interested in consolidating its resources at all levels. In Voronezh, the Communists have traditionally been strong, but a pro-Putin Federal Security Service official won the most recent gubernatorial elections.

Since the middle of the 1990s, two independent Yabloko organizations had existed in the oblast. The situation created considerable distress for members of the party and pointed to the weakness of the party system in Russia. Due to the split, the party had a weak following in the region and proved unable to win local elections (*Voronezhskie vesti*, 22 June).

On the eve of the unification, Yabloko counted 93 members in Voronezh Oblast and the party organization only functioned in the cities of Voronezh and Novovoronezh, and two rural raions. Now the national Yabloko organization, which faces the real possibility that it will not cross the 5 percent barrier required to win party representative in the State Duma in the scheduled 2003 elections, is working hard to strengthen its regional branches ([www.voronezh.ru](http://www.voronezh.ru)). Entrepreneur Sergei Naumov now heads the united Voronezh Yabloko, demonstrating the party's attempt to win support among the region's private sector. - Yuliya Fedorinova in Voronezh

**MORDOVIYA: ONLY THREE PARTIES LIKELY TO REMAIN.** After the adoption of the new federal law on parties, only three parties are likely to continue operating in Mordoviya: the pro-Putin Yedinstvo, Vladimir Zhirinovskiy's Liberal Democratic Party of Russia, and the Communist Party of the Russian Federation. The local branch of the Union of Right-Wing Forces has yet to resolve its internal organizational problems and appears to have little chance of survival.

The local branch of Yedinstvo announced that it will take over the more developed Otechestvo party organization in the republic. In the December 1999 State Duma elections, Mordoviya President Nikolai Merkushkin had backed Moscow Mayor Yurii Luzhkov and helped develop his Otechestvo party network in the region. Since Luzhkov lost his bid for the presidency, Merkushkin has downplayed this former alliance and is now openly backing Putin. Mordoviya Prime Minister Vladimir Volkov even announced that Merkushkin himself will head the coordinating council that will oversee the merger of the Yedinstvo and Otechestvo parties in the republic.

Mordoviya is a poor region and therefore its loyalty to the "party of power" is entirely logical. It seeks good ties with the federal leadership to assure continued financial aid. Republican Prime Minister Volkov said that "there are good prospects that the members of the State Duma Yedinstvo faction will be able to lobby for the economic interests of the republic."

Merkushkin is actively expanding the Yedinstvo party ranks. Membership reached 2,000 by May. It jumped by about 1,000 members in the few weeks following Merkushkin's meeting with Putin in April. - Igor Telin in Saransk

## **REGIONAL LEGISLATURES**

**KREMLIN SEEKS TO MOVE REGIONAL LEGISLATURES FROM GOVERNORS' CONTROL.** The State Duma currently is considering amendments to the law on regional executive and legislative political institutions that would require

regional legislatures to elect some of their members on the basis of party lists. In conjunction with the adoption of the law on political parties, this legislation would cost the governors the almost total control they frequently exercise over the legislatures in their regions. In the future, regional legislators would take cues from the governors as well as from party leaders in Moscow.

Most regional legislatures are not authoritative or influential players on the political stage. According to recent public opinion polls, 70 percent of Russians have trouble formulating an opinion about their regional legislature. Generally, the legislatures have operated under the control of the governors.

However, there were always legislatures that opposed their governors and now even more regional parliaments seem to be in opposition. Opposition parties that lost regional executive elections are now focusing their energy on winning control of regional legislatures. Parliaments in such places as St. Petersburg, Krasnoyarsk, Irkutsk, Tver, and Sakha are now in opposition to the executive branch in their region. The Kremlin naturally wants to use this situation to acquire additional leverage over the governors.

On 19 June Putin met with a group of regional legislative speakers. The main topic of discussion was the introduction of party list voting for regional legislative elections. At the beginning of May, two State Duma deputies, Boris Nadezhdin (Union of Right-Wing Forces) and Igor Igoshin (Agrarians), proposed a similar idea. They suggested that in regions with at least one million residents, a mixed system with 15 percent of the deputies elected from party lists be introduced. Now the only regions that have such mixed systems with various proportions of party-list voting are Krasnoyarsk, Sverdlovsk, and Kaliningrad oblasts. The deputies also proposed establishing adopting a federal law with common requirements for all regional legislative elections.

The Kremlin avidly backed this idea, as Nadezhdin pointed out in a recent *Nezavisimaya gazeta* interview, but argued that a more radical form of the idea be implemented. Putin's team suggested that deputies elected from party lists should make up half of the membership of the regional legislatures, as is the case in the State Duma. Additionally, the administration wants to extend the system to all 89 regions, not just those with more than one million residents. Supporters of this reform say that it would increase the role of political parties in policy making at the regional level and would help the legislatures exert their independence from the governors.

This year there will be approximately 25 regional legislative elections, so the Kremlin hopes to adopt the new electoral system as soon as possible. One of the key targets is the city of Moscow, which will elect a new legislature in December. Moscow Mayor Yuriy Luzhkov has strong control over the city's legislature now and the federal authorities would like to weaken this link in his power. The Kremlin is eager to implement the new law on political parties because it would block regional parties (usually controlled by the governor) from competing for seats in regional legislatures and requires federal parties to participate regularly in regional legislative elections.

While the regional legislative chairmen will lose their automatic seats in the Federation Council by the end of this year, the reform of the electoral system should boost their status within their regions. Putin did not agree to set up a presidential council that would give the regional speakers direct access to him, but he did agree to meet with them once a year, thereby meeting them part way in their desire to have greater access to the president. - Pavel Isaev in Moscow



**TVER GOVERNOR CONTINUES BATTLE WITH LEGISLATURE.** On 6 July, Tver Governor Vladimir Platov issued a declaration to the oblast's legislature expressing his unhappiness that the body had voted on 28 June to remove its chairman, Vyacheslav Mironov, who supported the governor (see *EWI Russian Regional Report*, 3 July). While admitting that the legislature has the right to choose its own speaker, the governor asked the oblast procurator to investigate whether the legislators had followed the necessary procedures in ousting Mironov (*Tverskaya zhizn*, 6 July). The governor suggested that the lack of leadership in the legislature could call into question the adoption of a new oblast law on legislative elections and even throw into doubt the legislative elections scheduled for this fall. In his declaration, the governor called on the legislature not to elect a new speaker until all the legal issues had been resolved.

The oblast legislature removed Mironov because he supported Platov's efforts to restructure his administration in a way that concentrated more power in the hands of the governor. The governor is allied with Moscow business interests who threaten the interests of the local business people, controlling a majority of seats in the regional legislature.

The legislators ignored the governor's request and sought to elect a new speaker. However, Deputy Speaker Aleksandr Gribov, who enjoyed the support of Presidential Representative to the Central Federal District Georgii Poltavchenko, won only 15 of the 17 votes that he needed. Although he failed in his bid to secure election as speaker for the three months that remain until the legislative elections, as the deputy speaker, Gribov will now run the legislature. - Boris Goubman in Tver

## **FISCAL FEDERALISM**

**LOWER PROFIT TAX MAY CUT REGIONAL REVENUE.** President Putin will soon have the opportunity to sign draft legislation now making its way through the legislature to reduce corporate profit tax from the current 35 percent to 24 percent. This would reduce the tax burden on Russian enterprises and clarify the tax code.

The impact this reform will have on state revenues is not clear, however. Some estimates suggest that the reform will cut the tax burden on Russian enterprises by 160 billion rubles and deprive the state of this income. Other observers believe that by reducing the overall tax rate and closing existing loopholes that allow some companies to avoid paying taxes, state revenue will increase because Russian firms will have more incentive to comply with the law and lower taxes will stimulate business activity. When income taxes were reduced to 13 percent, revenue rose, but the overall sums collected from this tax are still very small (it comprises just 0.17 percent of federal revenue). Observers believe that the new profit tax will be fairer and more transparent than the current version.

Regional governments, which receive 60 percent of the profit tax, have the most to win or lose from the new measure. Under the old 35 percent profit tax, the federal government kept 11 percentage points of the 35 percent tax, the regions kept up to 19 percent, and local government kept up to 5 percent. Regional and local governments had the discretionary power to lower the tax to almost zero if they wanted to favor certain enterprises. Under the 24 percent tax, the federal budget will receive 7.5 percentage

points of the revenue, the regional governments will receive between 10.5 and 14.5 percentage points, and local governments will receive 2 percent. If the tax cut has the effect of reducing state revenue, the regions will be the main losers. It is not clear where the regions would find new sources of income to compensate for this lost money. If the tax cut stimulates business and Russia works aggressively to improve its poor tax collection rate, the regions would benefit through higher tax revenues.

Under the new system, the regional governments will lose the ability to reduce firms' profit taxes to nearly zero. In the past, some governors have implemented such policies to turn their regions into tax havens. If the new legislation is adopted, regional governments will only be able to reduce the tax rate from 14.5 percent to 10.5 percent.

Local governments stand to lose the most from the new reform. The new distribution of the tax among the federal, regional, and local governments means that local governments will lose about 5 percent of the income they once had, while regional governments will gain this income. - Robert Ortung

## **BUSINESS AND POLITICS**

**ULYANOVSK GOVERNOR FORMS OIL COMPANY OVER YUKOS OBJECTIONS.** Ulyanovsk Governor Vladimir Shamanov has created an oblast owned company called Ulyanovskoblneft with the stated purpose of more effectively developing the oblast's oil potential. The new company will control all regional oil company stakes held by the oblast government.

Five companies now produce and sell oil in the region. The oblast government only holds relatively few shares in two of these companies: 9.36 percent of Ulyanovskneft and 39 percent of Ulyanovskgeoneft. These shares will now be united under the control of the new company. The Belorussian-Russian company Slavneft controls three of the oil companies working in the region.

The powers of the new company will extend beyond simply managing the relatively modest oil company stakes. According to the governor's directive, the leadership of Ulyanovskoblneft must agree to all decisions affecting the regional oil sector. Additionally, the governor ordered an investigation into the legal basis of all the deals made under former Governor Yurii Goryachev in which the region transferred control of its oil producing companies to other parties.

According to a source within the administration, the oblast's oil company shares were lost through the self-interested acts of numerous regional officials. This official claimed that Ulyanovsk Oblast could generate much more revenue from its oil wells, but oil production figures are unreliable. The local branch of the State Statistical Committee refused to answer a request from the governor asking who was buying Ulyanovsk oil on the domestic and foreign markets.

Additionally, the Goryachev administration did not conduct auctions for the right to use the region's oil nor did it check to see if license-holders were living up to the terms of their agreements. Ulyanovsk has reserves of 37 million tons and plans to produce up to 400,000 tons in 2001. The region exports 60 percent of its oil. Ulyanovskoblneft hopes to double output in the next few years, but actual increases will depend on how much the company can invest.

In response to the creation of Ulyanovskoblneft, Slavneft, which controls three of five oil companies in the region, issued an angry press release. Slavneft objected to the creation of Ulyanovskoblneft because the company was formed without the participation of shareholders. Ulyanovskoblneft President Marsel Gafiullin rejected these concerns, pointing out that that the state was only changing the way it used its shares.

One of Slavneft's main supporters in the region was the former Oblast Legislative Assembly Chairman Sergei Ryabukhin, who was recently appointed as an auditor working in the Russian Audit Chamber. According to a press release from the legislature, Ryabukhin met with Slavneft President Mikhail Gutseriev on 29 January and agreed to invest \$32 million in the Ulyanovsk oil sector. The company also agreed to pay off 700 million rubles of the oblast's debt. At the time, Governor Shamanov's administration denied that meeting had taken place and there is no evidence that Slavneft ever paid the debt or made the promised investment. - Sergei Gogin in Ulyanovsk

## **CENTER-PERIPHERY RELATIONS**

**FOUR REGIONS RENOUNCE POWER-SHARING TREATIES.** On 9 July, Perm Governor Yurii Trutnev, Ulyanovsk Governor Vladimir Shamanov, Nizhnii Novgorod Governor Ivan Sklyarov, and Marii El President Leonid Markelov signed acts renouncing their power-sharing agreements with the federal government. The leaders said that they took the step in order "to ensure the superiority of the Constitution and federal law." More likely though, the move was a low cost way to curry favor with President Putin.

On 26 June Putin established a commission to evaluate the usefulness of the treaties, making clear that he would like to get rid of them (*EWI Russian Regional Report*, 3 July). The 42 treaties signed between 1994 and 1998 differ in terms of their significance. The treaties signed with Tatarstan, Bashkortostan, and Sakha give significant concessions to those republics and their leaders have made clear that they do not want to sacrifice these benefits. Treaties signed with the oblasts and other republics were often formalistic documents of little importance. In many cases, Yeltsin used them to curry favor with regional leaders before the 1996 presidential elections. The Perm and Nizhnii treaties were signed right before the election, while the Ulyanovsk and Marii El treaties were signed much later, when the federal government was no longer handing out many concessions. For the governors of these regions, renouncing the treaties is a small price to pay for Putin's favor. Sklarov has the most urgent need for presidential support since he is running in a tight gubernatorial election set for 15 July. The other three governors only recently came to power and were not personally involved in signing the treaties. - Konstantin Kolyvanov in Perm and Robert Ortung

## **REGIONAL RESOURCES ON-LINE**

**Budget Data**([www.budgetrf.ru](http://www.budgetrf.ru)) - This website includes full text versions of Russia's budget, the text of the budget and tax codes, and other useful economic information.

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### TRIP REPORT: NIZHNII NOVGOROD, 12-14 JULY

*This is a special edition of the RRR focusing on the situation in Nizhnii Novgorod just before the 15 July gubernatorial elections. It is based on conversations during my visit there 12-14 July. - Robert Orttung*

### GUBERNATORIAL ELECTIONS

**KHODYREV, SKLYAROV ENTER RUNOFF IN NIZHNII GUBERNATORIAL CAMPAIGN.** On 15 July, Gennadii Khodyrev, Nizhnii Novgorod's last Communist leader who is currently a State Duma member, and Governor Ivan Sklyarov took the first two places in the region's gubernatorial election, winning approximately 24.5 and 21 percent of the vote respectively according to preliminary data. Turnout was around 35 percent and about 8 percent of those who voted rejected all of the candidates. State Duma Deputy Vadim Bulavinov took approximately 19 percent of the vote and said that he would file a protest, charging that some of the precinct committees had filed reports that had been signed but with incomplete data so that oblast officials could later fill in the numbers they wanted, NTV reported 16 July. Of the other leading candidates, State Duma member and former head of Transneft Dmitrii Savelev won approximately 13 percent of the vote and Andrei Klimentev, the winner of the 1997 Nizhnii Novgorod Mayoral elections who was scandalously and undemocratically removed from office because of past criminal convictions, won about 11 percent.

Local observers unanimously described the first round campaign as one of the dirtiest ever. It was also one of the most expensive. Until the votes were counted, it was

not clear which of the four frontrunners would enter the runoff. Such an intense and costly battle suggests that the governor's office remains important despite Putin's reforms to shift power from the regional leaders. Even under Putin, Russia's governors still control the distribution of numerous resources and their popular mandate prevents the federal authorities from removing these officials easily.

The competitiveness of the election indicated that at least some form of democracy exists in the regions. However, one dark cloud hanging over the Nizhnii Novgorod elections was the unclear role of the governor in the evolving political system. Cynical local observers suggested that the victor was not important since Presidential Representative to the Volga District Sergei Kirienko would ultimately make all the important decisions and he was not directly accountable to the voters. While such views were common, Kirienko's actual power over people, resources, and decisions remained largely undefined at the time of the election.

Despite its intensity, the campaign was not about issues, but negative advertising. Since the candidates had little to offer in the way of a positive program, they devoted most of their time to criticizing their opponents.

Eleven candidates' names appeared on the ballot on 15 July. On the eve of the election, observers believed that four candidates had a realistic chance of making it into the runoff: Sklyarov, Bulavinov, Khodyrev, and Klimentev. Savelev, was not considered to have much chance of winning, but had a major impact on the election because his was the best financed campaign.

Two non-candidates also played an important role in the election. Nizhnii Novgorod Mayor Yurii Lebedev sought to join the race, but the regional electoral commission rejected his registration on 30 May because it had evidence that he had used public resources to collect signatures in his support. Siberian Aluminum's Oleg Deripaska, who last year bought Nizhnii's giant automobile factory, also rejected the overtures of an initiative group to throw his hat in the ring. Deripaska realized that he would have little chance of winning in the region and, more importantly, his economic interests extend far beyond the scope of one oblast. His resources are so great, that Deripaska does not have to seek help among the regional elite; rather they come to him for aid. Deripaska and the Gorkii Automobile Factory played little role in the race, most likely informally backing the 2-3 top candidates and preparing to set up good relations with the ultimate winner.

The campaign differed from most other regional elections in Russia because the governor did not have dominant control of the media. Instead, Savelev, who owns two of the region's television stations (TNT and Volga), and Lebedev had much more prominent media access. The regional media is heavily partisan and each publication or broadcaster backed one or another of the candidates. According to a content analysis conducted by the Nizhnii Novgorod Research Fund, the privately-owned media is much more partisan than the state-owned media in the region. Savelev's media companies disseminate exclusively positive information about him, while the coverage of the state-owned media is less consistently positive about Sklyarov.

In Sklyarov's favor is the fact that the economy has generally improved while he was in office and several large Russian companies have decided to invest in the region. He is also credited with helping the region's industry. Sklyarov was clearly the man the Kremlin most wanted to win. While Putin did not intervene directly in the campaign, a

long list of prominent federal officials, including Deputy Prime Minister Valentina Matvienko, Minister for Economic Development and Trade German Gref, and Transportation Minister Sergei Frank, have visited the region recently and praised its accomplishments. Kirienko is clearly in alliance with Sklyarov, though the presidential representative kept relatively quiet during the campaign. The pro-Kremlin Yedinstvo backed Sklyarov, who maintains strong links to Moscow Mayor Yurii Luzhkov and his Otechestvo party. A week before the election, LUKoil President Vagit Alekperov, under pressure from Kirienko, publicly endorsed Sklyarov in the race. Despite these high level endorsements, Sklyarov identified himself with typically Russian symbols in his widely propagated campaign slogan: The River: Volga; The Poet: Pushkin; The Governor: Sklyarov (or just Russia: Volga, Pushkin, Ivan" for short).

However, Sklyarov faced an uphill battle in the race. One of his main liabilities is that in the spring he cut a deal with Kirienko according to which Kirienko would provide federal support for his reelection, if Sklyarov created an oblast government analogous to the federal structure (For background see *EWI Russian Regional Report*, 14 February 2000). The creation of the government and the appointment of Kirienko's designated ally, Sergei Obozov, as Oblast Prime Minister raised major questions about the power the governor would actually wield in the region.

The establishment of this government also limited Sklyarov's access to the usual benefits of incumbency. Now key officials' jobs do not depend directly on Sklyarov's reelection. As a result, they have less interest in helping him. Local government leaders in the oblast also are doing little to help Sklyarov. Usually such local leaders make up the backbone of the governor's team to get out the vote, particularly in rural areas where Sklyarov's electorate is strongest.

When Boris Nemtsov was governor and Sklyarov was mayor, they had an excellent staff of professional non-ideological employees. Sklyarov on his own has often been ideological in his personnel choices and was not always well served.

Sklyarov also took the blame for the scandal surrounding the 1998 Nizhnii Novgorod mayoral election when Kliementev's victory was overturned because the Kremlin did not like the result. Ultimately, the city elected Lebedev, one of Sklyarov's chief foes, leading to open conflict between the oblast and city administrations.

Most damaging for Sklyarov was that Lebedev shut off the city's hot water supply to most neighborhoods for the past two months. The lack of hot water, a constant topic of conversation in the city, has made both governor and mayor unpopular as local residents were now dissatisfied with the all of their public officials. On 11 July, just a few days before the election, Sklyarov promised to get rid of Lebedev if he is elected to a second term, but it is not clear how he would do this (at a minimum, the courts must find that Lebedev has broken the law). Nemtsov has generally supported Lebedev, which further complicates his relations with Sklyarov.

Despite the overall improvement in the regional economy during the last year or so, Nizhnii faces some particular problems that hurt Sklyarov. Average salaries in the neighboring poor region of Vladimir are almost as high as those in Nizhnii, while salaries in Samara (a region Nizhnii likes to measure itself against) are considerably higher.

No candidates have escaped the negative campaigning. Critics accused Sklyarov of being a bad manager, lacking independence (since Kirienko seems to be calling the shots in his administration), and having a daughter whose husband allegedly has criminal



connections. Many locals believe that Sklyarov did a much better job as mayor than as governor.

Bulavinov's enemies pointed out that in the State Duma he supported the unpopular idea of importing nuclear waste for processing and storage in Russia. Liberal Democratic Party of Russia (LDPR) State Duma Member Aleksei Mitrofanov also accused him of being involved in the 1995 murder of LDPR State Duma Member Skorochkin and the former director of the Seti-NN television station, which he owns. Bulavinov had business interests with both men, but investigators never came up with enough evidence to convict him.

Khodyrev was the least criticized of all the candidates, mostly because he ran a very quiet campaign that did not draw much media attention. A well-coiffed comrade who would look at home in any Wall Street firm, Khodyrev's most visible act was a full-page ad in *Kommersant Daily* with a giant picture of him in an elegant suit and the slogan "There will be no revolution."

## **CENTER-PERIPHERY RELATIONS**

**KIRIENKO QUIETLY BACKS SKLYAROV.** In public, Presidential Representative to the Volga Federal District Sergei Kirienko distanced himself for the campaign and is not playing a major role. However, he was obviously supporting Sklyarov with whom he has established a power-sharing relationship. Sklyarov essentially handed over economic power to Kirienko in the form of a new oblast government headed by Kirienko ally Sergei Obozov. However, observers believe that since Sklyarov's victory was far from assured, Kirienko was also keeping his options open by maintaining ties with the Communist Khodyrev and Bulavinov.

Kirienko has made abundantly clear that he likes the current arrangement. He does not want to elect his deputies as governor, a mission that Presidential Representative to the Far East Konstantin Pulikovskii recently failed to do. Rather, he told *Vedomosti* (25 June), he prefers a different approach where "the governor invites the chief federal inspector to serve as the head of the government." The chief federal inspectors represent the presidential administration in each region.

Oblast Prime Minister Obozov claims that the new system is working well. A week before the election, he said, "Today, despite all of the campaign's hubbub, I feel that I am located within the positive aura of the president's team, where it is not necessary to get involved in politics and it is possible to work normally..." (*Birzha*, [www.birzhaplus.sandy.ru/birzha](http://www.birzhaplus.sandy.ru/birzha), 12 July). The developing relationship between the governor and oblast prime minister will indicate whether the governor is able to hold on to his power or the federal government is able to take greater control.

## **BUSINESS CLIMATE**

### **BIG BUSINESS MAKES NIZHNII "CAPITAL OF RUSSIAN INVESTMENT."**

One of the major changes in the region over the last year is the arrival of the oligarchs, who have bought up many local factories. If under Boris Nemtsov, the region was a major target for foreign investors, it is now a major center of domestic Russian investment. Siberian Aluminum now controls the Gorkii Automobile Factory (see related

story in this issue), Severstal has bought the Zavolzhskii Motor Factory, Nikoil has purchased several factories in the region, including the Sokol and Gydromash aircraft part factories, the Alfa Group and Beeline have invested in the telecom sector, Interros is working in the agricultural sector, and Kakha Bendukidze has purchased the Krasnoe Sormovo shipbuilding plant. LUKoil is expected to purchase the NORSI oil refinery within a few months after the elections. Sklyarov is in a position to take credit for bringing this money to the region since it happened on his watch, but local observers claim that Kirienko is really the one responsible.

A case in point is Bendukidze's purchase of Krasnoe Sormovo. He bought the plant many years ago and fought a long and dogged battle with the Sklyarov administration to actually take control of his own property. Sklyarov backed the old managers who did not want to lose their factory to the outside investors. Kirienko helped Bendukidze resolve this conflict.

Bendukidze hopes to use his industrial holdings in several regions to produce drilling equipment that oil companies will use to produce oil in the Caspian Sea. He wants to have his Yekaterinburg-based Uralmash plant prepare the drilling equipment, Krasnoe Sormovo will produce platforms for offshore drilling, and Bendukidze's Astrakhan factory will assemble all the parts. Thanks to Kirienko's intervention, Bendukidze can now move ahead with his plans.

The Gorkii Automobile Factory generally has good relations with Kirienko as well. However, Kirienko was not happy with the factory's neutrality in the gubernatorial elections and his staff took some measures to force the factory to support Sklyarov. However, beyond these tensions, the relationship is generally positive, but not terribly important.

Local observers blame Sklyarov for not developing any local investment groups that would be able to compete effectively with the deep-pocketed investors now coming to the region. Because of the lack of local financial resources, Nizhnii Novgorod is open to manipulation by outside groups, some believe. Though these same observers concede that the investment definitely serves the region's interests.

There is now less foreign investment in the region than during the Nemtsov era. Sklyarov's critics charge that he does not understand foreign investment and seeks to oust it from the region. However, now that Kirienko has much greater influence in the region, he may be able to improve conditions for foreigners. He is already negotiating with Volkswagen (*Izvestiya*, 12 July).

## **OLIGARCHS IN THE REGIONS**

**PUTIN, DERIPASKA AGREEMENT LEADS TO GAZ PURCHASE.** Last fall Oleg Deripaska's Siberian Aluminum purchased the Gorkii Automobile Factory (GAZ). The deal puzzled observers because it was not clear what economic benefit Deripaska hoped to gain from acquiring the company that produces one third of Russia's cars. The factory has debts totaling about 15 billion rubles, a sum comparable to the 14 billion ruble debt of the oblast government. Any new investor would have to deal with these debts, which represent an enormous burden, and address the problems that caused them: a corrupt dealer network and the factory's inability to pay its taxes. Another huge problem is that

Russia's cars are of low quality and would succumb to foreign competition if the federal government decided to lower the high tariffs it now places on imported models.

The most likely explanation for the purchase was that it was the result of a deal between President Vladimir Putin and Deripaska. In essence, Putin allowed Deripaska and his partners to maintain control of Russian Aluminum, the giant company created in the spring of 2000 that accounts for 70 percent of Russia's lucrative aluminum industry, if Deripaska used some of his money to support the Russian automobile sector. There is evidence for the existence of this deal between Putin and Deripaska, Nizhnii Novgorod observers claim. Even before Deripaska began buying up GAZ stock last fall, the Russian Anti-Monopoly Committee issued a ruling that purchasing the factory and related suppliers would not be a violation of Russian law.

Having taken control of the factory, Deripaska naturally wants to make it profitable, or, more realistically, to limit his losses. Putin has also apparently helped in Deripaska's effort to reduce the level of corruption at the factory. The factory, with over 100,000 employees, has its own police division, which is a subunit of the city police. The new management of the factory wanted to get rid of the current police chief, Vladimir Kamenskii, who helped facilitate corruption under the previous management. Putin gave an order to the FSB to clean up the factory's police unit. However, before the chief could be expelled, he announced his candidacy in the gubernatorial elections. As a candidate, he could not be fired from his job. Kamenskii used all the free space in local newspapers that he received for campaign purposes to denounce the factory's current leadership. However, these managers will secure his removal shortly after the elections are over.

In the past the dealers' network would take the cars from the factory and then pay for them through barter deals that served to transfer resources from the factory to the dealers without proper compensation. The dealers often sold the cars for up to 40 percent less than it cost the factory to make them and pocketed the proceeds themselves. Such practices were possible by paying off the top management at the car factory, which was more interested in personal gain than the profitability of the factory.

Now, the new leadership has imposed strict control over the plant's finances. It only accepts cash payments for cars and has set up a new dealership network. Siberian Aluminum has brought in two new vice presidents, one for financial issues and one for legal issues, who must sign off on all flows of money coming into or going out of the factory. These young managers from Moscow now have a firm idea of what is going on at the factory.

Last fall Siberian Aluminum shut down the production line at the plant for two weeks to gain control over the cash flows. This was an expensive move for the new owners, but it showed the dealers that they were serious about ending the corruption of the past.

In the course of the last three months, Deripaska's management was able to reduce the number of defects in the factory's cars by 3-4 percent. This was simply a matter of improving discipline and obvious steps such as reducing drunkenness among employees. But such measures do not solve the real problems at the plant. The cars are of low quality and badly designed. Addressing these problems will be much more complicated and take a much longer time than simply improving worker discipline.

Another reform that Deripaska hopes to impose is reducing the factory's obligation to provide social services for its nearly 100,000 employees. In the past, the

factory paid an enormous amount of money for social benefits such as day care, hospitals, worker vacations, subsidized lunches, etc. However, the plant did not pay its taxes. Whenever politicians complained about the factory's tax avoidance, GAZ managers simply said that the plant was spending all its money on social support and had nothing left for taxes. If it paid taxes, then people would lose their benefits and the politicians would become extremely unpopular. No self-interested politician wanted such an outcome, so the factory continued to skip its tax payments.

Now the factory will transfer its social expenses to the city government and pay taxes instead. The shifting of responsibility for the social sphere will greatly improve the factory's ability to make a profit. According to Nizhnii Novgorod Oblast Prime Minister Obonov, the region will now receive direct support from the federal government to handle its increased obligations in the social sphere.

This switch is part of the general trend of the centralization of monetary flows in Russia. In the past, the federal government transferred considerable amounts of money to regional governments for various needs and the regional governments had considerable de facto flexibility in how they actually spent this money. Now the federal government is transferring money through the treasury system. Thus, for example, payments for veterans are going straight to pharmacies, rather than the oblast administration. As a result, the oblast has less money flowing through its accounts and therefore has access to fewer resources.

Despite their overall agreement, one difference between Putin and Deripaska is that Putin seems to be pushing for Russia's quick entry into the World Trade Organization, particularly in light of the fact that China is about to do so. No other major country lacks membership in this organization. However, GAZ depends on high import duties on foreign cars to survive. Its main product is the Volga, which Russian companies and officials purchase for business purposes. If the duties were lowered, Russia would start to import used Mercedes and other similar cars that would compete directly with GAZ. Deripaska hopes to avoid such competition and wants to put off Russian entry into the WTO, and the removal of high tariffs, for at least seven years. The Samara-based AvtoVAZ, in contrast, supports quick entry into the WTO. It makes inexpensive cars, which could still compete with any imports because of their low price.

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## **TRIP REPORT**

*Here is a trip report covering my week in Siberia. While it gives my impressions of what is going on there, rather than comprehensive analysis, I hope that it is nonetheless useful.*

*I organized the information thematically, so that the reader will better be able to find topics that are of interest.*

*This trip was supported by a grant from the Carnegie Corporation of New York for the purpose of studying the establishment of the seven new federal districts. Special thanks for help to Maksim Shandarov in Novosibirsk and everyone at Teleinform in Irkutsk. - Robert Orttung*

## **SIBERIAN FEDERAL DISTRICT (NOVOSIBIRSK 16-17 JULY; IRKUTSK 18-21 JULY 2001)**

### **PRESIDENTIAL REPRESENTATIVE**

#### **LEONID DRACHEVSKII SO FAR FOCUSING ON GATHERING**

**INFORMATION, MEDIA.** Presidential Representative to the Siberian Federal District Leonid Drachevskii has yet to find a clear niche in the region's economic and political life. Before his appointment as presidential representative, he had no experience in Siberia and no personal interests in the region. Drachevskii makes appearances at important events, but gives out little information about his other activities, local journalists say. He does not like to appear in the media and holds only very short press conferences. When asked tough questions, his favorite answer is that "Everything should be done according to the law." In Russian conditions, such a statement can offer little concrete guidance. While he is often in Moscow and Novosibirsk, where his offices are located, he rarely appears in Irkutsk, one of the 16 regions in his district. His primary occupation seems to be collecting information, but it remains unclear how all this information will be used.

The best that people will say about Drachevskii is that he has prevented the destabilization of the political situation in Siberia. Drachevskii's political style is to avoid entering into open conflict with anyone. He has traveled through all the regions of the Siberian Federal District and is on good relations with all of the governors, at least in public discussions. Such friendly relations with all the governors is no small accomplishment since two of the governors are Krasnoyarsk's Aleksandr Lebed and Kemerovo Oblast's Aman Tuleev, both former presidential candidates. Drachevskii's approach stands in sharp contrast to that of Presidential Representative to the Urals Federal District Petr Latyshev, who is openly at war with Sverdlovsk Governor Eduard Rossel.

In private, however, Drachevskii may be more willing to put a governor in his place. In Omsk, Drachevskii told Governor Leonid Polezhaev that he was not welcome to participate in a press conference with Unified Energy System chief Anatolii Chubais about restructuring the electricity monopoly.

The people I met could not name an example where Drachevskii took sides in a conflict. Some suggested that he helped bring the four-month battle over the election of the Irkutsk Oblast Legislative Assembly speaker to an end in December 2000 by backing the election of Viktor Borovskii. In front of a group of journalists at that time, Borovskii told Drachevskii that he had "baptized" his rise to power, indicating that Drachevskii had somehow supported him. However, Irkutsk analysts believe that Borovskii made that comment as a way of suggesting that the federal authorities supported his candidacy,



when in fact they had remained neutral. According to Irkutsk Legislative Assembly Member Mikhail Matkhanov, Drachevskii played no role in the conflict.

Drachevskii does seem to have smoothed over some conflicts, though he prefers to operate behind closed doors and does not advertise these successes in the press.

-- In Omsk, Drachevskii played the main role in ending the confrontation between the Omsk governor and mayor. He helped find a federal job for former Mayor Valerii Roshchupkin so that he could leave the region with dignity.

-- Drachevskii has worked to reduce the tensions between the Taimyr Autonomous District and Krasnoyarsk Krai over the status of the district within the krai.

-- Drachevskii played a positive role in ending the disputes surrounding Irkutskenergo (see related story in this issue).

Despite maintaining good relations in public with Governor Lebed, Drachevskii may be making subtle moves against the governor in preparation for the next gubernatorial election. Drachevskii has worked hard to ensure that he has good relations with Sergei Potanin and Taimyr Governor Aleksandr Khloponin. The two men are in charge of the giant Norilsk Nickel firm, which is a major player in both Taimyr and Krasnoyarsk. Khloponin is seen as a possible competitor against Lebed as Krasnoyarsk governor, and it is possible that Drachevskii is supporting him in this endeavor.

One sign that Drachevskii is gaining some recognition in the region was that in the spring, the Federation of Independent Trade Unions held its first protest meeting in front of the presidential representative's office in Novosibirsk. The protesters were demanding better pay for the region's teachers and doctors.

There is little evidence that federal ministries are now working more effectively in the region as a result of Drachevskii's coordination. The generally opposition-minded newspaper *Novaya Sibir* has long complained that the Novosibirsk Mayor keeps secret documents about city policy that prevent the media from reporting on City Hall's policies. The oblast procurator did not act on these complaints, so the paper appealed to the newly established federal district procurator. However, the district procurator replied that "this is not our business," and send the case back to the oblast procurator.

### **DRACHEVSKII LACKS COORDINATION WITH OTHER FEDERAL REPRESENTATIVES.**

According to Novosibirsk journalists, the Kremlin has forbidden the seven presidential representatives to the regions to meet each other without the Kremlin's sanction. Apparently there is some fear of "separatist" activity among the representatives. Nonetheless, the representatives do often meet together in Moscow, either with Putin personally, within the framework of the Security Council (of which they are all members), or in the meetings of the State Council.

These frequent meetings have not resulted in coordination by the presidential representatives, as there are substantial differences in the ways that the different representatives approach their work. These differences call into question whether the new federal districts really provide a way to manage Russia's enormous territory in a consistent manner.

Like the Volga's Kirienko and unlike the Far East's Pulikovskii, Siberia's Drachevskii does not want his deputies or chief federal inspectors competing in gubernatorial elections. In fact, Drachevskii fired Chief Federal Inspector for Evenkiya and Taimyr Yevgenii Vasiliev after he announced his candidacy in the Evenkiya gubernatorial elections. Chief Federal Inspector in Irkutsk Oblast Igor Tutevol, who seems to frequently serve as a spokesman for Drachevskii, described Pulikovskii's efforts to elect his assistant as the governor of Primorskii Krai as a "minus." In a 19 July interview, Tutevol criticized Pulikovskii for lacking political sense in the campaign for backing the election of a candidate from Khabarovsk in Primorskii Krai, where he has no natural constituency.

Unlike the North-West's Viktor Cherkesov and other presidential representatives, Drachevskii is not trying to attract foreign investment to the region. This is surprising, for Drachevskii's background as a diplomat would seem to give him an advantage in developing these kinds of contacts.

Moreover, unlike the other presidential representatives, Drachevskii is basically happy with his current powers and responsibilities and has not publicly supported their expansion. Tutevol pointed to Putin's meeting with his representatives on 25 December 2000 in which he warned them that it did not make sense to set up governments at the level of the federal districts. Tutevol said that Drachevskii had no plans to repeat the experience of Kirienko in setting up a regional government which would give him greater control of economy policy at the oblast level (see *EWI Russian Regional Report*, 16 July).

Drachevskii's wife plays a prominent role in Novosibirsk. She is in charge of a federally-financed \$80 million project to reconstruct the Novosibirsk Opera House, a position she owes to her husband's job. When local journalists asked how much of the money she had actually received and how much had been dispersed, she replied that it was a "commercial secret." Such an answer raises questions about how the money is being used since it comes from public funds. Of the other presidential representatives, Cherkesov's wife is the most prominent since she was the editor of a well regarded newspaper in St. Petersburg before Cherkesov's appointment.

#### **IRKUTSK CHIEF FEDERAL INSPECTOR SEEMINGLY HAS LITTLE ROLE.**

Like Drachevskii, Chief Federal Inspector in Irkutsk Oblast and the Ust-Orda Buryat Autonomous Okrug Igor Tutevol is a former diplomat who stresses that it is not his place to intervene in regional conflicts. He describes his job as coordinating federal agencies at the regional level (there are 90 operating in Irkutsk Oblast and 40 in the Ust-Orda Buryat Autonomous Okrug) and promoting social and economic development. He also deals with personnel issues and any threats to the security environment. He has a small staff consisting of a federal inspector and one or two consultants with offices located in the oblast administration's building. During the campaign for the 29 July gubernatorial elections in Irkutsk, he said that his job was to monitor developments, but that his "principled position" was not to interfere. At least in the way he described it, Tutevol's job consisted largely of sending information to Novosibirsk. These small flows of information "formed a huge current," Tutevol explained.

The main idea guiding Tutevol's effort to coordinate the activities of federal ministries in the region was an attempt to reduce redundancy in the ministries' work and to abolish agencies that were not functioning. He cited some overlapping functions

among the Ministry of Justice, Procuracy, and Ministry of Internal Affairs, but there seemed to be little progress in addressing it. In line with Putin's directions, Tutevol is organizing a task force to prepare recommendations to better define responsibilities between federal and regional branches of government.

For Govorin's opponents in the gubernatorial campaign, Tutevol's policy of "active neutrality" is simply insufficient. On 18 July, a hotly contested raid on Govorin's campaign headquarters revealed that the governor's team had illegally published a newspaper containing negative information about Govorin's opponents without clearly identifying the print run of the newspaper or that it was published using funds from Govorin's campaign. Govorin's opponents charged that the presence of the newspapers in his campaign headquarters provided sufficient grounds to remove him from the campaign (*Vostochno-Sibirskie Vesti*, 20-23 July). The paper asks Tutevol directly, "Will you intervene?" and quotes him as saying he would intervene in the campaign only if one of the candidates breaks the law. Evidently Tutevol does not consider this latest scandal as one that requires his involvement.

Tutevol stressed that the federal districts were engaged in a long-term task and that it was too soon to assess their impact. Among their future activities might be combining regions into bigger units because "89 is too many." For example, Tutevol strongly supports the merger of Irkutsk Oblast and the Ust-Orda Buryatiya Autonomous Okrug (see related article in this issue). The governors of the two regions have already signed a treaty merging some economic and social aspects of their work. The oblast and okrug are now served by combined police, tax police, pension funds, and a television station.

## **MEDIA ISSUES**

### **SIBERIAN DISTRICT TELEVISION GOING NOWHERE IN NOVOSIBIRSK...**

In June, the federal authorities announced that they were going to create a television station that would broadcast to all regions of the Siberian Federal District from Novosibirsk. The authorities also announced that Russian Aluminum's Oleg Deripaska would contribute \$10 million to support this venture. However, although broadcasts are supposed to begin on 1 September, Novosibirsk seems far from ready for this task. In fact, the Irkutsk branch of the project is the only one that is even close to being on schedule to begin operation by September.

Development of the station has been delayed by a conflict between Russian Media Minister Mikhail Lesin and Drachevskii's people about its purpose. The gist of the conflict is that Lesin wants the station to be commercially viable by expanding the market for advertisements. Drachevskii's people want to focus more on political goals, using the station as an attempt to balance the opinions distributed by the governor-controlled regional media. While the existing state-controlled national broadcasters, Russian Public Television and Russian Television, focus on national news, the new Siberian Federal District television station will give the federal point of view on events happening in Siberia.

Thus there is a contradiction at the very heart of the attempt to build a television station for the Siberian Federal District. On one hand, it is supposed to present the state's point of view. On the other, it is supposed to be commercially viable and draw its

resources from private investments. With private financing, the station will somehow be independent, but still express views agreeable to the state. Local observers are extremely skeptical - and justifiably so - that it will be possible to create such a balance.

Beyond Deripaska, it is not clear who the main investors will be. Lesin himself might invest through his company Video International. Additionally, Lesin is close to Novosibirsk media magnate Yakov London, who owns the local affiliate of the Russian Television Network, which will be the basis of the new federal district station. London is strongly interested in the commercial aspects of the project.

Russian Aluminum was surprised about the existence of the conflict between Lesin and Drachevskii. It traditionally buys media outlets in the regions where it works to ensure good coverage of its activities. Deripaska, who is close to President Putin, assumed that supporting the new broadcaster would not be a controversial step with the federal authorities. He has not taken sides in the conflict. Deripaska's main interest in the project is most likely finding another way to demonstrate his support for Putin.

The project also faces some difficult technical problems. It remains unclear how the company will be able to broadcast to the 16 regions of the Siberian Federal District from Novosibirsk.

**...BUT MAKING LARGE STRIDES IN IRKUTSK.** The people building the district television station in Irkutsk have made considerably more progress than their Novosibirsk colleagues. In Irkutsk, the federal district authorities have taken over a large building complex, which will ultimately provide the base for a federal district media holding company in Irkutsk. The holding company will include two Irkutsk television companies (both of which currently broadcast Moscow stations and one of which is owned by a Lesin relative), four radio stations, and at least one newspaper (*Vechernii Irkutsk*, which was recently established and currently has little political content), according to Sergei Butakov, a leading specialist at the holding company.

On 20 July, workers were completely remodeling the building and outfitting it with modern European furniture. Ultimately, beyond the broadcasters, the complex will contain a hotel for Drachevskii to use when he visits the region and a 900-seat auditorium for various press conferences and presentations, including speeches by various candidates during Irkutsk elections and seminars on topics like fighting drug use. The basement will house an advertising agency that will seek paying advertisers for the various media in the federal holding company. Although 1 September might be too soon for broadcasts to begin from the Irkutsk center, it will be ready shortly after that. Given the high quality of the reconstruction and equipment, it is clearly very well financed. Such centers now exist in Moscow, Irkutsk, and Ulan-Ude and ultimately will be constructed in all regions. Once the Siberian Federal District television station is up and working, a federal district in the European part of Russia will set up a similar station.

Despite questions about whether a federal district television station is feasible, journalists in Novosibirsk and Irkutsk see the creation of a new federal district television station as a threat. Novosibirsk journalists claim that they do not have the resources to produce high quality shows and would have a tough time competing against a well-financed competitor. Editors at Irkutsk's Teleinform news agency say that the station, with 24-hour coverage, would make it harder for them to sell their products on the local market.

Besides broadcasting the federal viewpoint in Irkutsk, the media holding will also gather information and send it to the presidential representative's office in Novosibirsk. It will house an analytical department that will eventually employ a staff of seven. The holding company will also build its own web site on the basis of the existing Channel 21 web site ([www.stv21.ru](http://www.stv21.ru)).

Irkutsk Governor Boris Govorin strongly opposes the construction of the new federal media outlet in the region and said that he would take action to block it. In an 18 July speech, he warned that the new station would mean the end of the regional media. While Govorin might be implying that this situation is another instance of the federal government stifling free speech, the fact of the matter is that most regional media is currently under gubernatorial control and is not independent.

## **FEDERATION COUNCIL**

**PRESIDENTIAL ADMINISTRATION PRESSURES GOVERNORS ON APPOINTMENTS.** Putin's presidential administration is exerting intense pressure on Novosibirsk Governor Tolokonskii to appoint an "appropriate" representative from the region's executive branch to the Federation Council, the upper chamber of the federal parliament, according to Yakov Samokhin, the chairman of the Committee on Relations with the Media for the Novosibirsk governor's administration. In the past the governors and regional legislative chairmen had served in the Federation Council themselves, but according to a reform adopted last year at Putin's behest, they must now appoint representatives to this body. The Novosibirsk governor is seeking to avoid this pressure, but has yet to announce who will replace him in the Federation Council.

Tolokonskii is likely to name his appointee before the December regional legislative elections because there is some concern among his staff that the new legislature may be even more opposed to him than the current one and might be able to block his appointment (the regional legislature would need a 2/3 majority to do this).

Tolokonskii's administration has a very skeptical view of the new State Council. While it seems to give the governors more direct access to the president, it has little actual influence on policy.

According to Mikhail Matkhanov, a member of the Irkutsk legislature, the presidential administration did not try to influence the legislature's selection of a representative to the Federation Council. There are simply too many deputies (45 in Irkutsk) for the federal authorities to effectively lobby their choice of candidates.

## **LAW ENFORCEMENT AGENCIES**

**GOVORIN APPARENTLY STILL CONTROLS POLICE IN IRKUTSK.** The federal government is trying to reduce the governors' abilities to control the local police force by depriving the governors of the current right they have in appointing local police chiefs. Chief Federal Inspector in Irkutsk Oblast Igor Tutevol claims that it is absolutely correct for the federal authorities to appoint police chiefs without the approval of the governors. He claims that such a move is necessary to prevent a repeat of what happened in Moscow where Mayor Yurii Luzhkov opposed the removal of his ally as police chief and then effectively blocked the appointment of a federally-chosen official. Tutevol

believes that if the reform goes through, the police chief will be more independent of the governor.

Despite federal plans to remove the police from gubernatorial control, Govorin's opponents in the gubernatorial election believe that the governor still has tight control over Irkutsk's police chief Aleksandr Rossov. After the 18 July incident, described earlier, in which illegally published campaign material apparently was found in the governor's campaign headquarters, Rossov personally arrived on the scene and allegedly helped block access to the evidence by journalists and members of the electoral committee. Govorin's opponents charged that given his role in these campaign events, Rossov "could no longer stay in his job" (*Vostochno-Sibirskie Vesti*, 20-23 July).

Despite the charges of the opposition, Irkutsk Legislative Assembly Deputy Mikhail Matkhanov, a political ally of Governor Govorin, believes that in the current situation, the governor is losing his control over the police. However, Matkhanov notes that the federal authorities are not asserting new control. Instead, the current situation is promoting "lawlessness" in the country, he argued.

## **ELECTRICITY AND CENTER-REGION RELATIONS**

**NOVOSIBIRSKENERGO: A CONCRETE TEST OF POWER FOR REGIONAL, FEDERAL AUTHORITIES.** The battle for control of the Novosibirskenergo electricity utility presents a concrete example testing the balance of power between federal and regional authorities. At stake is control over the oblast economy and the general political situation. Unified Energy System (EES) wants to place its own people in charge of the utility so that it will have greater leverage in setting electricity prices, which are currently determined by the governor. If EES were able to set prices, the governor would face an unpredictable situation in how and when the prices would change. Losing control of the price-setting mechanism would also mean that the governor could not extend benefits to favored enterprises. The governor believes that he should have a guarantee about how the enterprise will work so that the economic situation in region will be predictable.

EES and the governor have opposing interests. The national utility wants to charge higher prices to raise investment funds and to improve profitability. The governor wants to keep prices low so that local enterprises will continue to operate and provide jobs for the governor's constituents.

Novosibirskenergo is one of four regional utilities where EES does not own an absolute majority of the stock. EES owns about 14 percent of Novosibirskenergo, but companies associated with Chubais's allies own an additional 40 percent that give the national utility effective control of the Novosibirsk utility. The oblast administration lost its ownership of this stock through numerous sales in the early 1990s. Currently, the regional procurator is investigating the conditions under which these sales took place. Observers believe that this investigation will have little effect and the oblast will not be able to assert ownership rights over the utility.

Novosibirsk Governor Viktor Tolokonskii and EES were at odds over who should be the general director of the utility. Tolokonskii backed the old management represented by General Director Vitalii Tomilov. However, in April EES and its allies called a shareholders' meeting and elected Yurii Khardikov director. Governor Tolokonskii and Tomilov did not recognize the legitimacy of this meeting and Tomilov refused to leave

his post. In this conflict, the local court ruled in favor of the governor, but on appeal a Moscow court ruled against him. With two rulings in hand, the regional authorities decided to enforce the ruling of the regional court that favored them.

On 11 July the two sides "resolved" the conflict, for the time being at least, by electing a compromise figure as director. The shareholders' accepted the resignation of both Tomilov and Khardikov and appointed Vladimir Solovyanov, one of Tomilov's deputies, as the acting director.

Although neither side can claim victory in this dispute, the appointment of Solovyanov means that EES sacrificed more in the compromise than did the governor. In this struggle, the governor had to rely on his political leverage rather than economic power since the oblast administration does not own any of Novosibirskenergo's stock.

The shareholders will meet again on 30 August. The regional administration fears that they may overturn the current agreement and impose their own people on the utility. Liberal critics of Governor Tolokonskii, such as *Novaya Sibir* Deputy Editor Kirill Nokonechnyi, argue that Tolokonskii is wrong not to respect shareholder rights in the factory. However, in this case, since the shareholders are affiliated with Chubais, the question of share-holders' rights tends to become intertwined within various ideological battles and the and the region's overall relationship with Moscow.

The Novosibirskenergo case provides an interesting contrast to the situation surround Tatarstan's utility (where EES also does not own a majority of the shares). There Presidential Chief of Staff Aleksandr Voloshin, the chairman of the EES board, asked President Minitimer Shaimiev to help induce the utility to pay its debts to EES, although apparently so far with little effect.

**IRKUTSKENERGO ELECTS NEW DIRECTOR, BOARD; APPARENTLY ENDS CONFLICT.** A 30 June meeting of the Irkutskenergo stockholders elected a new board of directors and rewrote the company's charter so that the board will now name the company's general director. The election apparently marks the end of the major conflicts that have surrounded the company for more than a year (see *EWI Russian Regional Report*, 9 May 2001). It also heralds the arrival of a new management team that seeks to shake the company out of its conservative lethargy.

The new board has 11 members that reflect the divided ownership of the company. Four members represent Russian Aluminum, which owns 30.05 percent of the stock, three represent the federal government (24.5 percent of the shares), two represent the regional government (15.5 percent), two represent Siberian Urals Aluminum Company (about 10 percent), and one represents Irkutskenergo's management. On 5 July, the board of directors selected Vladimir Kolmagorov as the new general director.

Irkutskenergo's offices sit right across the street from the Irkutsk governor's office building. Just up the river is the giant Irkutsk Hydro Electric Dam, which provides "the cheapest electricity in Russia." The company also benefits from the Bratsk Hydro Electric Dam, which is also in the region.

Young managers from Deripaska's Siberian Aluminum now occupy the stodgy, Communist-era offices that suited Irkutskenergo's former management. Chiefs like First Deputy General Director Andrei Gorbatikov are so new on the job that they haven't even printed business cards yet. Beyond that, the first task, one that is both practical and symbolic, is to rip out the old party-boss furnishings and install a sleek new Euro-office

set. Gorbaticov recently arrived in Irkutsk after launching the overhaul of Nizhnii Novgorod's Gorkii Automobile Factory. Most likely, he and his colleagues will stay at Irkutskenergo long enough to whip it into shape and then head on to a new project.

The new management team is sharply critical of its predecessors that left the utility with 5 billion rubles worth of debts. Moreover, the new managers point out, the former management was either unable or unwilling to work with the utility's shareholders. One of the old management's major transgressions was selling the utility's share in RUSIA petroleum at knocked-down prices without the shareholders' knowledge. Additionally, the former managers (who now control the regional legislature and are competing against Govorin in the gubernatorial elections) were highly politicized. The new management says that it tries to maintain good relations with federal and regional authorities and stay out of political battles.

The key question facing the company is how much it will charge aluminum producers for the enormous amounts of electricity they use. Higher prices mean greater tax revenues for the federal government, while lower prices mean greater profits for the aluminum companies. High prices could also result in lay-offs of factory workers and thereby increase social tensions in the region. For the time being, the utility is committed to keeping its prices low. Thus, in the struggle pitting the aluminum companies and the governor on one side and the federal government on the other, the federal government seems to have conceded the most. However, one should remember that the battle lines are not firmly drawn. After all, Oleg Deripaska, one of the heads of Russian Aluminum, and the federal government are generally allies.

Beyond a change in style, the impact of the new management on the company remains unclear. Russian Aluminum is notorious for its lack of transparency in questions regarding its fiscal flows.

Irkutskenergo has abundant supplies of cheap electricity thanks to its enormous assets from the region's hydro-electric dams. It has more than enough electricity to meet the region's demands, and wants to export to other parts of Russia, as well as China and Japan.

While Irkutskenergo is part of Russia's unified electricity grid, it is one of four utilities where EES does not own a majority stake. Currently, the utility is fighting with EES. EES says that the utility owes it a huge debt for using its transmission services. Irkutskenergo officials complain that EES will not give them access to the transmission lines outside of the oblast so that they can sell their excess electricity.

Irkutskenergo's new managers generally support the reform of EES recently adopted by the federal government. However, they want the reforms to move faster. If an independent company were created to distribute electricity in Russia by 2002 instead of 2004 as now planned, Irkutskenergo would benefit more quickly from the reform and escape the pressure it now faces from Chubais.

The new management has good relations with Drachevskii and credits him with helping to resolve the conflicts at the utility and in fostering relative political stability in the oblast. Gorbaticov pointed out that the conflict at Irkutskenergo was not as bad as the one at Novosibirskenergo, where the governor intervened into the policies of the company (see related story in this issue). Gorbaticov said that thanks to Drachevskii, the state played a constructive role in resolving the dispute at Irkutskenergo. The electricity



sector is very dependent on state policy, providing one reason why Drachevskii's influence may be felt sooner there than in other spheres.

## **COMBINING REGIONS**

**ALL BUT OKRUG GOVERNOR AGREE ON MERGING OBLAST AND OKRUG.** Mikhail Matkhanov is a man with many identities. He is an ethnic Buryat from the republic of Buryatiya who represents the Ust-Orda Buryatiya Autonomous Okrug in the Irkutsk Oblast Legislative Assembly. Matkhanov backs Governor Boris Govorin in the oblast's gubernatorial elections because Govorin favors merging the okrug and oblast into one region. Currently, according to the Russian constitution, the okrug is simultaneously part of Irkutsk Oblast and a separate region. Matkhanov believes that the okrug is too small to be economically viable and that it would have a higher standard of living if it were simply merged into Irkutsk Oblast.

The idea of merging the oblast and okrug has considerable popular support among residents of the okrug, the oblast administration, and Chief Federal Inspector in Irkutsk Oblast and the Ust-Orda Buryat Autonomous Okrug Igor Tutevol. Ust-Orda Buryat Governor Valerii Maleev says in public that he supports the idea of a merger, but in fact does nothing to advance this cause because if the merger were completed, he would be out of a job. Despite his public comments backing Govorin's election, Maleev would rather have a new person as governor.

According to Matkhanov, there are no separatist tendencies among the Buryat people now, nor any efforts to merge Russia's three Buryat regions into a greater Mongolia. There is also little support for merging Ust-Orda Buryatia with the republic of Buryatiya. As Matkhanov puts it, "I am a realist. It is better to live in Irkutsk than in [Buryatiya capital] Ulan-Ude."

## **REGIONAL COOPERATION**

**SIBERIA NOW DEPRIVED OF TYUMEN.** One consequence of the division of Russia into seven federal districts is that now Tyumen Oblast, with its vast oil and natural gas resources, is part of the Urals region rather than Siberia, where it has traditionally been located. Both the Urals and Siberia are relatively strong regions because of their resource base. If they united, they would have considerable leverage over the federal government. Even as separate districts, the federal government cannot dictate conditions to them the way that it can in the Far East, which is heavily dependent on federal subsidies, according to Tatiana Bogomolova, a senior fellow at the Institute of Economics and Industrial Engineering of the Siberian Branch of the Russian Academy of Sciences. The economic dependence of the Far East partially explains Putin's ability to remove Primorskii Krai Governor Yevgenii Nazdratenko.

One Siberian organization that still includes Tyumen is the Siberian Agreement Interregional Association. Drachevskii generally tries to include this organization in his work and has not taken any steps to disband it. However, while the association continues to exist, it has little visible impact on policy in the district. In the past, it has played a role in the region by bringing together regional leaders and serving as a forum for collectively lobbying Moscow.

## GOVERNOR'S ELECTIONS

**ANTI-PUTIN GOVERNOR SET TO WIN IRKUTSK ELECTIONS.** According to most observers in Irkutsk, Governor Boris Govorin is set to win the 29 July gubernatorial elections in the region. His main opponent is Valentin Mezhevich, who from 1997-2000 simultaneously served as deputy governor under Govorin and in the management of Irkutskenergo. Mezhevich and his allies now have majority control of the oblast legislature and Mezhevich is the regional legislature's representative to the Federation Council.

The governor entered into conflict with the Irkutskenergo management about a year ago. The managers had numerous subsidiary companies that were siphoning money out of the utility, according to local observers. Govorin worked to get rid of these subsidiaries, hurting the interests of the former managers in the process. He fired Mezhevich in 2000, leading some observers to claim that the conflicts between the candidates are partly personal.

Until the end of last year, it seemed that the governor's enemies would be in a position to defeat him in the elections. In the December 1999 State Duma elections, the opposition won 7 of the 8 seats representing Irkutsk in the lower chamber of the federal parliament. Then, in December 2000, the opposition took control of the oblast legislature. The opposition could not capitalize on this momentum, however, because its most authoritative candidate, Vitalii Shuba, the State Duma deputy representing Bratsk, was more interested in the possibility of winning a federal appointment than running for governor. Local observers believe the Mezhevich does not really have a strong desire to win the election and that victory will go to Govorin. Mezhevich's main campaign slogan is "We will live better," which generally makes local residents laugh because he is already a wealthy man. Generally, the opposition has been very ineffective, criticizing the governor but not providing a constructive alternative.

Each of the candidates has the backing of powerful Russian financial and industrial groups. Behind Govorin stand Oleg Deripaska's Russian Aluminum and Siberian Ural Aluminum. Additionally, the Moscow banks whose presence in the region dropped noticeably after the 1998 default are starting to come back. Among them is MDM Bank, which bought Rossibugol, and works closely with Deripaska.

Sergei Potanin's Interros is supporting Mezhevich with large amounts of money, according to local observers. In the 1997 campaign, Potanin backed Govorin through his bank Baikaloneximbank. However, during his term as governor, Govorin essentially pushed Potanin and Interros out of the oblast. Through its subsidiary Sidanco, Interros had controlled the Angara Petroleum and Chemical Company (ANKhK). The factory itself is not profitable, but it controls a major pipeline that could be useful if the oblast is able to develop its oil and gas fields (particularly the Kovykta gas field) and send these fuels to China and Korea. Potanin's group has a strong desire to regain control of this factory. In this case, the governor has considerable influence at the regional level because he can control which companies work in the region.

Govorin has benefited politically from a series of floods that recently caused extensive damage in the region. The floods gave Govorin an opportunity to secure sizable amounts of federal aid for the victims. Govorin was also able to secure aid from such

oligarchs as Deripaska, Alfa Bank's Mikhail Fridman, and YUKOS's Mikhail Khodorkovskii, who is developing an oil project in the region but is generally staying out of politics.

## **THE GOVERNOR'S PROGRAM**

**GOVORIN'S POSITIONS IN SHARP CONTRAST TO PUTIN'S.** In a meeting with scholars in Irkutsk's Akademgorodok on 18 July, Irkutsk Governor Boris Govorin laid out a program that stands in sharp contrast to Putin's agenda. Govorin is running for a second term in the region's 29 July elections. Although Govorin's campaign advertisements stress the fact that the pro-Kremlin Yedinstvo party has backed him, Govorin clearly has a very distant relationship with the president and his Moscow allies.

While Govorin's participation in the event was introduced as a meeting between the governor and Irkutsk scientists, it was really a thinly disguised campaign stop. Govorin's sharpest disagreement with Putin came in his discussion of the power-sharing treaties that the federal government signed with 46 regions between 1994 and 1998. Putin has said that these treaties once served a useful purpose, but their time has passed.

Govorin said that he had tried to use Irkutsk Oblast's power-sharing treaty in his battle with the federal government to win control over half of the state-owned 40 percent stake in the Irkutskenergo utility. Putin's staff responded that the treaty was no longer relevant and that the governor should forget about it. Govorin said that without the treaty there would be no way to force the federal government to take regional interests into account.

When pressed on the issue, Govorin agreed with a questioner that republics like Tatarstan, Bashkortostan, and Sakha had used the treaties to violate the constitutional right to equality among the regions. He criticized them for using the treaties simply to secure more resources from the federal government. He agreed with Putin in claiming that these kinds of treaties were not acceptable. He criticized the current debate, which is characterized by the extremes of the federal government arguing for the abolition of the treaties, while Tatarstan and its allies support their further development. Govorin seeks an alternative solution which will allow for the abolition of the "unfair" treaties with the ethnic republics while preserving "fair" ones - namely Irkutsk's.

In a related argument, Govorin blasted the federal government for its failure to invest more resources in the development of the region. Govorin complained that Gazprom is not playing an active role in the development of the Kovykta gas field. He also denounced the federal government for not developing the Sukhoi Log gold deposit.

Govorin denounced Putin's attempt to introduce top-down management in center-periphery relations (*vertikal vlasti*) as nothing more than an effort to "gather information and send it to Novosibirsk." He charged that the president's representative to the Siberian Federal District was supposed to make the federal agencies active in the region work better. However, Govorin claimed that the results of this work were not visible. He argued that Putin was "wrong to declare war on the regions," stressing that such an approach is only correct when the ambitions of the regions do not serve federal interests. Govorin claimed that this is not the case most of the time, and therefore Putin's policies are inappropriate.

Govorin claimed that the gubernatorial elections are being held in completely lawless conditions and the authorities seem to be unable to bring the situation under control. He noted that candidates are allowed to spend a maximum of 3 million rubles on their campaign, but it seemed more like they were spending 3 million *dollars* judging by the advertisements throughout the city and in the media.

At the talk, Govorin presented his plan for the development of the oblast during the period 2001-2005. When a member of the audience asked why the plan did not include state support for science, Govorin launched into a denunciation of the federal government. He said that Economics and Trade Minister German Gref had laid out a series of plans that sounded beautiful, but that no one actually intended to implement them. Govorin called for greater regional input, including the input of local scientists, into the federal plans.

Govorin sharply denounced federal plans to create a market for land sales. He cited the plans as "an attempt to sell off the land of Siberia and the Far East" and warned that foreigners would be in a position to buy the land. In populist tones that went over well with the audience, he described how the president of the Korean Gas Company recently visited him and said that he was ready to buy Russian land when it became possible to do so. He described land reform as a threat to the region that would slow the development of local natural resources in the state's interest. In his talk, Govorin did not indicate any positive effects from private land sales. Govorin claimed that in the fall, the Federation Council would veto any land reform bill adopted by the State Duma.

Govorin charged that the country has lost its moral orientation and that it was difficult for him to preserve a society of high ethical standards in one region within the general context of a country that is lacking such standards. He called for the adoption of laws on the regulation of pornography. In making this argument, Govorin claimed that Putin's campaign to bring all regional laws into line with federal norms had caused Irkutsk to remove the laws on morality that it had adopted in the past.

**EXECUTIVE-LEGISLATIVE RELATIONS CONFRONTATIONAL IN NOVOSIBIRSK, IRKUTSK.** Typically in Russia, the governor has solid control over the regional legislature and can generally be assured of winning the passage of his legislation. However, Novosibirsk and Irkutsk represent two exceptions to this general rule.

In Novosibirsk, the legislature is traditionally more left-wing than the governor and often opposes the governor's policies. The chairman of the legislature has to balance between the governor and the leftist majority, although he generally tends to be loyal to the governor. The left is politically strong in Novosibirsk because the region generally suffers from a low standard of living, particularly in rural areas, according to *Kommersant v Novosibirsk* Editor Valerii Lavskii. The region is not a donor to the federal budget like Krasnoyarsk. In Akademgorodok, the lack of state funding for fundamental scientific research often pushes scientists to the left in the hope of securing more money from the oblast budget.

Novosibirsk's political life always has been pluralistic. After his loss in the 1996 gubernatorial elections, for example, former Governor Ivan Indinok set up his own bank without any opposition from the authorities. He then used the bank to finance oppositional groups.

Novosibirsk will hold regional legislative elections in December and the governor will then seek to elect a majority of the legislature. Now the governor is holding informal negotiations with potential candidates, trying to select a group that will be most likely to favor his policies, according to Yakov Samokhin, the chairman of the Committee on Relations with the Media for the Novosibirsk governor's administration. This process is generally hidden from public view and the governor is unlikely to publish a list of the candidates that he supports. Samokhin stressed that the governor does not want to see one or another party in control of the regional legislature. Rather, he would prefer to see a group of unaligned deputies with whom it is possible to make deals. The view from the governor's office in Novosibirsk is that regional legislatures are not as controllable as the current State Duma.

Tolokonskii's strategy is to increase the role of the state in the economy. His aide claimed that he did not plan to take over private companies or tell directors what to do. Rather, he seeks to set appropriate rules of the game so that will help the economy develop more quickly.

In Irkutsk, the Communists have never been strong. Rather, the Union of Rightist Forces (SPS), plays an active role in the region, though it is in opposition to the governor. At the end of 2000, the SPS-led opposition was able to elect its candidate as speaker of the regional Legislative Assembly. It also elected Valentin Mezhevich, the governor's main opponent in the elections, as the legislature's representative to the Federation Council.

However, despite this confrontational context, the Legislative Assembly is not completely opposed to the governor; according to pro-Govorin Legislative Assembly Member Mikhail Matkhanov the members of the legislature are essentially split 50:50. Matkhanov believes that once the elections are complete, the legislature will generally support the governor. On the other hand, Matkhanov complained that the laws adopted by the oblast legislature are not implemented and therefore have little real effect on people.

Matkhanov argued that the effect of electing regional legislature partly on the basis of party lists, an idea now being considered in the State Duma, would weaken the regional elite. Political party leaders in the regions have little influence now so the party candidates elected to the regional legislature would not be as influential as the current members.

## **SOCIAL ISSUES**

**HOT WATER, HOUSING, DRUGS ALL MAJOR CONCERNS.** Hot water, the main topic of discussion in Nizhnii Novgorod, is also a major concern in Siberia, but there are also more pressing issues. In Novosibirsk, people were concerned about the rising costs of their apartments and municipal services. Prices increased two times last year and now residents pay for approximately half of the actual costs. According to local journalists, the governor supports the idea of reform, but cannot say so publicly because it is generally so unpopular.

A major concern is the fate of Russia's small towns. In many small towns across the country, the factories that once provided jobs for local residents have closed. Town residents survive at a very minimal level by growing their own food. In these places, there is almost no local economy and people are forced to live at a very basic level.

There is a vigorous debate about the causes and consequences of this situation. Some observers believe that the local people simply do not want to have the material benefits others enjoy. They are supposedly happy to have a life without a formal job or obligations and to achieve these goals are willing to live at a subsistence level.

Others argue that the people living in small towns actually do want to improve their lot, but that there is simply no opportunity for them to make such changes, so they are forced to accept their conditions and make the best of a bad situation. If they did try to act on their desires, they would quickly become frustrated, leading to alcoholism and suicide. According to this point of view, blaming the people for not wanting to improve their life simply shifts responsibility for the problem to the victims. In this situation, the state is obligated to help the small town residents, according to Tatiana Bogomolova, a Novosibirsk sociologist.

In Irkutsk, the constant theme of discussion is the area's high incidence of drug use and AIDS. One of Govorin's campaign advertisements announced his support for the death penalty for drug users. This position put him in contrast with Putin, who has announced his opposition to the death penalty in line with general European norms. Colleagues mentioned that their friends had children who had died of drug overdoses and almost everyone described the steps they were taking to keep their children occupied so that they would not be tempted by drugs. Concern about drugs seemed to be on a level with fears about losing sons to the army.

One bright spot in the regions almost everywhere is the construction of new movie theaters with up-to-date seating, cup holders, and popcorn. Although prices are relatively high (up to 100 rubles), young people are flocking to see the latest Hollywood chart-toppers in droves.

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## SUMMER GOVERNORS' ELECTIONS

**FORMER PARTY BOSS KHODYREV DEFEATS INCUMBENT SKLYAROV IN NIZHNII NOVOGOROD.** Communist State Duma Member Gennadii Khodyrev avenged his 1997 loss to Nizhnii Novgorod Governor Ivan Sklyarov by a surprisingly large margin (69.80 percent) in the July 29th run-off gubernatorial election, more than double the incumbent's vote total (28.25 percent). When Khodyrev took the oath of office on 8 August, it was a return to the top spot in the oblast; from 1988-91 he had been first secretary of the regional committee of the Communist Party. After his victory, Khodyrev stated that his political orientation was the same as President Putin's, and that in the interest of uniting all parties in the region he would suspend his membership in the Communist Party.

The election was a rematch of the 1997 contest in which Sklyarov defeated Khodyrev in the battle to succeed Boris Nemtsov. Coming in third place in both elections was Union of Right-wing Forces State (SPS) Duma Deputy Vadim Bulavinov. The run-off was marred by a low voter turn-out (38 percent) as well as Bulavinov's protest of the first round results, when he narrowly lost to Sklyarov.

Most observers and even Khodyrev himself were surprised that the Communist made it into the second round. He did not even begin advertising and making public appearances until the second of the two weeks between rounds. When he finally did begin promoting himself, however, he was aided greatly by Dmitri Savelev, his colleague in the Duma who placed fourth in the first round. Savelev used his wealth and vast media holdings and influence over Nizhnii Novgorod city media to support Khodyrev. This advertising blitz on behalf of Khodyrev underscored Sklyarov's lack of influence over the media and his inability to secure the kind of positive publicity governors usually generate for themselves.

Sklyarov's campaign in the first round was geared towards attacking Andrei Klimentev, the winner of the 1997 Nizhnii Novgorod Mayoral elections who was scandalously and undemocratically removed from office because of past criminal convictions. The main theme then was preventing "criminals from coming to power." With Klimentev out of the way, Sklyarov began warning voters about the "Red Menace" that Khodyrev represented, and urged them not to let Nizhnii Novgorod become a part of the so-called Red Belt of Communist-dominated regions. This appeal was a somewhat hypocritical stance for Sklyarov, who had campaigned in 1997 as being "a better communist than Khodyrev."

Presidential Representative to the Federal District Sergei Kirienko supported Sklyarov in the first round, largely to ensure that Klimentev did not reach the run-off. Once that goal was accomplished, Kirienko was not heavily involved in the second round of the election, preferring to leave himself open to establish good working relations with either candidate. Khodyrev emphasized Kirienko's support of Sklyarov in his campaign, and urged voters not to succumb to the wishes of Moscow in choosing a candidate. Sklyarov claimed to have the support of the major centrist parties, Fatherland, Unity, and the regional branch of SPS. However, Yevgenii Primakov, the leader of the Duma's Fatherland-All Russia bloc, endorsed Khodyrev, who had served as a minister in Primakov's cabinet in 1998. Although the local SPS backed Sklyarov, national party leader Nemtsov did not endorse any of the candidates, a position that generally worked in favor of Khodyrev. Nemtsov felt that both Khodyrev and Sklyarov - whom he had grudgingly endorsed in 1997 - were too Communist to adequately lead the region, and he called on voters to mark their ballots "against all."

One interesting aspect to the election was the alignment of Kirienko and Nemtsov behind opposing candidates, although neither man made an enthusiastic endorsement. The two men have been alternately rivals and allies over the past several years. Ideologically similar, they have frequently supported the same candidate in elections, and Nemtsov served in Kirienko's cabinet when the latter was prime minister. However, it appears that the power struggle over SPS has damaged the relationship between the two. Local observers believe that Nemtsov quietly supported the efforts of State Duma Member Dmitrii Savelev, who finished fourth in the first round, to publicly discredit the presidential representative. Savelev, who has a long-running

feud with Kirienko, gathered signatures and sent a petition to President Putin asking him to recall Kirienko before the beginning of the election.

After the results of the first round were announced, three State Duma deputies who participated in the election, Khodyrev, Bulavinov, and Savelev, held a press conference in which they alleged gross infractions of the election law in tabulating the votes and announced the creation of a working group to examine the results. Specifically, Bulavinov argued that some of the precinct committees had filed reports that had been signed but with incomplete data. This means that oblast officials could later fill in the numbers they wanted to make sure that Sklyarov advanced to the second round at Bulavinov's expense. The election commission responded to the charges by acknowledging that there had been improprieties in the release of the results, but said that the mistakes were of a technical nature and had no impact on the outcome of the election.

It remains to be seen what sort of relationship Khodyrev will have with Kirienko. Under Sklyarov, Kirienko set up an oblast government headed by his deputy Sergei Obozov, which had wide authority in setting the region's economic policy. Sklyarov gave up this authority to Kirienko in order to win federal support in the campaign. Since Khodyrev had Communist Party backing, he is not as dependent on federal government support as was Sklyarov. In addition, his large margin of victory can be viewed as a mandate to assert the power of the oblast administration. To this end, Obozov resigned immediately following Khodyrev's victory and returned to Kirienko's office.

Khodyrev will now serve as governor and prime minister of the oblast, though the rest of Obozov's government will remain in place for the time being. However, it does not seem that Khodyrev will cause problems for Moscow, as he has expressed his determination to cooperate with Kirienko, and announced that he supports Putin's policies even though they have been criticized by the Communist Party. In addition, one can assume that part of the reason for Kirienko's half-hearted support of Sklyarov was that he felt he could do business with Khodyrev. - Rustam Bikmetov in Nizhnii Novgorod

**IRKUTSK GOVERNOR NARROWLY DEFEATS COMMUNIST TO RETAIN POST.** Boris Govorin was re-elected on 19 August, winning a surprisingly close runoff against a Communist State Duma Member Sergei Levchenko. Govorin won about 47 percent of the vote, narrowly defeating his opponent by two percentage points. Levchenko plans to contest the vote count.

Levchenko charged that the regional electoral commission did not count the votes correctly. Agrarian Duma Deputy Aleksandr Salii claimed that the vote counters deprived Levchenko of four thousand votes - an amount that would narrow the gap, but still would leave Govorin as the winner. However, Levchenko believes that he was shortchanged by a far greater amount. He claims that independent observers stationed in the region's cities painted a far different picture of the election outcome than the official results. According to Levchenko, he outpolled Govorin in the capital city Irkutsk by 10 percent, and handily defeated the incumbent in the cities of Bratsk and Tylyn.

Levchenko's performance could be interpreted as a sign that the Communist party is gaining strength in Irkutsk. The pro-reform Govorin was not expected to have much difficulty in

the election, and his main opposition was thought to be Federation Council Member Valentin Mezhevich, who was backed by the Union of Right-Wing Forces. Instead, Levchenko more than doubled Mezhevich's votes in the first round on 29 July. Most experts still predicted Govorin to win the run-off, but Levchenko seemed to be gaining support every day. In the last gubernatorial election, Levchenko managed just twenty percent of the vote as Govorin strode to a first-round victory (*Kommersant Daily*, 31 July).

The voting does not mean that the Communists are becoming more powerful in Irkutsk. Rather, the non-Communists, still a distinct majority, have simply become more disillusioned with the democratic process. Voter turnout was very low, with less than forty percent of voters showing up for either round. This low turnout was in part due to the unusual timing of the election in summer, when many voters are on vacation. In such a situation, the disciplined Communist Party generally fairs disproportionately well. A similar situation helps account for Communist Gennadii Khodyrev's surprise victory over incumbent Ivan Sklyarov in Nizhnii Novgorod on 29 July.

The Irkutsk election was very dirty, another factor that might have contributed to voter apathy. In one incident, illegally published campaign material apparently was found in the governor's campaign headquarters. The region's police chief, who is alleged to be under Govorin's control, personally arrived on the scene and reportedly helped block access to the evidence by journalists and members of the electoral committee (*EWI Russian Regional Report*, 23 July). Later, Govorin successfully sued local Communists for libel in a newspaper published by Levchenko's campaign (*Kommersant Daily*, 16 August). In another example of Govorin's influence over supposedly -independent regional bodies, the court dismissed a suit brought by two candidates who did not survive the first round seeking for Govorin to be removed from the ballot for illegal campaigning. The suit alleged that Govorin abused his office by trying to buy voter support in exchange for aid against floods that have recent ravaged the region. The court ruled in Govorin's favor. - compiled by Marc Weinstein with reports from Teleinform in Irkutsk

## **TRIP REPORT**

*This final installment of my trip report covers a week in the Far East. The trip was supported by a grant from the Carnegie Corporation of New York for the purpose of studying the establishment of the seven new federal districts. - Robert Orttung*

## **FAR EASTERN FEDERAL DISTRICT (KHABAROVSK 22-25 JULY; VLADIVOSTOK 26-29 JULY)**

**PULIKOVSKII LOSES MORE THAN HE WINS.** Even without Tyumen Oblast, the Siberian Federal District is much richer than the Far East Federal District because it benefits from cheap electricity and the presence of lucrative aluminum plants on its territory. The Far East in contrast must deal with costly fuel and electricity supplies that have caused numerous energy crises throughout the region and high railroad tariffs that make it extremely expensive to send goods to and from the European part of Russia. While Primorskii Krai gets most of the

attention for its energy difficulties, almost all of the regions face severe energy problems, making preparations for winter a year-round concern. Before the USSR collapsed, the Far East sent 75 percent of its goods to the European part of Russia. Now output is about a quarter of what it once was and 75 percent of what is produced stays in the region. The expensive railroad prices have essentially cut the region off from the rest of the country, stunting economic growth and forcing the Far East to focus on its own resources and to seek out economic ties with its Asian neighbors. While the region is essentially cut off from the rest of the country economically, no one believes that it will ever seek political independence as the entire area is heavily dependent on federal subsidies.

According to local perceptions, the Gaidar government's emphasis on creating "equal conditions for all regions" in the early 1990s led to the collapse of the Far Eastern economy. In contrast, Putin has at least set the goal of hanging on to the Far East and preserving the overall unity of Russia. Nevertheless, the Moscow-based ministries devote much more attention to the European part of the country because there is considerably more money and fewer problems there. The federal agencies in Khabarovsk are often starved for funds and most rely on aid from the governor, according to local journalists like *Priamurskie vedomosti* Editor-in-Chief Nikolai Andreev.

During his year plus on the job, Pulikovskii has suffered more defeats than successes. Most significantly, none of the gubernatorial elections that have occurred on his watch (Primorskii Krai, Amur, and Kamchatka) have ended in the Kremlin's favor. Primorskii Krai was the greatest loss for Pulikovskii since he mistakenly believed that his authority was great enough that the voters would automatically support his chosen candidate. Many local observers believe that if there are more energy problems in the district this winter, Putin is likely to remove Pulikovskii from his job.

Khabarovsk Governor Vladimir Ishaev would like to define Pulikovskii's main tasks in the smallest possible sphere: coordinating the relations between the 10 regions of the Far Eastern Federal District. Such responsibilities would include fishing policy, forestry, and education. Since the position of presidential representative is not mentioned in the constitution, the governor believes that Pulikovskii has little legitimacy in asserting that he should stand above the governor.

Yelena Karpova, the director of the Khabarovsk office of the Russian Center for the Study of Public Opinion (VTsIOM), sees the role of the presidential representative differently. Its job is to help Moscow understand the regional reaction to its policies. In this sense, it serves as a buffer between Moscow and the regions. The Communist party levers of the past are gone and this new institution is a search for new kinds of influence. However, the regional elites have a great deal of contacts among themselves and control a considerable amount of property. Thus it is hard for the federal officials to make much headway against powerful local interests.

Pulikovskii and his staff naturally want to increase their powers as much as possible. They are playing the same game as everyone else in Russia, trying to gain control of resources, money flows, and various businesses, according to Natalya Menshenina, Director of the Pacific Institute of Politics and Law at the Far Eastern State Technical University. Pulikovskii's people also would like to gain the ability to address such diverse issues as the black market export of timber, street crime, and high prices, according to Andreev. However, Pulikovskii does not

have the power to do any of this. Currently, Pulikovskii cannot give an order to anyone except his immediate staff and expect that it will be carried out. The presidential representative does not control any financial flows, so therefore it does not really wield any power. The staff of the presidential representative wants to work in a new way, but they simply don't know how to establish such methods. Ishaev wields much of the power at the regional level. Pulikovskii hosts many meetings and brings together lots of people, but they simply don't have the power to change anything, according to analysts in Khabarovsk.

The picture looks a little different in Vladivostok. There one of Pulikovskii's first steps was to shake up the regional customs agency that had been under Nazdratenko's control and put in place individuals who would be loyal to him, according to Menshenina.

Since the institution of presidential representative in the form Putin has established it is so new, the future of the institution depends heavily on the personality of the people at the top. Khabarovsk observers believe that Putin's main problem is that he does not have enough good people to run the country. They argue that, while honest and loyal to Putin, Pulikovskii is not really qualified to hold his current job and not inclined to listen to the opinions of others. Once Putin feels more secure that he has the regional situation under control, he may replace the current representatives with leaders who have strong economic backgrounds.

Pulikovskii's staff of 70 are mainly military men who are not really prepared for civilian service, according to Tatiana Zakharova, a professor at the Russian Academy of Civil Service in Khabarovsk. They are not used to working in conditions of pluralism, nor do they have a good grasp of how to promote economic development. Even though the salaries are relatively high by local standards, few talented people want to work in a closed, militaristic structure where they will have little room to exercise their creativity. Thus, economic issues remain in the hands of the governors. However, the governors often have trouble getting the support they need at the federal level, where the Moscow bureaucrats are loath to give up any of their power. The governors' loss of their Federation Council seat contributes to this weakness.

There are more than 70 federal agencies working in Khabarovsk for Pulikovskii to coordinate. However, while they should be under Pulikovskii's authority, they are mainly staffed by local people who often have close ties to the governor.

Pulikovskii lost whatever political authority he had in Primorskii Krai at the end of July, following the loss of his deputy Genadii Apanasenko in the krai's gubernatorial election. Additionally, he has poor relations with the Chief Federal Inspector for the region, Pavel Lisov, according to local journalists. Pulikovskii generally comes to Vladivostok in secret and does not meet with journalists during his visits.

The office of the presidential representative does not have a very good record dealing with organized crime. During the Primorskii Krai gubernatorial election campaign, Apanasenko halted the investigation into official abuses by Vladivostok Mayor Yuri Kopylov. This decision seemed to send the signal that some types of crime would be tolerated.

Local observers like Zakharova believe that while Yeltsin wanted to create a system similar to US-style federalism, Putin is moving toward a French-style unitary system. She believes that system of presidential representatives will exist for a long time and Putin will eventually move toward appointing governors (although Putin publicly declares that ending gubernatorial elections would be a mistake).

She sees an increasing centralization of the political system. Local enterprises are being sold to the federal government, meaning that Khabarovsk will not benefit from their taxes. Moscow banks are returning to the region and, according to local perceptions at least, sending money back to Moscow. Krai residents fear that they will become increasingly dependent on Moscow for capital.

Thus, local observers generally believe that the office of presidential representative has not produced the benefits that Putin hoped to achieve. It lacks legitimacy, does little to coordinate federal agencies, works poorly with the governors, and has failed to attract well-qualified personnel.

**INTERREGIONAL ASSOCIATION FACES COMPETITION FROM FEDERAL DISTRICT.** One of the Far East's main complaints about the federal government under Yeltsin was that it adopted a plan for developing the region in 1996, but then never financed it. As a result, the plan was never implemented. Putin has proceeded differently. He set three key priorities for the region: energy, forestry, and fishing, according to Anatolii Buryi, head of foreign economic ties for the Far East and Trans-Baikal Association. For the last year the Association has been organizing meetings on how to develop these sectors. They planned to present a revised plan to Putin by 15 August that would extend five years longer than the original plan, to 2010. If the federal government does not provide economic aid, Buryi warns, the Far East will have to seek it elsewhere.

Like Russia's other seven interregional associations, the Far Eastern organization was struggling even before Putin's federal reforms. It had a representation in Moscow until 1999, but had to close that office for lack of funds. Buryi pointed out that Putin's original decree establishing the presidential representatives charged them with the task of cooperating with the interregional associations (even though the membership of the associations does not always correspond with the regions comprising each federal district -- three regions in the Far Eastern Association are not in the federal district: Chita, Buryatiya, and the Agin Buryat Autonomous Okrug). However, Buryi claimed that there were "problems" in cooperating with some of the generals who are serving as presidential representatives, particularly in the Far East and the Urals. He claimed that the situation was better with Leonid Drachevskii, a former diplomat who is now the presidential representative in Siberia. Moreover, since Pulikovskii is hosting many meetings with representatives from the regions in the district, the association has less of a role to play.

Another problem for the association is cooperation among the regions themselves. Sakhalin has the best prospects for future development because of its oil and gas supplies. Naturally, Governor Igor Farkhutdinov wants these resources to benefit his region the most. However, other regions like Khabarovsk want the benefits of these natural resources spread more widely. So far Sakhalin's neighbors remain unhappy with the distribution of resources and Buryi hopes that future production-sharing agreements will address this issue. Buryi stresses that many of the Far Eastern regions have resources, but the question is how to develop them appropriately.

The association has traditionally worked with state officials, but now is making an effort to reach out to the business community. The krai has a few small business associations, including

one that works with the governor and one that unites some of the businesses whose owners are in opposition to the krai authorities. However, none has much influence. The Association has tried repeatedly to set up a more powerful business organization, but with little success. Buryi said that "you have to be calm" about press reports that Pulikovskii was working to set up a business association under the aegis of the presidential representative (see *Vek* [Far Eastern Edition], no. 28).

**ISHAEV: STRONG GOVERNOR HOLDS TIGHT TO POWER.** In contrast to Nizhnii Novgorod, Novosibirsk, and Irkutsk, Khabarovsk has a very strong governor. The krai legislature and Khabarovsk mayor are loyal to him and he is not afraid to criticize the federal government. Ishaev's political popularity rating is constant at 74-76 percent, a far cry from the 20 percent Nizhnii Novgorod Governor Ivan Sklyarov won in the first round of the recent elections there (Sklyarov lost his reelection bid in the second round). Unlike in Nizhnii Novgorod or Primorskii Krai, there has been little turnover of elites in Khabarovsk. Ishaev came to power more than a decade ago and many of the same people have held on to their jobs during this time.

Even Ishaev's critics admit that thanks to his management skills, Khabarovsk does not face the kind of energy problems in Primorskii Krai. Nor is there the kind of political chaos in Khabarovsk that prevails in Primore. But the picture is far from rosy. Ishaev's authoritarian style prevents a broad discussion of the key issues facing the krai. There is only one opposition newspaper and the editor claims to have been beaten twice as a result of his critical publications (see related media story in this issue). With any strong leader, the question of succession is gaining increasing urgency, as Ishaev is expected to give up his leadership of the krai at the end of his current term in two years.

Ishaev's closed decision-making process prevents public input into all manner of state decisions, large and small. In mid-July, Ishaev announced a decision to destroy an unattractive statue commemorating the 50th anniversary of the USSR, commonly known as the "Balalaika" because of its shape. Ishaev made the decision personally without consulting anyone. While nobody will mourn the loss of the monument, the local station of the federally-owned Russian television network (DVTRK) planned to broadcast a segment interviewing the architect who had designed the commemorative structure to obtain different points of view. The point of the broadcast was to argue that the decision should have been discussed publicly rather than taken behind closed doors.

The main criticism of Ishaev is that he violates democratic procedures. Such methods have some benefits since his authoritarian style allows him to mobilize many resources to fund local construction projects. However, Ishaev's actions are unpredictable so members of society have little idea of what to expect from the state. While Ishaev believes firmly in himself, men like DVTRK Chief Editor Vladimir Voropaev claim that a better result might be achieved through a more democratic process.

Krai observers unanimously point out that Ishaev became very wealthy during his years in power. His closest associates also are "not poor" since they were in power when the krai's property was divided up in the early 1990s. Ishaev's son accumulated a large amount of property, including a casino, a chain of stores, and local factories, and was implicated in a



scandal several years ago. The son apparently has sold this property and is now living in Moscow.

Ishaev presents a strong contrast with former Primorskii Krai Governor Yevgenii Nazdratenko. The Primorskii governor faced powerful opposition from officials loyal to his main political opponent, former Vladivostok Mayor Viktor Cherepkov. In Khabarovsk, on the other hand, Ishaev invited the current mayor to run for the job and they are generally working as a team.

Beyond preserving order in a difficult region, Ishaev can claim many accomplishments. He constructed a new bridge across the Amur River that makes it possible for residents of the Jewish Autonomous Oblast to travel to jobs in Khabarovsk. Ishaev also has built new roads and closed some money-losing coal mines.

Ishaev also successfully manipulates the local press and journalists for his purposes. He has frequent press conferences in which he lays out his ideas and discusses his current programs with local journalists.

Ishaev faces little organized opposition in the region. During the last gubernatorial election, he did not need to run a formal campaign. In the past, opposition to Ishaev was centered around former State Duma Deputy Valentin Tsoi, who now works closely with State Duma Speaker Gennadii Seleznev in his new political organization, Rossiya. Apanasenko, who long worked on Ishaev's staff, was the last major potential candidate to succeed Ishaev, but instead made an unsuccessful bid to become mayor of Primorskii Krai.

**CHILLY RELATIONS BETWEEN PULIKOVSKII AND ISHAEV.** Pulikovskii has a very difficult time working in Khabarovsk where there is such a strong governor. Most often observers describe the situation by resorting to the Russian proverb that "two bears cannot survive in the same den." Ishaev, in particular, likes to think of himself as the master of the region, so he was not happy to have another chief appear. The power structure that existed in Khabarovsk Krai before Pulikovskii's arrival essentially remain in place. Life still revolves around the governor. Pulikovskii simply monitors the situation.

Relations between Pulikovskii and Ishaev are a "closed topic." My requests to the press departments of both the presidential representative and governor's administration to discuss these ties were both rejected. Publicly, Ishaev avoids conflict, but he does not give up his position easily.

One of the main contrasts in style between Ishaev and Pulikovskii is their use of the press. Ishaev meets with journalists about once a week and spends a long time explaining to them what he is doing. He is a master at using the media to distribute just the information he wants the population to hear. Pulikovskii does not address the media as often, even though he had said that he would do so early in his term. However, his deputies often speak out. Unlike Drachevskii in the Siberian Federal District, who has secured financing to set up an okrug media station from Russian Aluminum's Oleg Deripaska, Pulikovskii has no source of funding for this project. He hopes to raise this money, but it remains unclear who his sponsor will be.

Part of Pulikovskii's relationship with Ishaev evolves from his choice of assistants. His most visible deputy is Gennadii Apanasenko, who lost his bid to become governor of Primorskii Krai. Ishaev generally has no use for strong personalities among his staff.

Apanasenko has such a personality and ultimately could not remain in Ishaev's team, even though he had worked as first deputy governor responsible for economic issues under Ishaev. In hiring Apanasenko, Pulikovskii thus chose a person who was not close to the governor. Some observers claim that Pulikovskii made a mistake in this choice because it reduced his influence with the governor. By this logic, Pulikovskii would have had more influence over Ishaev by choosing an assistant from among his allies. Other observers suggest that Ishaev delegated Apanasenko to work with Pulikovskii or was trying to get him out of the governor's offices and therefore sent him to work with Pulikovskii.

Pulikovskii suffers from the same problems that the other six presidential representatives face. The position of the presidential institute is very poorly defined in the Russian political system, so Pulikovskii has to carve out a niche for himself. He is much more active in Primorskii Krai and Sakha, regions in which the Kremlin takes a strong interest, than he is in Khabarovsk.

In the coming year, one of Pulikovskii's main tasks will be working with the presidential commission set up under Dmitrii Kozak on dividing power between federal, regional, and local governments. The commission will be important in the way it addresses ethnic issues and money flows. Khabarovsk's power-sharing agreement has little meaning for Ishaev and its cancellation would not affect him much. These treaties are much more important for ethnic republics like Sakha (in the Far East Federal District) and Tatarstan and Bashkortostan (in the Volga District). Sakha has staunchly defended its right to sovereignty and its control over its diamond and natural resource wealth. It will not give up these rights easily or quickly because they are simply too valuable. Putin will have to move very carefully with the treaties, otherwise he will provoke a nationalist opposition against his policies. Most likely, Putin will put off any significant measures until after 2004, when he has secured a second term as president. Only slow changes will be possible in Sakha, observers in Khabarovsk believe.

The key question for ethnic Russian regions like Khabarovsk that did not particularly benefit from their power-sharing treaties is how important issues currently under the joint control of the federal and regional governments will be divided. This question affects such issues as who will ultimately have the right to divide up land for private sales and who will pay for veterans' benefits. Now regional leaders believe that the center has basically taken all the money and left the regions with the responsibility to pay for these expenses. If the commission is to be effective, then it will have to divide up responsibilities and finances in a way that is considered fair.

## **MEDIA ISSUES**

**THE MEDIA AND PULIKOVSKII.** The media in Khabarovsk have taken a various approaches toward covering Pulikovskii. The pro-gubernatorial *Tikho okeanskaya zvezda* takes a critical attitude toward him, reflecting the cold relations between Ishaev and Pulikovskii. Papers like *Primorskii vedomosti* are much more favorable, seeing the new institution as a possible source of revenue.

*Primorskii vedomosti* was founded in 1990 as the organ of the krai's soviet, which was then the regional legislature, according to Nikolai Andreev, the paper's editor. When Yeltsin closed the soviets in 1993, the paper became independent, but it continued to receive subsidies for another three years. However, the paper could not survive on its own. In 1995,

the editors set up a publishing house to publish glossy picture books and postcards as a way of generating enough profit to support the newspaper. The printing house lost 90 percent of its sales in 1998, but survived that crisis to return to profitability today.

Now this paper is seeking to work with Pulikovskii and his staff, hoping that such ties will bring greater financial security. The publishing house associated with the paper has published a glossy book entitled *Khabarovsk: Far Eastern Federal Okrug Capital* with Russian and English text and a portrait of Pulikovskii himself prominently displayed in the front. Since Pulikovskii has limited funds for his media project, he will have to take over existing papers and television stations and use them for his purposes (as Drachevskii is doing in Irkutsk). He is currently considering proposals from *Primorskii vedomosti*.

So far Pulikovskii's plans have not affected the work of the federally owned Far Eastern Television and Radio Company (DVTRK), according to Chief Editor Vladimir Voropaev. Pulikovskii blocked the appointment of the head of the television and radio company in Kamchatka, but so far have taken no action in Khabarovsk beyond providing press releases to the station. Again Pulikovskii's lack of funding prevents him from engaging in any serious activities.

Voropaev describes his station as alien to both the federal and regional authorities. In the past, DVTRK was part of the local administration. When it became a company, the administration was one of its founders. Now, however, it is a purely federal entity. But since it is based in the regions, it is not part of the Moscow community where most federal organizations are based. The position of the station depends on the position of the manager and he is "eager to serve." Now all of the station's money comes from Moscow, whereas in the past, the krai administration purchased equipment for it. The transition in funding sources has reduced the governor's ability to affect the station's stories, but his press service still tries to influence coverage, Voropaev said. In the past, the authorities dictated what went on the air. Now they can only comment after a show has been broadcast. In explaining how he deals with these various pressures, Voropaev said that "I try to be loyal, but not serve them directly."

Glukhov's *Khabarovskii ekspres* ([www.habex.ru](http://www.habex.ru)) is the only newspaper in Khabarovsk that consistently criticizes Ishaev. Glukhov owns the paper himself and makes money by publishing eight other newspaper that are profitable, including local editions of *Trud*, *Rossiia*, and *Antenna*. Glukhov's other papers generally focus on non-political issues such as tips for dacha dwellers and romance. His income from these other projects affords him a measure of political independence.

However, Glukhov has paid a high price for the ability to be critical: his printing house has burned twice in suspicious circumstances and he has been beaten up twice. Police investigations did not turn up any evidence to help determine who had attacked him.

Glukhov points out that Khabarovsk residents generally have electricity and food so they are better off than other Far East residents, but the press must talk about other issues. Most other journalists are dependent on the governor, so they do not criticize him. Glukhov, who was very critical of Ishaev in the last campaign, said that the governor discriminates against him by not informing him of press conferences. However, nobody prevents him from attending if he shows up at one of the official events. He states with pride that Ishaev points to the existence

of his paper whenever Moscow-based journalists come to investigate the media situation in the krai.

Glukhov admits that there is little criticism of the governor because he basically does a good job. Few people in the region are surprised by the kind of stories Glukhov writes, the editor said. Most people are too apathetic to do anything about the problems he raises.

Glukhov works with an independent business association, the Khabarovsk Krai Association of Entrepreneurs. He claims that the more the authorities attack them, the more they work together. The association boasts several victories at the level of the Supreme Court.

## **PRIMORSKII KRAI**

**WHO IS GOVERNOR DARKIN?** Before his election as Primorskii Governor, Sergei Darkin was almost completely unknown in the krai. Even now, he remains a considerable mystery. Local newspapers run stories about how a "Criminal has come to power," as a headline in *Moskovskii komsomolets vo Vladivostoke* put it in its 26 July- 2 August edition. Suspicions that Darkin has links to organized crime are almost universal. A recent broadcast on Vladimir Pozner's Russian Public Television (ORT) show included a picture of Darkin at the funeral of a well-known crime boss. Public opinion polls in Vladivostok suggest that Primorskii Krai residents are in shock that they have such a governor in place. The majority of the people in Vladivostok voted for former Mayor Viktor Cherepkov, while Darkin's vote was concentrated in the northern rural area of the krai, which had strongly backed former Governor Yevgenii Nazdratenko. The rural voters are considered much easier to manipulate.

Another question mark is whether the Kremlin and Pulikovskii ended up supporting him in the second round of the election. Also unclear is Darkin's current relationship with Nazdratenko. During the campaign, Vladivostok media stressed that Nazdratenko was backing Darkin. While Darkin has kept some of Nazdratenko's people in place since his election, he has also appointed some of Nazdratenko's old enemies, such as former Ussirisk Deputy Mayor Aleksandr Kostenko. Now Nazdratenko maintains considerable influence in the krai through his position as director of the federal State Fisheries Committee. Nazdratenko's main sponsor in the federal government is Presidential Chief of Staff Aleksandr Voloshin. Nazdratenko and Voloshin apparently have common financial interests. Voloshin is likely to protect Nazdratenko because Nazdratenko may have evidence of Voloshin's illegal financial dealings.

Darkin has done little to assert his authority in the krai, according to *Vladivostok* newspaper editor Vladimir Oshechenko. This paper had worked closely with Nazdratenko, but now has no relationship with the new governor (although Darkin's Roliz company owns a 4-5 percent stake in the paper) and is working in coordination with Vladivostok Mayor Yurii Kopylev. Darkin will likely not run the krai directly, but delegate considerable authority to Vice Governor Aleksandr Linetskii, 42, a well-educated economist from Moscow. Linetskii served as vice president of Roliz, Darkin's fishing company. Oshechenko sees the Primorskii Krai economy as being in the hands of three sectoral clans with closely linked financial and criminal interests: fishing, forestry, and external trade. Darkin and Linetskii will most likely not try to get rid of these clans.

Darkin faces a difficult job as governor. The most immediate task is ensuring that the krai can avoid the kind of energy crises it suffered in previous winters in the upcoming cold season. Over time he will have to raise prices on electricity and communal services to ensure that these sectors have more money to raise their financial stability. Darkin will have to find money to help the worst off members of society deal with these rising costs. Nevertheless, Darkin claims that he will not raise these rates before the end of the year. Unfortunately, other major problems are looming as well. Despite overall growth in Russia, industrial output in the krai shrunk during the first part of 2001 while the level of crime is growing (*Arsenevskie vesti*, 26 July-1 August 2001).

Pulikovskii is much happier to have Darkin as governor than former Vladivostok Mayor Viktor Cherepkov. It is possible to cut deals with Darkin where it would not have been possible to do so with Cherepkov. A prominent first example of such deal-making was Darkin's appointment of General Valerii Manilov as his representative to the Federation Council. Manilov's candidacy was recommended by the Kremlin and then accepted by Darkin.

Darkin is unlikely to be good news for local journalists in Vladivostok. In the middle of July, he announced a two-month moratorium on interviews with the press (*Arsenevskie vesti*, 26 July-1 August 2001).

## **REGIONAL RESOURCES ON LINE**

**Organized Crime in Vladivostok** (<http://www.crime.vl.ru/>) - This site has a very useful press review of the local media dealing with such issues as corruption, assassinations, poaching, drugs, and illegal sales of forestry products.

***Arsenevskie Vesti's New Website*** (<http://www.arsvest.ru>) - This paper is the main voice of the opposition in Primorskii Krai. It has built a new web site with a grant from George Soros' Open Society Institute.

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**RUSSIA'S 2000-2001 GUBERNATORIAL ELECTIONS**

**ELECTORAL RULES BLOCK VOTERS FROM PUNISHING BAD GOVERNORS.**

by Andrew Konitzer-Smirnov, University of Pittsburgh

Although loud scandals, rumors of central government interference, and even the "militarization" of the regions at the hands of candidates from various security organs marred the 2000-2001 round of gubernatorial elections, quantitative analyses of the 32 oblast and krai elections which occurred between 26 March 2000 and 8 April 2001 demonstrate that voters in the regions showed some of the "economic voting" that researchers have witnessed in other established democracies. This is a subtle but extremely important development. Unfortunately, however, while voters may be trying to "reward and punish" their executives at the polls, regional electoral laws and processes continue to insulate incumbents from their voters, allowing them to maintain their posts with the support of a very small percentage of the eligible vote.

As the analyses of the 2000-2001 elections are very similar to Steven Solnick's investigation of the 1996-1997 round of elections, a comparison of some of the key findings emphasizes the importance of the new results (Steven L. Solnick, "Gubernatorial Elections in Russia, 1996-7," *Post-Soviet Affairs*, 14:1, 1998). Solnick employed a series of linear regression analyses to determine whether sets of economic and "non-economic" (party loyalty/ideology, Yeltsin appointment, etc) factors were related to incumbent vote percentages. (Due to their different legal status and the greater prominence of "ethnic factors," republics and autonomous okrugs are excluded from these analyses). The results of Solnick's analysis indicated that only one factor, party list vote results from the 1995 Duma elections (a proxy for ideology and party loyalty), was even weakly related to incumbent fortunes. Given the fact that every incumbent running in the 1996-1997 round was a Yeltsin appointee, incumbents generally fared worse in regions that strongly supported communist and nationalist parties in 1995.



With original Yeltsin appointees remaining at their posts in only 12 of the 32 oblasts and krai in 2000, a similar analysis using the 1999 Duma election results would obviously fail to yield comparable outcomes on the ideological and party-support measure. However, an analysis of the success of Communist Party-supported candidates in regions that strongly supported communists in the 1999 elections indicates very little support for so-called ideological factors. The average vote for candidates in these regions was only marginally higher than that of non-communist incumbents and party support measures provide little leverage in determining the support for candidates backed by the given party in question.

While ideology essentially "fell out of the equation" in 2000-2001, economic factors, which played no role in Solnick's analysis, apparently increased in importance. Economic voting analyses in other established democracies have indicated that the most important "economic events" affecting elections are the changes in various economic indicators in the year prior to the election. Working within this vein, regression analyses indicate that changes in two factors -- real wages and real pensions (both taken as a percentage of the cost of an essential goods "basket") -- account for roughly 21 percent of the variance in incumbent vote outcomes. The model most poorly predicted the outcome in Voronezh, Kaliningrad, and Tula oblasts. An analysis of the three cases reveals that each was marked by some type of unique phenomenon. Voronezh and Kaliningrad oblasts both featured candidates from security agencies whose organizational strength and legitimacy made them exceptionally strong opponents. As a result, for these cases the model overestimated the percentage of the vote received by the incumbent. In the Tula oblast case, several challengers refused to run against the incumbent in the second round of elections (the analysis uses only "final round" results) and eventually the election commission had to "appoint" an opponent. Obviously this factor influenced the final election result and consequently the model grossly under-predicted the Tula incumbent's vote percentage.

Having removed these three "exceptional cases" from the analysis, changes in wage and pension levels account for 37 percent of the variance in incumbents' election fortunes. While this leaves 63 percent of the variance to other factors, the results compare favorably with similar analyses in established western democracies and are markedly different from Solnick's findings for the 1996-1997 round. As a result, there is strong evidence for the contention that voters in Russia's regions are becoming "economic voters."

Nonetheless - and this is an important caveat - this relationship does not translate into incumbent wins and losses across the 32 elections. When attempting to account for incumbent victories and defeats, neither the wage and pension indicators nor any of the other included socio-economic performance factors offers any significant predictive leverage. In simpler terms, while voters may be expressing their socio-economic satisfaction or ire at the polls (hence the variation in the vote percentages), this expression does not necessarily result in leadership changes. Similar results have been seen in Western case studies (and attributed to the "incumbent factor"), but certain specifics of the Russian case further "insulate" incumbents from their voters: election laws that mandate single round voting and simple plurality elections with low turnout requirements.

Thus, in Bryansk and Pskov oblasts (two of the lower performing regions in which incumbents were nonetheless reelected), incumbents retained their posts with the support of less than 29 percent and 28 percent of their respective eligible voters. Additional factors include questionable (to put it lightly) election tactics like vote-siphoning bogus "challengers" (in the Pskov case, the incumbent faced off against 12 such "challengers") and underhanded efforts to restrict participation by various sectors of society -- especially working-age voters. As just one example of the latter, rumors were circulated during the election in Tula oblast that representatives of the draft board would be present at polling places. This rumor was clearly oriented towards reducing youth participation in a region where the incumbent finds most of his support among pensioners and veterans. Such instances are certainly not unique to Tula and nearly every election featured its own scandalous rumors geared towards reducing turnout or undercutting support for various candidates.

To briefly summarize, if incumbent governors remain largely politically unaccountable for the socio-economic performance of their regions, the 2000-2001 election results indicate that the Russian voter is not entirely to blame. Regional election laws, a weakly institutionalized election processes, and a lack of the type of democratic election "culture" that, in other established democracies, more or less

automatically restricts some of the most unethical election campaign tactics, continues to create a firewall between incumbents and voters.

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## **CENTER-PERIPHERY RELATIONS**

**BASHKORTOSTAN'S TAX POLICE LIMIT RAKHIMOV'S POWER.** The federal government is now making a concerted effort to limit the power of Bashkortostan President Murtaza Rakhimov over the tax police in his region. Until recently, Rakhimov had turned this federal agency into one of the main levers of his power. Using the tax police, Rakhimov was able to fill republican coffers with the taxes and fees the tax police collected. The pressure the tax police exerted on the republic's industrialists and entrepreneurs guaranteed their loyalty to Rakhimov. In exchange for its support, Rakhimov provided the regional branch of the tax police lavish material aid. He helped increase the political influence of Bashkortostan Tax Police Head Engels Kulmukhametov, including him in the Bashkortostan cabinet of ministers. Kulmukhametov is also a member of the republican parliament even though federal law prohibits such membership for federal office holders of his rank.

Federal Tax Police Director Mikhail Fradkov's reforms seek to cut the alliance between Rakhimov and the republican tax police. After meeting with Rakhimov on 3 July Fradkov announced new policies for the republican tax police. He planned to reduce the role of the group within the republican tax police that concentrated the tax police's work on collecting money for the regional budget. Instead, Fradkov defined the tax police's priority as "serious analytical work, which will make it possible to predict the level of " tax avoidance. He said that such work is now at an "embryonic" stage. Fradkov noted that the number of economic crimes in the region was constantly growing. Fradkov said that the tax police needed to work in closer coordination with other federal agencies in the republic. Fradkov sought to reduce the importance of the Bashkortostan Security Council, which currently coordinates the federal agencies in the republic. In its place, the Volga Federal District and the chief inspector for Bashkortostan would expand their role in coordinating federal agencies in the republic and monitoring the republican tax police.

Rakhimov did not agree with Fradkov's assessment of the work of the Bashkortostan tax police and announced that he was satisfied with their results. For the first six months of 2001, the tax police collected 6 billion rubles for the republican economy, 1.5 times as much as in the previous period. Rakhimov said that the tax police's main task was to gather money for the republican budget, especially the proceeds from stolen oil that had been sent abroad. He noted that the tax police needed to work more aggressively in cracking down on exporters, suggesting that he sought to continue using the tax police to pursue republican goals. - Igor Rabinovich in Ufa

**CHERKESOV STRENGTHENS ROLE IN KALININGRAD.** The Russian Security Council met on 26 July to discuss Kaliningrad Oblast and decided to create the new position of deputy presidential representative to the North-West Federal District, which would deal with issues affecting Kaliningrad. Presidential Representative to the North-West Federal District Viktor Cherkesov said a person from his staff with a good knowledge of Kaliningrad would take over this job. Most importantly, Cherkesov said that from now on the Kaliningrad Oblast administration would no longer control the region's special economic zone. Instead the staff of the new deputy presidential representative would take over these responsibilities (*Kommersant-Daily*, 27 July).

Cherkesov's words essentially mark the creation of "dual power" in the oblast, with the new deputy presidential representative taking responsibilities once held by Governor Vladimir Yegorov. If the federal government takes over responsibility for the special economic zone, what powers will be left to Yegorov, the democratically-elected governor? Yegorov told the local TV station Kaskad that his powers remain the same. However, observers now say that the federal government will not give the Yegorov administration the 92 billion rubles required to implement the federal plans to develop the oblast. Most likely, the

presidential representative will manage the special economic zone and distribute the money for the federal programs. Moreover, the Security Council also adopted a decision to place the oblast budget under the strict monitoring of the Kaliningrad branch of the federal treasury. Thus, federal and federal district authorities now monitor the governor closely.

At the Security Council meeting, it also became clear that the Russian leadership now sees the importance of expanding cooperation with the European Union for the oblast's future development. Thus, over the course of the last year, the Russian president has significantly changed his view and now supports the development of Kaliningrad as a pilot project in the overall relations between Russia and the European Union. - Yekaterina Vasileva in Kaliningrad

**KHODYREV CONTINUES TO SQUEEZE KIRIENKO IN NIZHNII.** The administration of Communist Nizhnii Novgorod Governor Gennadii Khodyrev is continuing to assert its independence from Presidential Representative to the Volga Federal District Sergei Kirienko. So far, however, there have been no examples of a strained relationship and Kirienko has not made any public comments about Khodyrev's activities.

During the campaign Khodyrev said that he would be loyal to Kirienko and Kirienko said, at least publicly, that he was prepared to work with Khodyrev. However, after Khodyrev's victory, their relationship has become more complicated, although there are no signs of open conflict. Khodyrev said that he was not happy with the powers of the governor as defined by the oblast law setting up the regional government and that he would ask the regional legislature to review the law.

Initially, Khodyrev said that he would not carry out any purges and would only fill vacant positions. However, after his inauguration, Khodyrev began to criticize the results of Governor Ivan Sklyarov's tenure and his cadre policies and began to get rid of many of the oblast ministers. Khodyrev said that he planned to replace many of the managers of the executive branch's staff. Many of these people can be described as "Kirienko's people." Thus he is reducing the influence of the presidential representative and strengthening his own team.

In an interview with *Nezavisimaya gazeta* (28 August), Kirienko stressed his long-standing good relations with Khodyrev. During the perestroika era, Khodyrev saved Kirienko from being fired from his job as the head of the Komsomol organization at the Krasnoe Sormovo factory, when Kirienko was under pressure for his reform-oriented activities. Khodyrev then helped open doors for Kirienko to go to graduate school in Moscow. Finally, Khodyrev was one of the few Communist State Duma members who voted in favor of Yeltsin's decision to appoint Kirienko as prime minister.

Kirienko said that in a meeting with Khodyrev, he offered to support him openly after the first round of the governor's election and it was obvious that Khodyrev was going to win. Kirienko's only condition was that Khodyrev immediately drop out of the Communist Party. However, Khodyrev refused to renounce his party membership before the election was over and Kirienko did not publicly support him. - Rustam Bikhmetov in Nizhnii Novgorod

**TATARSTAN PURSUES A FRUITLESS POLICY OF DELAY.** In the federal law on regional political institutions adopted in 1999, Moscow has set a deadline of October 2001 for Tatarstan (and all other regions) to bring its constitution and legislation in line with Russian norms. The republican legislature is correcting the region's legislation, but the republic's constitution remains unchanged.

Despite the procurator's protests, decisions of the Russian Constitutional Court, and political agreements with Moscow, the Tatarstani leadership is still in no hurry to bring the republican constitution into line with the Russian one. The Tatarstani constitution is one of a handful of regional documents remaining from the early 1990s, which directly contradicts the federal constitution. Given President Putin's enormous power, the new laws making it possible to remove regional leaders who violate federal laws, and the speed with which many regional leaders have expressed their loyalty to the Russian president, one would expect Tatarstan President Minitimer Shaimiev to be willing to make more concessions.

However, Shaimiev is in a very difficult position. The federal authorities are putting enormous pressure on him. According to informed sources in Kazan, before the republican presidential elections in March 2001, Shaimiev promised Putin to bring the Tatarstani constitution into line with the Russian constitution after the elections. However, five months have passed and this has not happened. During the last several months two representatives of the republican parliament have been meeting with the presidential administration, but they have yet to reach agreement.

On the other hand, Shaimiev is facing criticism from nationalist groups within the republic for giving back to Moscow all the gains made during the 1990s. A typical example of this criticism is the open letter to Shaimiev from the teacher Razia Khamitova published in *Zvezda Povolzhya* (16-22 August): "Mintimer Sharipovich, you are not the governor of Ivanovo Oblast, but the president of a national republic, the head of state. So far you are only making concessions. Nothing remains of what we have achieved over the last 10 years. Pardon me, but you are not a centrist, as you like to claim, but a real liquidator." When Shaimiev took the oath of office in April 2001 he did so on the current constitution and swore to defend it.

Shaimiev's only option is to find a good explanation for why he is giving in to Moscow. At first he said that Tatarstan's constitution was adopted earlier (November 1992) than Russia's and therefore did not have to conform to it. Later, he argued that the process of bringing the federal and republican basic laws into conformity should be mutual, saying it was necessary to make simultaneous changes in the Russian and Tatarstani constitutions. But no one was prepared to amend the Russian constitution, so Shaimiev took a new tack. On 18 August he said that the amendments to the Tatarstani constitution would not be ready by session of the republican legislature starting 20 September.

However, Shaimiev did concede the need to change the Tatarstani constitution. He noted that Tatarstan had adopted its constitution when the previous Russian constitution was still in force and therefore needed to bring its basic law up to date. Second, he pointed out that Tatarstan was violating its own constitution because it had brought its laws into line with federal norms, which now violate the Tatarstani constitution (*Respublika Tatarstana*, 21 August). This tortured logic – the appearance of new laws requires changes in the constitution -- shows the difficulties that Shaimiev is having.

Similarly, Shaimiev changed his view of the power-sharing agreement his republic signed with Moscow on 15 February 1994. For a long time, Shaimiev said that this document was permanent and did not require any changes. Now under pressure from Moscow, he says that the agreement may not be necessary. He recently said that "if we successfully divide responsibilities between the federal government and the regions, possibly there will be no need for the treaty" (*Respublika Tatarstana*, 17 August).

Shaimiev realized that his previous policy toward Putin did not work. However, instead of stating this directly, he is playing for time, and seeking to justify his more accommodating attitude toward the Russian president. - Midkhat Faroukshin in Kazan

**IRKUTSK SEEKS MORE CONTROL OVER ITS RESOURCES.** On 24 August the Irkutsk Oblast working group on dividing power between the federal, regional, and local governments held its first meeting. Putin ordered the creation of such groups to advise the federal commission dealing with these issues that he established under the chairmanship of Dmitrii Kozak (see *EWI Russian Regional Report*, 3 July). Irkutsk Deputy Governor Lyudmila Berlina is heading the Irkutsk group.

During its first meeting, the members of the group concluded that the region should take more care to defend its interests during the privatization of large enterprises and the development of natural resources. For example, the federal government currently has authority over forestry resources, including those located in the city of Irkutsk. The use of these important resources affects the ecology of Irkutsk and the health of its residents. However, neither the oblast nor local authorities has the ability to influence how the resources are used. The suggestions generated in Irkutsk will now be sent to the Siberian Federal District and then on to Moscow. - Teleinform in Irkutsk

## **PRESIDENTIAL REPRESENTATIVES**

**LITTLE ROLE FOR PULIKOVSKII IN FAR EAST.** More than one year after Putin created the seven federal districts and appointed presidential representatives to them, their purpose remains unclear in the Far East. Their individual ministers, rather than the presidential representatives, are playing the leading roles in addressing the area's most pressing problems. For example, Emergency Situations Minister Sergei Shoigu is heading efforts to deal with the consequences of recent flooding in Sakha. Unified Energy System (EES) Chairman Anatolii Chubais is addressing the catastrophic energy situation in the Kamchatka. Prime Minister Mikhail Kasyanov himself recently visited Primorski Krai, to say nothing of various government commissions and EES experts who have also made stops in Primore.

So far Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii's only accomplishment has been to secure the resignation of Primorski Krai Governor Yevgenii Nazdratenko "at his own request." Pulikovskii's other major initiative, winning the election of his deputy as the new governor, failed. Since then his only accomplishment was to escort North Korean leader Kim Jong Il on his two-week cross-country train trip. - Andrei Kalachinskii in Vladivostok

### **POLITICAL PARTIES IN THE REGIONS**

**KREMLIN SEEKS MORE CONTROL OVER PARTIES IN SVERDLOVSK OBLAST.** The recent adoption of the federal law on political parties has had the effect of disbanding regional parties, which were under the control of the governors, and giving federal political parties exclusive control over political participation. This reform makes the political process more predictable and therefore more controllable.

At a meeting of the Consultative Council on political parties and social movements in the Urals Federal District, Presidential Representative Petr Latyshev said that there are currently more than 2,000 political and social associations in the federal district, but that after the adoption of the law on political parties, their number would "drop considerably." Latyshev said that the new law did not mean that the regional political movements would simply disappear, but that they could only continue to function as social organizations.

The on-going merger of the pro-Putin Yedinstvo and Moscow Mayor Yuri Luzhkov's Otechestvo has important implications for party politics in Sverdlovsk Oblast. There are several developments on this front. First, the Sverdlovsk Oblast branch of Yedinstvo held a congress without the participation of its leader, A. Zaborov, who is loyal to Sverdlovsk Governor Eduard Rossel. Zaborov has closely tied his fate to this party and would not willingly allow it to meet in his absence. Thus, it is clear that the federal authorities are working to move the party out from under the influence of Rossel.

Second, Yekaterinburg Mayor Arkadii Chernetskii, a Rossel opponent, has seriously strengthened his position and could soon take over as the leader of the Yedinstvo-Otechestvo political union in the oblast. Chernetskii benefits from the fact that he is the head of the oblast Otechestvo, has considerable political authority in the region, maintains good relations with Latyshev, and is independent of the governor. - Sergei Pushkarev in Yekaterinburg

**TWO PRO-PUTIN FACTIONS FORM IN SARATOV LEGISLATURE.** Following the 27 June formation of a 10-member Yedinstvo faction, the Saratov regional legislature registered a second pro-Putin 18-member faction in the first part of July. The new "non-party" faction is called "Together with the president for legality and a worthy life." As local wags point out, one faction is marching under the banner "We love the president." The second has the banner "We love the president A LOT." Seventeen legislators in the 45-member body have yet to join a faction.

The new faction is the first in the legislature's history to renounce all party ties. Its main goals are to support the president, ensure constructive cooperation with executives at all level of government, and optimize the legislature's activity.

Membership in the faction does not require legislators to vote as a group. Part of the purpose of the organization is to prevent the legislature from being divided along partisan lines, a situation that has caused problems in the past. The head of the new faction, Andrei Rossoshanskii, the chairman of the Saratov State Television and Radio Company, said that the Saratov legislature should remain free of

partisan divisions until August 2002, when the next elections will take place. Rossoshanskii apparently does not want to see any party groups in the legislature, regardless of their orientation.

Deputy Nikolai Semenets, the head of Saratov's Otechestvo, did not join the Yedinstvo faction, even though Yedinstvo and Otechestvo are in the process of merging. He is a member of the second faction, however, claiming that he was not invited to join the Yedinstvo faction because of "personality conflicts." - Yuliya Yeliseeva in Saratov

## **REGIONAL FOREIGN POLICIES**

### **REGIONAL COOPERATION IN RUSSIAN-NORTH KOREAN RELATIONS**

In recent summit meetings with North Korean leader Kim Jong Il, President Putin has made an effort to become a power broker in inter-Korean relations. Although much of the media coverage of these summits focuses on their strategic implications for Northeast Asia, Russia's reinvigorated relationship with North Korea is important not just for great power relations, but also for the economic development in the Russian Far East. The most recent meeting between the two leaders in Moscow on 3-4 August, for example, resulted in an agreement to connect the North Korean rail network to the trans-Siberian railroad (*ITAR-TASS*, 14 August).

By the mid-1990s, at a time when debates still raged in Moscow about Russia's policy toward North Korea, delegations from Primorskii Krai and Khabarovskii Krai traveled to Pyongyang in an effort to revitalize relations. In 1996, the Nakhodka Special Economic Zone (SEZ) and the Rajin-Songbong Free Economic Zone in North Korea signed an agreement to explore joint activities in areas such as the forestry sector, but little cooperation resulted despite strong support from officials such as former Nakhodka SEZ director Sergei Dudnik, now a deputy in the Primorskii Krai Duma.

The recent warming trend in bilateral relations in the late 1990s has provided additional opportunities for regional officials to expand cooperation with North Korea. In July 2000, for example, former Primorskii Krai Governor Yevgenii Nazdratenko accompanied Putin on his trip to Pyongyang. Although Russian-North Korean trade dropped precipitously in the early 1990s, trade between Primorskii Krai and North Korea has been fairly stable throughout the 1990s (between \$2-3 million annually), reflecting Pyongyang's reliance on the region's exports of food products and timber. Prospects for increasing trade will depend above all on the improvement of the economic situation in North Korea.

The Kremlin portrays multilateral projects in the energy and transportation sectors as the most promising vehicles for expanding regional cooperation with North Korea. One variant of the proposed gas pipeline from the Kovytkinskoe deposit in Irkutsk Oblast would run through North and South Korea en route to China. Since North Korea faces an acute energy shortage but lacks the hard currency for energy imports, Pyongyang is likely to support the trans-Korean pipeline route to benefit from transit revenues. Despite the improved political climate in inter-Korean relations, other project participants have been concerned that a trans-Korean route would provide Pyongyang with leverage over gas flows and enable it to blackmail other recipients for political purposes. Apart from such political considerations, there are many outstanding questions about the project's economic viability and financing, and the pipeline's routing remains under discussion.

For the past decade, the prospects for Russian-North Korean regional cooperation have been linked to the UNDP's Tumen River development project (TRADP), involving Russia, North and South Korea, China, and Mongolia. In its original conception, the \$30 billion 20-year project launched in 1991 was designed to transform the Tumen River area into a global trade, transportation, and communications gateway. The project had to be scaled back due to unrealistic expectations about foreign investment (especially from Japan, which is unwilling to invest in TRADP until relations with North Korea are normalized), conflicts of interests among the participants, and instability on the Korean peninsula. The United Nations Development Program's (UNDP) now is trying to foster the development of regional trade through infrastructure development as well as to promote tourism and environmental protection in the Tumen River area.

Officials in Primorskii Krai, the Russian region bordering on the Tumen River, have not been enthusiastic supporters of TRADP due to their concern that infrastructure improvements in China, in particular, would increase competition for already scarce cargo now moving through the ports of Poset and Zarubino. Despite its usual reluctance to become involved in multilateral projects, China has been the strongest supporter of TRADP in an effort to achieve an outlet to the Sea of Japan, by improving rail and road connections to the aforementioned ports in Primorskii Krai as well as to Rajin and Songbong in North Korea. Chinese officials have long complained about excessive fees and duties in Russia and hope that once Rajin and Songbong can compete for cargo, shipping costs will be lowered throughout the Tumen region.

Although earlier in the 1990s Primorskii Krai shippers used the North Korean ports of Rajin and Songbong, by the end of the decade they moved their cargo through Poset and Zarubino. When Russia and North Korea signed an investment agreement in 1996, the two countries envisaged Russian investment in the Rajin-Songbong zone. This has not materialized, as Primorskii Krai has been trying to promote investment in its southern ports, now being portrayed as ideal hubs for transit trade from Northeast China and South Korea bound for Japan.

The proposal by the leaders of North and South Korea to rebuild the inter-Korean railway is being discussed now within TRADP's transportation sector. Rail traffic over the 38th parallel has not been operational since the end of World War II, when Stalin opposed an American proposal to link the two zones. Russia has been active in promoting a link from the inter-Korean railway and the trans-Siberian railroad, which would cut the travel time for goods shipped from Northeast Asia to Europe in half from the 30-40 days now required for marine transportation to 13-18 days by the new rail link and more than double capacity, from 200,000 to 500,000 containers (*The Moscow Times*, 16 August, 2001).

Russia first proposed the idea of connecting the trans-Siberian railroad to the North Korean rail network during Foreign Minister Ivanov's visit to Pyongyang in February 2000 and then at the summit meeting between Putin and Kim Jong Il in June. When North Korean leaders responded positively, Putin raised the issue with Kim Dae Jung during their September 2000 meeting at the U.N. Millennium summit and Russia and South Korea reached an agreement in principle to connect the trans-Siberian to the inter-Korean railway (*Yonhap*, 8 September 2000). In December Russia and South Korea discussed the possibility of a connection from Pusan to Pyongyang and then to Khasan in Primorskii Krai. The 950-km Pyongyang-Khasan line would require a \$250 million investment and take about 2 years to complete (*strana.ru*, 26 February, 2001).

During his summit meeting with Kim Dae Jung in February 2001, Putin continued to promote a rail link from the Trans-Siberian railroad to the inter-Korean railway in an effort to encourage tripartite economic cooperation among Russia, South and North Korea (*The Korea Times*, 27 February 2001). Russia and South Korea established a Committee on Transportation Cooperation to continue their discussions of the proposed link between the two rail lines. Although Putin stated that his government was prepared to invest in the new railway, according to some reports, Russia is hoping to provide the technical expertise for the rail link in exchange for a reduction of the \$1.8 billion Soviet era debt to South Korea.

China, too, plans to connect its railway to the inter-Korean railway, via the Seoul-Sinuiju line, in hope of becoming the gateway for cargo traveling from Asia to Europe. If the trans-Siberian were connected to this line, then cargo would begin moving through Russian territory in East or West Siberia. However, if the trans-Siberian were linked to the Seoul-Wonsan line, cargo would travel a much greater distance on Russian territory, all the way from Nakhodka in Primorskii Krai, the terminus of the trans-Siberian railroad, to Europe. Fearing that the new rail projects would diminish the role of local ports, dependent on trade with South Korea, some Primorskii Krai officials are opposed to the development of a new Russian-Korean rail corridor (*EWI Russian Regional Investor*, 23 May 2001).

One of the most long-standing forms of economic cooperation between the Russian Far East and North Korea has been in labor exchanges. Khabarovsk Krai has been using North Korean labor in the timber industry as far back as 1967: approximately 15,000 to 20,000 North Korean workers participate in these projects every year. Beginning in the 1990s, North Korean farm workers were hired to work in the

agricultural sector in Amur Oblast, Sakhalin Oblast, and Primorskii Krai. Concerned that farm labor would provide a pretext for illegal immigration by Chinese farmers, regional officials prefer to hire North Korean workers, whose contracts are enforced more strictly. Primorskii Krai officials had additional cause to be pleased with North Korean labor since some of the contract workers sent to the region reportedly worked for free, as partial repayment of North Korea's outstanding debt to Russia. By some accounts, North Korea has serviced \$50.4 million of its outstanding \$3.8 billion debt to Russia in this way (*The St. Petersburg Times*, 14 August), although the Foreign Ministry denied the existence of any formal labor-for-debt exchange (*Agence France-Presse*, 8 August).

Because some of the North Koreans working on Russian contracts are not paid until they return home, they often undertake illegal second jobs. Local residents view their moonlighting positively when they work as private contractors, for example, and provide inexpensive, efficient assistance with home renovations. However, there are also have been allegations of North Koreans participating in drug trafficking in Russia.

The logging camps have been controversial on human rights grounds, as well. Especially in the first half of the 1990s, pro-Western officials in Moscow argued that the camps should be closed, but Khabarovsk authorities urged their continued operation, due to the importance of a steady supply of cheap labor for the beleaguered timber sector. After reports of workers housed in prison-like conditions and deprived of their passports, the Russian-North Korean agreement governing the timber projects was renegotiated so as to provide local officials with greater oversight and a larger share of the harvest.

Despite such controversies, regional cooperation with North Korea may work to improve Russia's position in inter-Korean diplomacy. After terminating its cooperation with North Korea in nuclear energy in the early 1992 and finding itself excluded from a 1994 deal for an international consortium to provide South Korean light-water reactors to Pyongyang in exchange for its cessation of suspected nuclear weapons programs, on 2 August, the Russian Atomic Energy Ministry announced its interest in building a nuclear reactor for North Korea in Primorskii krai, according to *Agence France-Presse*. - Elizabeth Wishnick

#### **TRIP REPORT: ANDREW YORKE IN KRASNOYARSK (20 JULY - 10 AUGUST)**

*This week we continue our series of summer travel reports with notes from Krasnoyarsk by Andrew Yorke, a Masters student in Russian and East European Studies at St. Antony's College, Oxford University. He is currently working on the relationship between business and politics in Russia's regions as a whole, but paying particular attention to Krasnoyarsk Krai. His e-mail address is: andrew.yorke@st-antony's.oxford.ac.uk*

**KRASNOYARSK BENEFITS FROM ECONOMIC UPTURN.** As one might expect, the recent economic upturn in Russia is not confined to Moscow. Krasnoyarsk, which I last visited in August 1999, shows visible signs of improvement. The road from the airport to the city is lined with more petrol stations than could possibly be necessary. The city has been decorated with an almost absurd number of fountains, and gardeners are making its green spaces flourish. Krasnoyarsk's most affluent street, Prospekt Mira, has many expensive shops, clubs and restaurants, which would not look entirely out of place in Moscow. The newly refurbished cinemas, which have sprouted up in Irkutsk and Novosibirsk, have appeared here too (see *EWI Russian Regional Report*, 22 July).

However, Krasnoyarsk residents have a cynical view of some of the city's more grandiose projects, such as the construction of an underground railway, which was begun under former Governor Valerii Zubov. One metro station was constructed in the center of town before the project was abandoned (at least for the time being) for lack of money. In the meantime, the city's public transport system consists of a fleet of dilapidated state-owned trams and buses, and equally crowded and uncomfortable privately-run minibuses. Another questionable project is the erection of Krasnoyarsk's very own Big Ben, a large and unattractive clock-tower next to the mayor's offices in the city centre.



**GOVERNOR USES MONOPOLIES AGAINST OPPONENTS.** Since Krasnoyarsk Krai is a "donor" region, and is home to major enterprises such as Norilsk Nickel and the Krasnoyarsk aluminum Factory (KrAZ), it is not surprising that the population is currently enjoying a period of relative prosperity. The problem of wage arrears is diminishing, with private enterprise wage arrears down 13 percent in the past year, and public service wage arrears down 27 percent. Salaries are increasing, with the average wage up 40 percent in nominal terms over the past year (*Krasnoyarskii Rabochii*, 31 July 2001).

However, this has been accompanied by major price hikes in many important areas. Krasnoyarskenergo, the local branch of the Unified Energy System monopoly, has increased domestic electricity tariffs and is waging an aggressive public campaign to force the krai's enterprises to pay up in full and in cash. The most serious victims of this campaign have been the city's television and radio broadcaster, and the Krasnoyarsk aluminum Factory. In the former case, Krasnoyarskenergo cut off the broadcaster's electricity supply, leaving residents with blank television screens until Anatolii Bykov, Krasnoyarsk's local oligarch, intervened. From his prison cell in Lefortovo, Moscow, he arranged to have the outstanding electricity debt repaid. The utility twice cut off electricity to KrAZ, causing not only commercial damage due to halted production, but apparently also considerable environmental damage (see *EWI Russian Regional Report*, 6 June).

The utility, with full public support from Governor Aleksandr Lebed, insists that these methods are necessary to prevent an energy crisis this winter similar to the one witnessed last year in regions such as Primorsky krai. But the residents, journalists and politicians that I spoke to all treated these claims with extreme skepticism.

Krasnoyarskenergo's plush offices in the city center raise doubts about its pleas of poverty. A local radio station reported that the utility's general director Mikhail Kuzichev drives around in a jeep costing 9 million roubles (\$300,000) and lives in an apartment worth 14 million roubles (\$470,000). The Afontovo television station pointed out that if Kuzichev sold his jeep he could pay for a month's supply of electricity for 22,000 families.

Many people believe that Lebed is using Krasnoyarskenergo as a "lever" to bankrupt those enterprises which do not cooperate with him, and that he hopes to benefit from the utility's financial support in future elections. The governor completely controls the Regional Energy Commission, which sets electricity prices for domestic and commercial users, although the legislative assembly has been trying to gain some control over the body. Hopefully in the long term, the creation of a single tariff agency, which is being proposed by the Kremlin, will depoliticize the issue.

In addition to electricity tariffs, residents will need to cope with a switch to minute-by-minute payment for local telephone calls (which may in fact benefit some people but which will no doubt have a negative impact on local Internet usage) and major price hikes for air and rail travel. Rents are increasing rapidly, partly driven by the World Bank-sponsored program to resettle inhabitants of Russia's Arctic North in the krai. The growth in demand is being met by new construction, but as with the utilities, communication, and transportation, the lack of competition in the industry means that there is little to restrain companies from charging extortionate prices.

**URBANITES SCORN LEBED, WHILE RURAL VOTERS BACK HIM.** Governor Aleksandr Lebed's term in office runs until 2003. In the city of Krasnoyarsk, Lebed's popularity has fallen to a hopelessly low level. In the elections to the city soviet last December, his *Chest i Rodina* party won just 1.7 percent of the vote, while Krasnoyarsk Mayor Petr Pimashkov's organization won 34 percent and Bykov's Bloc won over 40 percent.

However, it appears that Lebed remains popular in the rural areas of the krai, where issues such as electricity tariffs are of lesser importance and the opposition media operating in the city are largely unavailable. A recent survey of krai inhabitants carried out by Russian Center for the Study of Public Opinion (VTSIOM) tells a very different story to the city soviet results: 44.9 percent of those who intend to vote said they would back Lebed, with former Governor Valerii Zubov a distant second at 10.1 percent and Anatolii Bykov third with 6.8 percent. A more complete picture of Lebed's popularity across the krai will be available this December with elections to the krai's legislative assembly.

**LEBED AND BUSINESS: DIFFICULT RELATIONS.** Perhaps the main task for Lebed in 2003 will be ensuring the support of the businesses operating in the krai. Under Lebed's governorship, all the major enterprises in Krasnoyarsk krai have fallen into the hands of major Russian companies which operate on a federal level. And in the krai's two autonomous okrugs-- Taimyr and Evenkia -- recently elected governors are representatives of Norilsk Nickel and Yukos, respectively. As was the case with Roman Abramovich in Chukotka, the poor and sparse populations of these regions were unable to resist the appeal of a big-businessman who promised to inject his company's own money into the economy and lobby for the populations' interests.

But it remains to be seen how these oligarch-governors will exploit their newly-gained political power. It seems that the oil company Yukos is interested in Evenkia because that region holds some promising oil deposits, and Governor Boris Zolotarev has little interest in rocking the boat politically. But the situation is more complicated in Taimyr. Geographically speaking, Taimyr is home to the Norilsk Nickel factory, but administratively the city and factory belong to the krai. The issue of how to divide up the 1.6-1.8 billion rubles (around \$55 million) in taxes the factory pays each year has been much discussed in the local media over the past few months. As it stands, 50 percent of this money goes to Norilsk, 25 percent to Taimyr, 12.5 percent to the federal budget, and 12.5 percent to the krai. Taimyr's legislature and the administration headed by ex-Norilsk Nickel executive Vladimir Khloponin have been using this issue to make separatist noises, and there was talk over the summer of rediverting Norilsk's 50 percent share to the Dudinka raion which is part of the okrug. This was the cause of much polemic in Krasnoyarsk's media.

There has been some suggestion that Khloponin covets the position of Krasnoyarsk governor. If so, any attempts to divert taxes away from the krai to the okrug would not boost his popularity in Krasnoyarsk. This might explain his recent announcement that there will be no change after all to the way the money is distributed. If Khloponin decides to run for governor, he will have the vast resources of Norilsk Nickel and Vladimir Potanin's Interros group at his disposal.

The other major company with a significant stake in Krasnoyarsk krai is Russian Aluminum. The vast new aluminum holding headed by Oleg Deripaska now controls not only the Krasnoyarsk Aluminum Factory but also the Achinsk Alumina Factory (AGK) which supplies it with raw materials. The manner in which the holding wrested control of these enterprises from local oligarch Anatolii Bykov has outraged local opinion, and it was widely believed that the governor was complicit in the takeovers. However, if there ever was a genuine alliance between the governor and Russian Aluminum, it has proved short-lived. The issue of energy tariffs, which was a contributing factor in the rift between Lebed and Bykov at the end of 1998, has now led to a dispute between the governor and the new owners of KrAZ. The fact is that aluminum production is a vastly energy-intensive process. KrAZ alone counts for over 50 percent of the krai's total electricity consumption (*Segodnyashnyaya gazeta*, 10 May).

It was precisely to provide abundant electricity for the plant that the huge hydro-electric power-station (GES) at nearby Divnogorsk was constructed during Soviet times. The chain of production which included cheap electricity (GES), alumina (AGK) and processing into aluminum (KrAZ) was relatively unproblematic under the planned economy. But with privatization, the links in the chain fell into different hands. It was Bykov's ambition to reunite this chain under the auspices of his financial-industrial group TaNaKo, but Governor Zubov and his successor Lebed both ultimately took fright at the idea of Bykov gaining so much economic power. It is not surprising that Russian Aluminum now wants to establish the same chain of production. The company even owns a 70 percent share in the hydro-electric dam, but Unified Energy System (EES) will not allow KrAZ to buy cheap electricity directly from the dam. Perhaps the biggest threat to Lebed's political future in the krai will arise if Russian Aluminum decides to field its own gubernatorial candidate in order to obtain more leverage over EES.

Bykov is now languishing in jail in Moscow, accused primarily of organizing the attempted murder of his former colleague Pavel Struganov. Eduard Limonov, the maverick writer and leader of the National Bolshevik party, recently published a book entitled "*The Hunt for Bykov [Okhota na Bykova]*" which paints a rather idealized picture of the man. Limonov sees him as a victim of the machinations of the FSB and

oligarchs such as Deripaska and Abramovich. Ironically, since writing the book, Limonov has himself wound up in Lefortovo prison for ostensibly unrelated reasons.

There is certainly considerable sympathy for Bykov in Krasnoyarsk. Even those who readily admit that he was a bandit express outrage at the way he has been treated by Lebed and the law-enforcement agencies. Once a realistic candidate for governor of Krasnoyarsk, Bykov now appears to be finished: the immunity granted to him as a legislative assembly deputy was lifted by the Supreme Court (*Kommersant*, 18 August), and his remaining 28 percent stake in KrAZ is about to be diluted by Russian Aluminum in a new share emission (*Vedomosti*, 7 August).

**LEGISLATURE INDEPENDENT OF LEBED.** Unlike most regional parliaments, Krasnoyarsk Krai's Legislative Assembly is strikingly independent of the regional administration. While some deputies attribute their freedom to the administration's incompetence, it may also be due to the fact that, as in the State Duma, half the assembly's seats are elected from party lists and half from single-mandate districts. This means a greater role for political parties (some of which, such as the Communists and Yabloko, are active on a federal level), which are less easily co-opted by the administration than are "independent" candidates.

Federal parties have shown considerable interest in the political situation in the krai. The LDPR, which gave Anatolii Bykov the number 2 slot on their party list for the State Duma election in 1999 (only to have the entire list rejected by the Central Election Commission), sent high-level delegations to KrAZ and the Achinsk Alumina Factory in a failed attempt to defend them from takeover. The Union of Rightist Forces (SPS) arrived recently to campaign for the forthcoming legislative elections. SPS representatives spoke out against Krasnoyarskenergo's bullying tactics, which places them in an odd situation given that EES head Anatolii Chubais is a senior member of the party. And in mid-August, Yedinstvo leader Sergei Shoigu came to Krasnoyarsk. According to local radio station "Avtoradio", he asked Krasnoyarsk Mayor Petr Pimashkov and recently demoted Norilsk Nickel executive Dzhonson Khagazheev to head the Yedinstvo campaign in the forthcoming elections. The same report stated that parliament speaker Aleksandr Uss also met with Shoigu, but failed to enlist the party's support. Nevertheless, Uss enjoys considerable respect in the krai and it is too early to rule him out as a potential candidate for governor.

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**CENTER-PERIPHERY RELATIONS**

**COMMISSION ON DIVIDING POWERS MEETS IN YEKATERINBURG.** At the end of August Presidential Representative to the Urals Federal District Petr Latyshev chaired the first meeting of the Urals Federal District commission that will pass on recommendations to Dmitrii Kozak's federal commission charged with dividing powers between federal and regional governments. While it is too soon to say what kind of recommendations the commission will prepare, the membership of the commission has caught the attention of local politicians. Most notably, the commission lacks a representative from the administration of Sverdlovsk Governor Eduard Rossel, who has a conflictual relationship with Latyshev. (see *EWI Russian Regional Report*, 29 August for a report on a similar commission in Irkutsk)

Rossel's absence is not by chance. The Sverdlovsk governor has long been opposed to a powerful federal presence in the regions. He won election as governor in 1995 by exploiting this theme and in 1996 Sverdlovsk Oblast was the first oblast to sign a power-sharing treaty with the federal government.

Moscow played a role in making sure that Rossel did not participate in the commission since the federal authorities do not like his positions on the division of power. Rossel's exclusion is a further signal that the federal government plans to do away with the power-sharing treaties

with the regions that were signed during the 1990s. Regional leaders who have spoken out against these treaties, such as Samara's Konstantin Titov, Ulyanovsk's Vladimir Shamanov, Novgorod's Mikhail Prusak, and Chelyabinsk's Petr Sumin, are being included in the process. While Rossel is not participating in the commission, his long-standing political opponents, such as Yekaterinburg Mayor Arkadii Chernetskii and Oblast Duma Chairman Yevgenii Porunov, are working within its framework. - Sergei Pushkarev in Yekaterinburg

## **PATTERNS OF REGIONAL DEVELOPMENT**

### **COMMUNIST NIZHNIi NOVGOROD GOVERNOR SETS NEW COURSE.**

Communist Nizhnii Novgorod Governor Gennadii Khodyrev's accession to power has been relatively difficult. The "new" governor who ruled Nizhnii Novgorod Oblast from 1989-1991 as the head of the oblast Communist Party did not have a clearly defined program or team of deputies when he took office. Moreover, he must quickly deal with such pressing problems as gathering the harvest and preparing the oblast for winter.

On coming to power, Khodyrev has made some key personnel changes in the oblast. Despite his decision to suspend his Communist Party membership, he appointed Communist Party of the Russian Federation (KPRF) Obkom First Secretary Vladimir Kirienko as his chief of staff (Vladimir Kirienko is not related to Presidential Representative Sergei Kirienko).

After his defeat, former Governor Ivan Sklyarov asked for the resignation of practically all ministers and department directors in his cabinet. The newly-elected Khodyrev entered a nearly empty regional administration building and denounced Sklyarov's move as "sabotage."

Nevertheless, Khodyrev charged that there had been "stagnation" in the oblast for the previous ten years because of a lack of turnover among the staff. During his campaign, he promised to replace a large part of the staff and drastically reduce the size of the bureaucracy. Among the officials leaving are those who were in charge of social policy, property, health care, fuel and energy, housing, culture, and agriculture. According to a poll conducted by a Volga television station, about 90 percent of oblast residents want complete turnover in the governor's staff.

With the return of Nizhnii Novgorod's former Communist leader, the elections demonstrated that the local elite could not produce young leaders capable of winning the region's highest office. The recent influx of Russian companies, which have bought up Nizhnii Novgorod's major enterprises, has demonstrated a similar lack of young leaders in the regional business community (see *EWI Russian Regional Report*, 16 July). As a result, Khodyrev is turning to Moscow as a source of civil servants. Thus, Khodyrev appointed Muscovite Yurii Sentyurin as the oblast minister for industry and innovation. Sentyurin had worked for Kodyrev in 1998-1999 when Khodyrev headed the anti-monopoly ministry in former Prime Minister Yevgenii Primakov's government. He is currently studying the situation in the oblast, but has already said that he sees his main task as increasing the tax payments of local enterprises. Khodyrev is also seeking a finance minister from the staff of the Russian Finance Ministry, rather than appointing a local person.

It is still too soon to say what Khodyrev's policies will be toward industry and business, but in the anti-monopoly ministry, he dealt with small and medium businesses and will likely pay

special attention to these issues in his current position. He expressed unhappiness with the work of the oblast administration's Department for the Support and Development of Entrepreneurship, arguing that the department should have more power, independence, and responsibility. Currently, the department has an annual budget of one million rubles, reflecting its low level of authority, according to Khodyrev. The governor plans to create a pool of money, which will provide guarantees to commercial banks which make loans to support businesses.

In regard to the oligarchs, Khodyrev announced that he "does not like" the policies of Oleg Deripaska at the Gorkii Automobile Factory (GAZ), the largest enterprise in the region. He criticized the automobile factory's new owners for ending various types of social support (day care centers, hospitals, etc.), firing 20,000 employees, and failing to raise worker salaries as planned. The governor complained that the factory benefited from many tax benefits and did not pay the taxes that it was supposed to pay. The directors of the factory said that the governor was poorly informed about the real situation at the plant.

In another statement, Khodyrev called on enterprises whose takeover was threatened by outside forces to seek help from new Industry Minister Sentyurin. It will be interesting to see if Khodyrev changes his attitude toward outside companies in light of regional enterprises' great need for investment. - Viktor Persin in Nizhnii Novgorod

## **LOCAL GOVERNMENT**

**LOCAL GOVERNMENTS BECOME A POLITICAL FORCE IN KOMI.** Until recently, local government has not played a major role in Komi. The republican authorities did everything possible to prevent it from having political or economic power. According to the republic's 1994 constitution, the president appointed mayors. In 1998, under federal pressure, the republic adopted a law on local government that required local government to elect their executive from the members of the local legislature, but only at the recommendation of the republican president. Despite federal efforts to improve the situation, the new law continued to violate federal norms. Elections under this scheme took place in 1999. But even this law was not fully implemented. In two cases, republican leader Yurii Spiridonov sought the election of his own people even though voters had refused to elect them to their local councils.

Despite these harsh conditions, local governments have begun to assert themselves in 2001. On 16 April, the Izhem Raion Council voted to remove the republican president from the list of people who could nominate mayoral candidates for the raion. Now, according to the raion's charter, only deputies of the raion council and local voter groups representing no less than 5 percent of the raion's voters have the right to nominate mayoral candidates (*Molodezh severa*, 26 April).

In June the conflict between Ukhta Mayor Aleksandr Martsinkovskii and the members of the city council became so heated that the deputies voted to remove Martsinkovskii from office even though Spiridonov was present in the room to support the mayor. In Martsinkovskii's place, the council elected Yevgenii Ippolitov, a representative of LUKoil (*Tribuna*, 29 June). Additionally, the Ukhta deputies are now developing a new agency called the Municipal Council that will monitor the financial activities of the city administration. This step is particularly important because the Komi Republic is one of the few Russian regions where there is no Audit

Chamber. Spiridonov and his allies in the republican parliament are actively working against the creation of such a council.

The Kortkeros Raion Council's decision to block a referendum to elect the mayor by direct popular vote is also important. Svetlana Chernaya, who defeated Kortkeros Mayor Nikolai Livson for a seat in the republican parliament in the 1999 elections, and a group of citizens sought the referendum, which would have deprived the deputies of the right to elect the mayor. In rejecting the referendum, the council expressed its political loyalty to Spiridonov, who will seek a third term in elections set for 16 December. The deputies feared that the process of collecting signatures in support of the referendum would be used by Spiridonov's opponents to organize opposition against him. Incumbent Mayor Livson claimed that the population would benefit more if the council elected the mayor because the mayor would be under direct council control (*Molodozh severa*, 23 August).

While local governments are becoming more politicized partly because of the upcoming republican presidential elections, another trend is more important: local residents are encouraging the council members to become more active. In the Izhem Raion, citizens concerned about the extraction of oil in the Sebys nature preserve, have organized a protest group to hold a local referendum on the issue. Similar moves are afoot in Kortkeros Raion.

Thus, in contrast to the assertions of the Russian press and some political scientists, the population is not apolitical or inactive. The example of Komi shows that such assertions are not true now and that a noticeable change is taking place in Russian political culture. - Yuri Shabaev in Syktyvkar

## **REGIONAL FINANCES**

**PERM PREPARES TO DEAL WITH LESS TAX INCOME.** Perm Oblast is in the process of revising its tax laws in light of federal changes in the Russian tax system. The federal government already has reduced the profit tax from 35 to 24 percent and is expected to make major changes in the way revenue from the use of natural resources is distributed. The change in the natural resource tax is expected to hurt Perm because it currently benefits from the tax revenue derived from a large resource endowment. In 2002 Perm's consolidated budget (combined regional and local budgets) is expected to be 7 percent smaller (meaning a loss of 1.5 billion rubles) due to changes in federal law.

When inflation is taken into account, the 2002 budget is expected to be only 87 percent of the 2001 budget and 81 percent of the 2000 budget. Currently, oblast planners are predicting a deficit of 15-18 percent. Thus, federal policies are destabilizing regional and local budgets and could lead to a new non-payments crisis and inadequate financing for social support to the population in 2002.

One response that Governor Yuri Trutnev's administration is considering is removing all tax breaks that the oblast currently offers on profit tax payments. Such a policy would make sense since many of the existing breaks were the result of lobbying by the previous governor and influential deputies in the regional parliament. In particular, local oil companies (LUKoil dominates the oblast) took advantage of investment tax breaks established in 1999 to cut their tax payments. The benefits are not the result of any systematic policy and thus create a chaotic



mess for oblast leaders as they try to overhaul Perm's tax policies. The administration must seek new sources of funds to cover the anticipated deficits next year. - Aleksei Rakintsev in Perm

**CHELYABINSK REGIONAL, LOCAL LEADERS CONCERNED OVER MONEY TO MOSCOW.** At a July meeting of the Chelyabinsk Oblast government, Governor Petr Sumin and the mayors of Chelyabinsk and Magnitogorsk blasted the current system for dividing tax revenue between the federal, regional, and local governments. Overall, the situation for the oblast budget is fine since income from taxes at all levels during the first half of 2001 grew by 1.3 percent over the same period last year to 15 billion rubles. However, the income from several taxes and in several parts of the oblast has dropped noticeably.

Only the federal budget is doing well overall, with revenue growth of 12.8 percent from Chelyabinsk Oblast in the first half of the year. Income from the taxes that make up the regional and local budgets has fallen. For example, profit tax collections are down 12 percent this year over last year. This drop is due to the 20.6 percent plunge in profits the oblast's enterprises experienced during the first six months of the year. The decline is particularly noticeable in the metals industry, which makes up much of Chelyabinsk's economy. Profits have fallen at the giant Magnitogorsk plant, which accounts for 47 percent of the profit Chelyabinsk enterprises receive, because exports are down considerably this year.

The Magnitogorsk plant makes up 90 percent of the budget for the city of Magnitogorsk. However, contributions from the plant to the city fell 12.5 percent in the first six months of this year. In the past, Magnitogorsk has accounted for 38 percent of the oblast budget, but now its share is down to 29.2 percent. As a result, the relative contribution from the city of Chelyabinsk to the oblast budget has grown from 37 to 41 percent. Sales tax and income tax revenue are also not meeting expectations.

Regional and local leaders are extremely unhappy with the way that tax revenue is being divided between the federal and regional governments. They argue that the current 60 percent federal, 40 percent regional division is unfair. They are seeking either a 50:50 division or a 35:65 spread in favor of the regional and local budgets, which they point out finance many national programs.

Some mayors are also unhappy with the way money is divided up within Chelyabinsk Oblast. Yuzhnouralsk Mayor Mikhail Shavrin complained that federal tax collections in his city grew 3.8 times in the first six months of the year, regional tax collections grew 2.8 times, while the local budget "only" received 90 percent more than it had during the analogous period last year.

Sumin does not hide the fact that there are problems. He complains that the federal government is taking more money than it did in the past, but tells the local governments that they must seek alternative revenue sources to make up for their own shortfalls. Currently, the laws regarding the distribution of money between levels of government are poorly written, so that the local governments believe that it is worthwhile to seek help from the governors and the governors continue to seek help from the president. However, it is not clear how the president will meet all these needs. - Igor Stepanov in Chelyabinsk

**KURSK CANNOT MEET ITS 2001 BUDGET; FEDERAL GOVERNMENT GETS MORE.** At an 8 August meeting, Kursk Governor Aleksandr Mikhailov and his deputies made clear that the region was far from meeting its revenue targets and that they were going to have redouble efforts to collect taxes. The oblast administration believes that it needs 12 billion rubles to finance minimal operations for the year, but it looks like the budget will only have 4 billion.

Currently Kursk is collecting the taxes that will go to the federal budget, but it is not collecting the taxes earmarked for the regional budget. After the first six months of 2001, the federal government received 47 percent of what it received last year. The main cause in the drop-off of regional tax collection is the drop in production the oblast is experiencing. During the first half of 2001, industrial output is 92.1 percent of production in 2000. This negative trend contrasts sharply with the overall trend in Russia, where growth is 105.2 percent, and with the situation in the majority of the regions in the central-Black Earth region. Kursk's key industrial sectors, energy, ferrous metallurgy, and the food industry, are in decline and other sectors of the economy are not growing quickly enough to make up for these shortfalls. In particular, the Kursk Nuclear Power Plant and the Mikhailov Mining and Processing plant, which make up 43 percent of all revenue to the budget, have suffered from much lower output. Thus the budget received only 1.3 billion rubles in the first half of the year instead of the expected 2.7 billion rubles.

As in the past, much of the problem lies in the regional branch of the Tax Collections Ministry, which is clearly giving preference to securing taxes owed to the federal government over those owed to the regional government. Thus the nuclear power plant owes 3 billion rubles to the oblast, but nothing to the federal budget.

The oblast budget also is losing money in a variety of other ways. Companies like Agrokholding have sought to minimize tax payments by registering in tax havens like Kalmykiya and Altai even though they are actually working in Kursk. The losses from Agrokholding alone have reached 15 million rubles. The budget also loses tax revenue from the use of mutual debt swaps as a way of trading raw materials in a variety of industries. Up to 84 percent of the raw materials used in sugar production are traded this way, 33 percent in meat production, 25 percent in sausage production, and large percents of other goods. These losses add up to 40 million rubles. The current governor also blames part of the problem on his predecessor, Aleksandr Rutskoii, who left a 2 billion-ruble debt.

The Oblast Duma has adopted a revised budget, the second for this year, to reflect the lowered income expectations. The governor's priorities will now be to improve tax collection, reduce the number of black market business transactions, and increase production. - Sergei Sarychev in Kursk

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Dear Readers,

We are still here! No EastWest Institute staff or family members were harmed during the World Trade Center attack, but our offices were closed Wednesday and Thursday since they are located in southern Manhattan. The building we share with the Audubon Society was not damaged. Now we are back in business and the next issue of the RRR will appear as usual on 26 September.

We hope that the recipients of the RRR are all safe and well. We send our sympathy to our many neighbors who lost family members or colleagues in the attack. We received numerous kind letters from our Russian colleagues and their support from afar made the situation here easier to put into context.

As some of the stories below indicate, the tragic events in New York had repercussion for Russia's regions despite their great distance from us. We hope that the events of the last few days will promote international efforts to address the conditions that led to the terrorist attacks and to prevent new cycles of violence. - The RRR Editors

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EastWest Institute  
Russian Regional Report  
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## **TERRORIST ATTACK IN NEW YORK AND WASHINGTON**

### **ON EVE OF ATTACK, KALMYKIYA REESTABLISH LINKS TO NEW YORK**

**KALMYKS.** The residents of Kalmykiya, an ethnic republic in the Southern Federal District, viewed the attack on the World Trade Center and Pentagon through the lens of a Kalmykiyan delegation, led by republican Vice President Valerii Bogdanov, that had just returned from New York. In the early part of September, the delegation celebrated the 50th anniversary of the presence of a Kalmyk Diaspora in New York.

Beginning in 1951, about one thousand Kalmyks who had been living in Germany immigrated to the United States. They and their descendants continue to live in the New York area. During the Soviet era, it was impossible for the Kalmyks in the Soviet Union and the US to communicate with each other. However, contacts have increased dramatically in the last decade.

Kalmykiya's newspapers have published the responses of officials and private citizens to the attacks. The overall tone is one of shock, concern for the victims, and worries about the spread of international terrorism.

While expressing concern for the innocent victims, some citizens viewed the events as a consequence of what they see as double standards some American politicians apply to terrorists. "When Russia is tensely fighting with international terrorism on its territory, several leaders in the West call the terrorists 'fighters for a free Ichkeria [Chechnya]," according to a remark published in *Ekonomika i zhizn* (14 September).

The events in America had a major impact on the activities of the power ministries over the last several days. Kalmykiya's police are now on higher alert. There are more officers on the street and they are guarding key sites. The republic's public transportation is now under greater observation in order to provide early warnings about possible terrorist attacks or other crimes and to ensure public safety. - Vladimir Volgin in Elista

**KOMI TAKES ANTI-TERRORIST MEASURES.** The terrorist attacks against the United States left people in the Komi Republic shaken. On the evening of 11 September the republic's inter-governmental anti-terrorist commission held an extraordinary session to discuss responses to the developments in the U.S. The presidential press service reported that Komi leader Yurii Spiridonov held a press-conference after the meeting in which he emphasized that an act of unprecedented terrorist violence had just taken place in which extremists are challenging the global community. He urged everyone to remain calm and stated that Komi, in keeping with presidential directives to the regions, will need to take additional measures to prevent terrorist activities and that law enforcement agencies will be placed on a higher level of

alert. He noted that federal law enforcement agencies based in the republic would take part in anti-terrorist programs. Law enforcement personnel told journalists that they would take a series of new steps to increase their preparedness (*Krasnoe Znamya*, 13 September).

Among these measures are increased monitoring at important installations, stockpiling of emergency food and fuel supplies in localities, and improved security at airports, railroads, and other transportation facilities. Because many international flights pass over Komi territory, the Aeronavigatsiya Severnogo Urala enterprise was asked to take additional steps to track their flight paths from the ground (*Molodezh Severa*, 13 September). Law enforcement agencies will hold training exercises and keep republican authorities informed about local developments.

In letters to local newspapers, Komi residents have expressed a wide range of concerns in response to the terrorist attack against the United States. One student wrote of his fear that recent developments would inspire Chechen terrorists to new action (*Krasnoe Znamya*, 13 September). Some were concerned about the economic impact of the attacks, particularly the consequences for the dollar exchange rate and local currency markets, while others reassessed their interest in emigrating to the United States. - Yuri Shabaev in Syktyvkar

**KARELIYA CALLS FOR MORE FUNDS FOR FSB.** "You have to keep your powder dry," Kareliya's leader Sergei Katanandov said on 12 September in announcing that the republic was following up on the Russian Security Council's directive to increase security at the republic's most vital installations, public areas, and hospitals. The republic's government also called on President Putin, the State Duma, and the Federation Council to take extraordinary legislative, organizational, and material measures to support Russia's military and security agencies responsible for conducting anti-terrorist activities, especially the Federal Security Service (FSB).

Katanandov pointed out that one year ago President Putin had warned the governments of all countries, including the USA, that terrorism does not recognize state borders. He then said that ignoring this new reality in which fanatics do not respect the value of their own or other's lives, would inevitably lead to catastrophe.

The police, FSB, and other agencies are now working at higher levels of security. There are increased requirements for building passes and the police are investigating cars left unattended on the streets of Petrozavodsk, especially those near administrative and public buildings.

The National Bank of Kareliya has implemented additional security measures, but is operating normally. According to Bank Chairman Leonid Filipev, the American tragedy will have an impact on the currency markets and will likely encourage European leaders to shift to the euro more quickly. - Maksim Timofeev in Petrozavodsk

## **THE STATE COUNCIL ONE YEAR LATER**

**GOVERNORS' BODY WIELDS LITTLE POWER.** The State Council marked its first anniversary on 1 September, one year after President Vladimir Putin created the body by presidential decree (*Rossiiskaya gazeta*, 5 September 2000). One year ago, commentators



described the State Council as a "consolation prize" for the governors who lost some of their powers as a result of Putin's overall federal reforms.

At the time, optimists saw the body as a new channel for direct communication between the federal government's leadership and the regional elite. Now, however, it is clear that the State Council does not play this role.

Rather, the Kremlin has found a new use for the ambitious regional elite, employing them in discussions of important social and economic reforms. By approving one plan or another, the regional elite effectively share responsibility with the federal government for its reforms. At the same time, the State Council's lack of power prevents the governors from forming an organized opposition since the Council has no real leverage and no ability to implement its decisions.

The 29 August meeting was characteristic of the State Council's sessions. The high level status of the body, with the accompanying reception hosted by Putin in the Kremlin, only underlined the governors' lack of interest in the topic under discussion that day: education reform. Despite the pomp attending the session, it was clear that at best the governors' views would be heard, though not necessarily taken into account. The federal government will implement education reform itself and has no interest in handing anyone else, including the governors, influence over this policy.

Nevertheless, the existence of the State Council in its current form has significantly influenced the balance of power within the federal government because it provides the governors with a forum for discussing important topics. Thus the Russian elite is familiar with such things as Khabarovsk Governor Viktor Ishaev's strategy for national development and Tomsk Governor Viktor Kress's plan for reforming the national electricity monopoly Unified Energy System, the results of the two of 16 working groups set up by the State Council presidium over the course of the year. However, the presidential administration carefully monitored the development of the State Council documents and actively intervened if it did not like some of the proposed concepts. Thus, the presidential administration cancelled Tatarstan President Mintimer Shaimiev's report on federalism because it did not like the tone of the contents. So far no document has been implemented beyond receiving a stamp instructing the government to take into account the State Council's desires.

In effect, the Kremlin has set up the State Council as a convenient counterweight to the government ministries that deal with financial and macro-economic issues. Many State Council members believe that these ministries push for liberal reforms without taking into account the potential destabilization of the social situation such reforms would engender. By setting up the State Council, Putin not only counterbalanced the government liberals, but found a way to slow the implementation of government initiatives that would be dangerous for his standing in Russia's public opinion polls.

Most leading political players see the State Council as a "transitional body," whose powers will ultimately be clarified. Despite rumors that the State Council will be given constitutional status, it continues to function on the basis of Putin's decree and could be abolished at any moment.

The uncertainty surrounding the future of this institution is stimulating a battle among various groups who hold different views of its purpose. The governors currently in the Council

believe that they should play a much larger role in determining federal policy. The members of the presidential administration who coordinate the State Council (especially Aleksandr Abramov) and big businesses with serious interests and influence in the regions also seek to increase the importance of the State Council. They are not interested in amending the constitution, but in adopting a federal law on the State Council. Once the institution has a legal basis, it will be possible to determine its future within the Russian state system. Other groups, such as the new members of the Federation Council (seeking to be the only representatives of the regions in the federal government, not counting the State Duma deputies) and the financial and macro-economic government ministries, are seeking to weaken the State Council, even to the point of abolishing it.

Both the supporters and foes of the State Council believe it is necessary to determine the status and powers of its members. So far, the presidential administration has only focused on the material aspects of this question and, after long debates, provided travel money for the members. However, the members of the State Council presidium have complained frequently that the government ministries and agencies are not interested in listening to their views or in helping prepare State Council documents.

Most governors are willing to play by the rules dictated to them. They see the ability to meet with the president as compensation for their complete lack of influence over federal policy. Some of the most active State Council members include Moscow Mayor Yurii Luzhkov and Tatarstan President Mintimer Shaimiev, regional leaders the Kremlin is trying to remove from the national stage. Their speeches on major issues facing Russians attest to their national ambitions. While they do not enter into open conflict with the federal authorities and the president, they often criticize federal policy.

The main beneficiary of the status quo is Putin, who does not want to either strengthen the power of the governors or abolish the State Council, which he believes can still be useful. Thus, the State Council will most likely retain its current status and role in Russian politics. - Pavel Isaev in Moscow

## **EXECUTIVE-LEGISLATIVE RELATIONS**

**TVER GOVERNOR, LEGISLATURE CONTINUE TO FIGHT.** At the beginning of the fall political season, the conflict between Tver Governor Vladimir Platov and his political opposition in the Tver legislature has come to a dead-end. Under pressure from the governor's office, the legislature is effectively paralyzed and will be unlikely to adopt any serious legislation before December, when there will be new legislative elections.

On 28 June, the legislature removed the pro-governor speaker, Vyacheslav Mironov by a vote of 19-5 with four abstentions. The opposition deputies then elected Aleksandr Gribov as acting speaker. The local media described the move as payback by powerful Tver business groups led by Union of Industrialists and Entrepreneurs head Sergei Potapov, who ran against Platov in the last gubernatorial elections, for Mironov's cooperation with Platov. The decisive event for the business leaders was Mironov's decision to block the adoption of a new oblast charter that would have significantly reduced the governor's power at a time when he was

implementing reforms to strengthen his own base. Platov's moves would have strengthened the position of Moscow business interests thereby weakening the power of the local "oligarchs."

With the governor's backing, Mironov was able to win back his chairmanship through the courts. Marina Gudkova, a judge in the city court's Central Raion overturned the legislature's decision to remove Mironov on 16 July. Court bailiffs then helped Mironov reclaim his office (*Veche Tveri*, 17 July). Although the court restored Mironov to power, it did not remove Acting Speaker Gribov, creating a strange situation in which there is a sitting speaker and an acting one. The oblast court dealt with this logical inconsistency on 13 August, removing Gribov from office. Several issues remain unresolved in the case, and it is possible that it will eventually reach the Supreme Court (*Veche Tveri*, 7 September).

Admitting that he was not in a position to carry out his duties as the speaker, Mironov announced that he was going on leave until the December elections. According to the local press, the pro-governor members of the legislature will use their votes to block any attempts by the legislature to elect a new speaker or make changes in the oblast charter. The governor's opposition wants to amend the charter to prohibit oblast mayors from seeking a seat in the legislature. The mayors often use their votes in the legislature to support the governor's position.

The governor is working now to elect a strong pro-governor majority in the oblast legislature. In response to his tactics, the opposition could torpedo his budget for 2002. Either way, the conflict between the governor and the deputies is doing little good for the oblast and it seems unlikely that the political elite will engage in any constructive work in the interests of the region in the near future.

Federal Inspector for Tver Oblast Vladislav Kosenko remains sharply critical of Platov. In an interview with *Veche Tveri* (15 September), Kosenko blasted the governor for neglecting his duties since he rarely reports to work. He also accused the governor of starting the crisis in the oblast legislature by trying to force his will on the deputies. Additionally, he accused Platov of being unable to secure heat and hot water for oblast residents in his negotiations with Unified Energy System Director Anatolii Chubais. Moreover, he suggested that criminal charges should be filed against several unnamed administration officials in a recently announced case dealing with the delivery of fuel to the region. - Boris Goubman in Tver

## **NATURAL MONOPOLIES AND THE REGIONS**

**GOVERNORS STAND UP FOR ALUMINUM INTERESTS.** The Siberian Ural Aluminum Company (SUAL) claims that it lost \$1 million in August because on 20 July the Russian Anti-Monopoly Ministry raised the prices that the railroads could charge for transporting bauxite and alumina by 100 percent. The ministry adopted the higher rates to compensate the railroads ministry for losses it incurs in import and export operations. Although they have plenty of cheap electricity, Russia's aluminum smelters generally do not have sufficient supplies of domestic raw materials and must import 60 percent of their raw materials from abroad. The ruling hit SUAL particularly hard because it primarily uses domestic supplies of bauxite and alumina. The increased railroad prices made it unprofitable to develop Russian sources of these materials and would have undermined SUAL's domestic mining investment program.

With the help of several governors, the mining industry was able to overcome this crisis. The governors of Sverdlovsk, Irkutsk, and Komi successfully appealed to the government, seeking to overturn the Anti-Monopoly Ministry's decision. Komi leader Yurii Spiridonov, in whose region the bauxite and alumina are mined, was particularly effective in pointing out the importance of developing the deposits for the region as a whole.

The governors were able to overcome the interests of the railroad monopoly in this case. On 29 August the Russian government's Railroad Price Setting Commission called on the ministry to change its decision, which it did on 4 September. As the governors sought, the factories are continuing to work, providing tax revenue to the oblast budget, developing their regions' social infrastructure, and providing jobs for hundreds of thousands employees. The governors pointed out that their action supported local factories, worked in the interest of a national corporation (SUAL), and secured the future of the domestic mining industry.

Even without the 20 July increase, railroad transportation costs increased 2.8 times between January 2000 and August 2001. SUAL is investing in the exploitation of the Sredne-Timan bauxite deposit in the Komi Republic. During the last three years, it has sunk \$70 million into the project. If the tariff increase had remained in place, bauxite and alumina production at the site would have been unprofitable and Russia's aluminum smelters would be forced to buy all of their raw materials abroad. - Teleinform in Irkutsk

## **ETHNIC ISSUES**

**BASHKORTOSTAN, NATIONALITIES MINISTRY DISAGREE OVER NATIONALITIES POLICIES.** At the end of August, President Putin took the latest step in strengthening federal control over the regions by establishing territorial branches of the federal Ministry for Federal, National, and Migrational Issues in Russia's 89 regions (*Rossiiskaya gazeta*, 29 August). The ministry also set up a branch office in each of the seven federal district capitals. The ministry will not only serve as the "hand" of the center in the regions, but as its "eyes and ears" as well. The ministry's functions will be to analyze the "political, socio-economic, and cultural situation in each region and the local governments on its territory," sending the center appropriate information and recommendations. Additionally, the branch offices will coordinate the actions of regional governments in the fields of federal relations, nationalities policies, local government, and migration policies. They also will summarize how federal legislation on these issues is being implemented. The branch offices will carry out general monitoring and other functions.

This Kremlin innovation shows that the presidential administration is continuing to impose a centralized system of government on the country, even though high-level officials admit that Russia no longer faces the threat of imminent collapse. Most likely, Putin partially blames the strong regional leaders for weakening the federal state during the 1990s, and in contrast to his predecessor Boris Yeltsin, intends to monitor the policies being carried out in the regions.

Just before the publication of the presidential decree on the ministry on 29 August, Federal, National, and Migrational Issues Minister Aleksandr Blokhin flew to Bashkortostan to discuss with Bashkortostan President Murtaza Rakhimov how the federal ministry would coordinate with the republican Ministry for Nationalities Policy that Rakhimov had created at

the beginning of August. During the meeting, the Bashkortostani leadership sharply criticized the work of the federal ministry. The republican authorities are angry that they must finance measures to preserve the national cultures of non-titular peoples living in Bashkortostan, including Russians, Tatars, and other ethnic groups that have their own regions in Russia. The republican leadership made clear to Blokhin that if the federal government wanted to preserve stability in the republic, then the federal ministry would have to pay for efforts to support these non-titular groups. The republican leadership gave the same message to Putin when he visited the republic at the beginning of June and asked Blokhin if Putin had not passed on its input. In response, Blokhin said that the republican leadership should pay for the development of all ethnic groups living on its territory, not just those of the Bashkortostanis. Blokhin said that such measures were in Bashkortostan's interests because "a stable region will be more attractive for investment." - Igor Rabinovich in Ufa

## **CORRUPTION**

### **VLADIVOSTOK MAYOR'S OFFICE STRIPPED OF RIGHT TO SELL**

**PROPERTY.** At the request of the Vladivostok procurator, a Vladivostok court has ruled that from now on the city's Duma, and not the mayor's office, will set the rules for selling municipal property. The court overturned the section of the city charter that gave this power to the mayor and instead assigned it to the city Duma.

The move comes too late in many cases. During the last two years, Mayor Yurii Kopylov's administration has managed to sell off 116 properties, with 114 going to private citizens. In the other two cases, properties were sold to corporations at extremely low prices. Thus, for example, the space of the former store Kooperator Primorya, with 1,400 square meters of space, was sold for \$16,000, even though its market value is closer to \$450,000.

The organizers of these sales did not have any difficulty securing the prices they wanted at public auctions for their insider clients. The organizers took all measures to insure that no outsiders found out about the auctions in advance. They published information about the auctions in newspapers with extremely small print runs and printed them in fine print among so many other ads that it was nearly impossible to find them. Just in case, the organizers purchased all copies of these newspapers at the printing house to insure that they were not distributed among the public.

During the last six months, the city received only 78 million rubles for its property sales, an extremely small amount, according to Yevgenii Raznik, the chairman of the City Duma's Commission on Economic Policy and Municipal Property.

Mayor Kopylov is now being investigated for illegally distributing apartments and the tax police have ordered him not to leave town. The procurator has accused seven other city officials of selling city property too cheaply, abusing their office, and falsifying documents. It plans to start a court case after informing the accused of the charges against them. These crimes allegedly cost the city 27.5 million rubles.

Kopylov's administration had the backing of former Governor Yevgenii Nazdratenko, but does not have the support of the new governor, Sergei Darkin. This winter, there will most likely be a battle to control the mayor's office. Kopylov's opponents will most likely use the

criminal charges and traditional problems with heating the city against him. Observers believe that Darkin will try replace Kopylov with First Deputy Governor Aleksandr Linetskii, a long-time Darkin associate. - Oleg Zhunusov in Vladivostok

**FORMER KURSK OFFICIAL FACES CHARGES...** On 3 September, the Lenin Raion court in the city of Kursk began the trial of former Kursk Oblast Prime Minister Boris Khokhlov, the third and final person to occupy this position during the governorship of Aleksandr Rutskoï. Prosecutors have charged Khokhlov with embezzling large sums of money and overreaching his powers. He faces penalties ranging from insignificant fines to ten years incarceration with confiscation of his property.

The first of two charges involves a deal between the Kursk Nuclear Power Plant and the Moscow trading house Premium in September 1998, when Khokhlov worked as deputy general director at the plant. Prosecutors charge that Khokhlov embezzled 8.6 million rubles that was intended for the purchase of fuel oil. At that time Khokhlov was one of the richest and most influential businessmen in the oblast.

The second charge involves a crime that allegedly took place when Khokhlov was a public official. Prosecutors claim that he illegally sold a large share of the local alcohol factory. Before becoming prime minister, Khokhlov already controlled the production and sale of alcoholic beverages in Kursk and today owns a controlling stake in the Kursk liquor factory. Additionally, his son, born in July 1999, owns a 20 percent share. The courts will have to work through the complexities of this family-dominated ownership structure to figure out exactly what happened in the case.

Many of Khokhlov's other relatives were also active in the petroleum products market, owned casinos, or worked in businesses connected with insurance, medicine, construction, and security. For example, Khokhlov and his closest relatives own the largest restaurants in Kursk. Khokhlov's restaurants are feeding him while he is in jail and his relatives are attending the court hearings to offer additional support. Many observers believe that Khokhlov will not face serious punishment because his lawyer is the chairman of the collegium of lawyers in Kursk Oblast, Aleksandr Derenkov. - Sergei Sarychev in Kursk

**... AS DOES FORMER SMOLENSK DEPUTY GOVERNOR.** On 20 August, a Smolensk court began hearing the case against former Smolensk Deputy Governor Yurii Balbyshkin. In a complicated case that involves 13 books of evidence and 62 witnesses, prosecutors charge that Balbyshkin improperly used his authority as deputy governor to secure the illegal sale of liquor factories that had been state property. The charges against Balbyshkin developed as a result of the investigation into the murder of Sergei Kolesnikov, the director of Bakhuis, a large alcoholic beverage distributor (see *EWI Russian Regional Report*, 1 November 2000). Balbyshkin, who allegedly put heavy pressure on Kolesnikov to secure the sales, faces charges for abusing his office and tax evasion.

Many witnesses have refused to testify in the case, fearing that they will be murdered for doing so. Governor Aleksandr Prokhorov has taken leave, claiming that he does not want to interfere in the court's work. Among the witnesses refusing to cooperate are several oblast administration officials.

On 31 August the court released Balbyshkin from custody after he signed a statement saying that he would not leave the area while the case continues. He had been held since October 2000. On being released from prison, Balbyshkin said that he was not guilty of any of the charges against him. Local observers believe that Balbyshkin's release from prison means that the case is likely to be dropped soon.

Many influential figures in the Smolensk Oblast administration and business community are interested in ending the case. One of these is Viktor Derenkovskii, a prominent businessman with a reputation for honesty, who has allegedly purchased three alcoholic beverage factories illegally. Derenkovskii plans to run for the Smolensk governor's office and wants to end this case quickly since it could spoil his reputation. He has returned the factories in question to the state. Local observers believe that Balbyshkin's defenders will overwhelm those who want to continue the case against him. - Arsentii Ledovskoi in Smolensk

\*\*\*\*\*

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**REGIONAL RESPONSES TO TERRORIST ATTACKS IN THE UNITED STATES**

**ULYANOVSK FSB ADDRESSES LOCAL CONCERNS.** One day after the major terrorist attacks in the United States, the Ulyanovsk FSB held a press conference to respond to numerous questions from citizens with concerns about the vulnerability of the region to terrorism. In Dmitrovgrad, the second largest city in the oblast, there are several nuclear reactors, and Ulyanovsk has many strategically important areas, including the UAZ automobile factory, the Aviastar aircraft plant, two airports, and military industrial enterprises.

The director of the Ulyanovsk FSB, Leonid Zubarev, told journalists that all necessary measures were being taken and that the security services were in a heightened state of alert. Airports and key installations were under protection. The FSB claimed that anti-terrorist measures are implemented continually and are not taken in an ad hoc way, in response to individual acts of terrorism. Zubarev noted that Russian domestic flights have better security than is typical of the United States.

Zubarev refused to comment on the activities of American law enforcement agencies, but noted that the recent terrorist acts were part of a chain of events, beginning with bombing of Hiroshima, and including Soviet involvement in Afghanistan, and American assistance to the rebels. According to Zubarev, the roots of the recent terrorist acts stem from events in Afghanistan decades ago. He stated that Americans failed to understand the nature of the security threat facing their country. "It is possible to develop a powerful missile and air defense, but if the United States had just a single agent in Bin Laden's group, this would have been much cheaper."

The Ulyanovsk FSB director rejected outright a report from a local tabloid, which relied on an anonymous FSB source to support a claim that a terrorist named Abdullah had been trained at an Ulyanovsk flight academy. In the 1980s thousands of students from Syria, Yemen, and Egypt were trained to fly Tu-154 and Il-76 planes. Another daily newspaper, *Zhizn v Ulyanovske*, reported on 18 September that Tarik bin Laden, Osama bin Laden's younger brother, visited Ulyanovsk in 1991 as the emissary of the Saudi Arabian prince to attend festivities in honor of the constructions of a mosque, for which he contributed \$20,000. - Sergei Gogin in Ulyanovsk

**SARATOV GOVERNOR URGES RUSSIAN ORTHODOX REVIVAL.** "Renew the Russian Orthodox faith!" announced Governor Dmitrii Ayatskov at a meeting of the Saratov Oblast administration in response to the unprecedented terrorist attacks in the United States (*Reporter*, 15 September). Previously Ayatskov stated more than once that Russian Orthodoxy in Saratov and elsewhere in Russia was beginning to be supplanted by other faiths. After the tragic events in the United States, the Governor's words took on new meaning, i.e. the "revival" of Orthodoxy as a part of the struggle against Islam.

Judging by Governor Ayatskov's speech, the fight against terrorism involves above all a struggle against Islam. He appears to be unconcerned by the separation of church and state in Russia. "While the church and the state may be separated, the people are one," said Ayatskov, noting that in Saratov 85 percent of residents are Russian Orthodox. The Governor openly called on the citizenry to struggle against "adherents of Islam, Hari Krishna, and other sects" and stated that "every citizen must play an active role in the revival of Russian Orthodoxy."

At the same time, Imam Mukaddas Bibarsov, head of the Volga region branch of Muslims of Russia, whose headquarters is in Saratov, called the terrorist attacks a challenge to all humanity. He stated that "people who maintain faith in God are not capable of such evil acts." (<http://vrs.ru/>, 19 September) "Against the background of this tragedy, we regretfully noted that the Russian portrayal of the terrorist attacks provided an opportunity for some politicians to implicate the entire Moslem world and all Muslims, regardless of the fact that the victims were of all faiths," said the Imam. "We believe that the terrorists who carried out these horrible evil actions, cannot be considered to be believers in any religion, irrespective of their claims. No matter what U.S. policies can be criticized for, there is no justification for engaging in terrorist acts and causing the death of innocent people."

It was actually a Russian ultra-nationalist group, Russian Party, which staged a small demonstration in a Saratov park in support of the Taliban against the American aggressor. The demonstration only attracted ten supporters and was dispersed quickly. - Yuliya Eliseeva in Saratov

## REGIONAL ELECTIONS

*In previous issues, the RRR has shown that President Putin uses electoral reforms to reduce the authority of governors and enhance federal control over regional political processes (See EWI Russian Regional Report, 29 August and 9 July). The new federal law on political parties adopted on 11 July, 2001, for example, will reduce sharply the number of regionally-based parties that are able to field candidates. According to the new law, only parties with more than 10,000 members that have been registered in more than half of Russia's 89 regions have the right to participate in elections. The articles below explore the potential impact of a new draft law on regional elections and the effectiveness of regional legislatures.*

### EXPERT ANALYSIS: THE FUTURE OF REGIONAL ELECTORAL REFORM

By Vladimir Gelman in St. Petersburg

During the State Duma's summer recess, Central Election Commission President Aleksandr Veshnyakov announced a new draft bill on electoral rights. Compared with the 1994 law (amended in 1997), this draft contains several innovations. The most important is the provision mandating that half of the deputies in regional legislatures should be elected by proportional representation and half by party lists, as is the case in the State Duma.

This reform, if implemented, has the potential to create a fundamental change in the political landscape of the regions. Currently political parties play an extremely modest role in regional politics. Political parties sponsor only 20 percent of regional deputies. Since the defeat of the so-called governors' bloc, "Otechestvo-Vsya Rossiya," in December 1999 State Duma elections, most of the governors have preferred to stay away from party politics. Political parties now exert very little influence over the composition of regional administrations or over regional decision-making.

Parties have two main competitors in the regions: independent candidates and regional political associations. Although parties still do not play a major role within the legislatures--as is attested by the experience of the State Duma and of regions like Krasnoyarsk Krai and Sverdlovsk Oblast where such reforms already are in place--if the draft were approved, then independent candidates would be eliminated. In single-mandate districts, typical of most regions, voters would face a choice among candidates proposed by party lists.

Regional electoral associations (for example Transformation of the Urals in Sverdlovsk, the Lebed-Yavlinsky bloc in Novosibirsk Oblast or the Yurii Boldyrev bloc in St. Petersburg) provide another source of competition for political parties. Nevertheless, the new federal law on political parties only allows national parties to field candidates in regional elections. Moreover, the new draft law would forbid political parties from selecting names of individuals as the party's designation.

The proposed electoral reform could alter the functioning of the activities of regional parliaments, by increasing the number of deputies and the proportion of party-affiliated members who are less likely to hold second jobs. Currently most regional

legislatures are not staffed adequately to handle necessary legislative and political functions. According to L. Golosov, a St. Petersburg political scientist, the average regional legislature only has 39 deputies, sufficient for an area with approximately 60,000 residents.

Nevertheless, the fate of the new bill on electoral rights, not yet presented to the State Duma, depends on the president. The Kremlin's position will not only reflect an interest in strengthening parties as a whole but also in strengthening the influence of the presidential party, the alliance between Yedinstvo and Otechestvo. Governors, on the other hand, are less interested in supporting national parties and more concerned about having controllable legislatures elected. Above all the governors are concerned about their own reelection prospects--in only a few regions would loyalty to the presidential party translate into majority support for the incumbent. In most cases, governors are reluctant to put all their eggs in one basket and seek instead to find common language with many different parties, from the KPRF to the Union of Rightist forces, and create a broad coalition. Moreover, the Kremlin is unlikely to support any measure to strengthen political parties, which could lead to the consolidation of autonomous political forces in the regions.

The fate of the electoral reform measure will provide insight into the real motivation behind the Kremlin's political reforms. If the provision to elect regional legislatures by proportional representation is killed, then this will mean that Putin's April 2001 statement about the need for strong parties was just a cover for placing the entire country under the control of the "vertical of power." But even if electoral reform is implemented, does that mean that regional political life will become more democratic?

Political and legal factors limit democratization in the regions. Regional legislatures still lack the authority to influence the governors. A 1999 law on the organization of the system of government in Russian Federation subjects states that governors are not accountable to regional legislatures. Strong legislatures are only likely to develop in special circumstances, leading to splits among influential political and economic elites. It is more likely that the regional legislatures will be dominated by a single party or divided among small parties.

Thus the likely consequences of the new electoral reform measures should not be exaggerated. Although Russian political parties need to develop firmer roots in the regions, this will not be possible without the support of the president and up until now the executive has chosen to remain unaffiliated. But the opposite scenario also should be considered--political parties with strong ties to the regions potentially could play a role in reforming the government as a whole. The proposed reform of regional electoral processes is a step in the latter direction.

**KRASNODAR GOVERNOR PROPOSES TO EXPAND LEGISLATURE.** Over the past summer, Krasnodar Krai Governor Aleksandr Tkachev proposed increasing the number of the deputies in the regional legislature and to expand the representation of certain districts and cities. At present there are only 50 deputies in the regional legislature and as a consequence some committees lack adequate staff. Thus, only three deputies work in the agribusiness and tourism committees, even though these sectors play a crucial role in the region's economy.

The regional legislature does not have representatives from many agricultural, industrial, and resort areas. For example, there are no deputies from the Gulkevich district, a leader in agricultural production, the resort city of Gelendzhik, or the industrial city of Kropotkin. Of 48 districts in Krasnodar Krai, 12 lack representation.

From the governor's perspective, the insufficient number of deputies makes it more difficult for the legislature to send representatives on fact-finding missions or to respond to the needs of constituents. As Tkachev noted, the increase in the number of deputies from 50 to 70 would result in "a higher quality government of all the cities and districts of the krai and greater responsiveness to the views of Krasnodar citizens." (*Kubanskije novosti*, 18 July) Tkachev stated that no change in the law on electing deputies to the regional legislature would take place without consulting Krasnodar residents and ensuring their support. - Oleg Tsvetkov in Krasnodar

**PERM DEPUTIES DEFER ELECTORAL CHANGES.** On 9 December, legislative elections will take place in the 40 districts in Perm Oblast and the Komi-Permyatskii Okrug. According to the law on parties passed by the State Duma, up to 15 percent of deputies in regional legislatures must be elected according to party lists. Currently only Sverdlovsk Oblast follows this practice. Amendments now under consideration in the State Duma (see expert analysis above), would require that as many as 50 percent of the deputies be elected by party list.

However, two decisions by the Perm legislature contradict the party law. Speaker Nikolai Devyatkin stated at a press conference that the December legislative elections would follow the old system and that the newly elected legislature would follow the new rules about voting by party list in subsequent elections. Devyatkin cited the incomplete nature of the party system in the region as justification for his position (*Novy kompanion*, 19 September).

Devyatkin introduced a change in the law, which would prevent any one faction from grouping together more than one third of the deputies (*Zvezda*, 20 September), following a similar move by the Federatsiya group in the Federation Council (*See EWI Russian Regional Report*, 14 March). This change is very significant and could contradict federal law, if the amendment requiring that 50 percent of deputies be elected by party list is passed. If factions were limited in size, then voting by party list would be meaningless.

Every view has its supporters. Proponents of voting by party list in the State Duma believe that this will help strengthen regional party organizations. Regional deputies, on the other are more concerned about maintaining their ability to work effectively within the regional legislature--it is not surprising that it took two attempts for

the first party group in the Perm legislature to register successfully. The newly elected deputies will have to navigate this minefield. - Konstantin Kolyvanov in Perm

## **CENTER-REGIONAL RELATIONS**

### **OPINION: DYNAMICS OF THE INTERRELATIONSHIP BETWEEN REGIONAL AND FEDERAL LAW**

By Olga Zamaraev in Moscow

Russia is a federal state and the Russian Constitution provides for three levels of legislation: federal, regional, and municipal. Currently there is a widespread perception that federal (central) legislation infringes on the legislation of federation subjects. This article presents a critical analysis of this view.

As of January 2000, there were 110,000 federal laws, 580,000 regional laws, and 800,000 municipal laws. Thus, federal legislation makes up just 10 percent of the total number of laws in the Russian Federation. Considering that prior to 1991, the number of federal laws (2,527) exceeded both the number of regional (2,079) and municipal (143) laws, it is actually the federal level that has "given up" legal authority to the regions.

This is appropriate for the federal authorities. After making basic decisions, the Center enables the territories to enforce them according to their specific conditions by passing regional laws to implement federal legislation. As the sphere of influence of federal legislation has shrunk in the 1990s, regional and municipal laws have become more important. Because municipal law was not well established prior to 1995, Russian cities experienced a "burst" of legal activity until 1997. In recent years, as municipal law has developed, the situation has stabilized.

It is also important to examine the different types of legislation that are prevalent at the federal, regional, municipal levels. From 1992 to 1995, the majority of governmental decisions were implemented on the federal level through presidential decrees. At present federal decrees constitute 24.6 percent of all Russian legislation compared to 12.7 percent for the regions, while constitutional laws, statutes, and laws account for 1.7 percent of federal legislation and 3.7 of regional legislation.

When the federal authorities proved unable to cope with pressing issues, regional administrations developed the capacity to address these problems by issuing their own decrees. The majority of regional decrees regulate economic and business activity, as well as financial matters, which are directly linked to budgetary processes at all levels. Thus, since the Russian Constitution was approved in 1993, regions are playing an increasing role in formulating legislation.

## **POLITICS OF NATURAL RESOURCE POLICY**

**REPUBLICAN LEADERS OPPOSE NEW OIL TAX.** Beginning on 1 January, 2002, a new federal tax on mineral resource extraction will enter into force. It will replace the existing tax, which includes three types of payments: royalties for resource use, mineral replenishment taxes, and excise taxes. The new tax is high for oil--approximately 340



rubles (approximately \$11.3) per ton. Under the new law, the amount will vary depending on world oil prices.

Federal energy and economic policy officials support the new tax, while oil-producing regions like Bashkortostan and Tatarstan oppose it. The regions are against the new measure because the new federal tax would remove existing tax privileges regional authorities now grant to the oil companies under their control. In Bashkortostan and Tatarstan there is a flexible system of royalty payment, which takes into account the geological specifics, size, and accessibility to transportation of a given site. The most important factor is the "age" of the well: the older it is, the less the royalty to be paid by the oil company. Bashneft and Tatneft, which operate as monopolies in the two republics, pay 2-3 times less in taxes than do other Russian companies, thereby creating unfair competition. Authorities in Bashkortostan and Tatarstan claim that the tax privileges are necessary because their wells are older and more expensive to operate than those in Western Siberia. Nevertheless, the federal government has decided that it will no longer allow Bashkortostan and Tatarstan to impede the establishment of a single market for oil and oil byproducts by taxing "their" oil companies at artificially low rates, as has been the case for the past decade.

According to experts commissioned by republican authorities, the new tax would benefit companies such as LUKoil, Yukos, Sidanko, and TNK most, by lowering their tax burden by 26-28 percent. At the same time companies like Tatneft and Bashneft would pay several times more in taxes and this would lead to a sharp drop in oil drilling in the republics. For this reason, republican authorities view the imposition of the new tax as an effort to remove them from the lucrative oil market. To support their case, they note that State Duma Budget Committee Chairman Aleksandr Zhukov stated that the major Russian oil companies already expressed their willingness to compensate for any decline in oil caused by a curtailment of drilling in Bashkortostan and Tatarstan.

The new tax also jeopardizes a 16 August agreement by the two republics to create a joint project to ship Tatarstani oil to Bashkortostan for refining. Clearly the greater economic autonomy the republics would have attained with the implementation of such a project did not suit the Kremlin, which is using a centralizing state to counterbalance the more economically strong regions. - Igor Rabinovich in Ufa

## **RELIGION AND FOREIGN POLICY**

**KALMYKIYA PROTESTS MOSCOW'S REFUSAL TO ALLOW VISIT BY DALAI LAMA.** Kalmykiya is one of the three republics in the Russian Federation, along with Buryatiya and Tyva, where Buddhism is the religion for the titular population. In August-September, these republics awaited a visit from the Dalai Lama. However, the Russian Ministry of Foreign Affairs refused to grant him an entry visa and the visit never took place. Moreover, the Foreign Ministry even refused to grant the Dalai Lama a transit visa so that he could travel to Mongolia, which he planned to visit from 3-17 September. The Foreign Ministry's reasoning is obvious--in recent years Russian-Chinese relations have improved; summit meetings have taken place; important treaties and economic agreements were signed. Under these conditions, Beijing would have interpreted Moscow's agreement to allow the Dalai Lama, a critic of Chinese policy in Tibet and a supporter of its independence, as an unfriendly act.

But in this case, the Center's interest in avoiding foreign policy difficulties has resulted in domestic problems. In the Buddhist regions of the Russian Federation, above all in Kalmykiya, the Foreign Ministry's decision was viewed as an infringement of the rights of Buddhists. Some Kalmykiyan Buddhists publicly expressed their indignation. The association of Kalmykiyan Buddhists became one of the organizers of the All-Russian Coordination Council for Inviting the Dalai Lama in 2002. On 9 September the Council announced that "The significance of a visit of the Dalai Lama, which has not been held for the past 9 years, is strictly religious. In our country, where the Buddhist faith was almost completely eliminated during the years of Soviet power, instruction by the Dalai Lama and meetings with followers would have great importance for the revival of religious traditions. Unfortunately the Russian government absolutely does not take these circumstances into account." (*Ekonomika i zhizn-Kalmykiya*, 14 September)

Kalmykiyan authorities were particularly dissatisfied with the Foreign Ministry's decision to prevent the Dalai Lama's visit. Of the three Buddhist regions in the Russian Federation, Kalmykiya suffered the most from religious repression in the Soviet era. Until the 1990s, for more than 50 years there was no active Buddhist temple in the republic. Only in the last ten years Kalmykiyan Buddhists have begun returning to the faith and the Dalai Lama's 1992 visit to the republic played an important role in this process. It is impossible to convey how impatiently many thousands of believers were awaiting another meeting with him and how importantly republican authorities viewed his visit.

It is not surprising that Kalmykiyan President Kirsan Ilyumzhinov reacted strongly to the Foreign Ministry's decision. Thus, during a meeting with Japanese diplomats in Elista, he criticized the Center and stated that "no political considerations can justify Moscow's decision, which prevents Buddhists in Kalmykiya, Buryatiya, Tyva, and elsewhere in Russia, from meeting with their spiritual leader." (*Komsomolets Kalmykiya*, 1-7 August) Ilyumzhinov noted that, despite the Foreign Ministry's position, Kalmykiya did not withdraw its invitation to the Dalai Lama, although the other two republics had. In an interview, the president told a radio interviewer that he would bring the Dalai Lama to Kalmykiya at all cost (*Nezavisimaya Gazeta*, 12 September). He went as far as to make a direct request of President Putin and raised the matter in a meeting of the Southern Federal District in Kislovodsk on 7 September (*Izvestiya Kalmykiya*, 11 September). Subsequently Putin promised to instruct the Foreign Ministry to review Kalmykiya's request for a visit from the Dalai Lama. - Vladimir Volgin in Elista

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**RESPONSE TO TERRORISM**

**RUSSIA'S SOUTHERN DISTRICT FOCAL POINT OF ANTI-TERRORIST**

**STRUGGLE.** President Putin's cooperation with the U.S. anti-terrorist campaign has been interpreted as evidence that Russia is firmly rooted in the West. Yet Moscow's response to the September 11 terrorist attacks in the United States actually highlights Russia's inextricable links to Asia and the Middle East.

Russia is in effect a front-line state in any potential U.S. conflict with the Taliban--instability in Afghanistan could have a domino effect in neighboring Central Asian states, resulting in a stream of refugees into Russia. Moreover, given its history of intervention in Afghanistan, Russian participation in U.S.-led anti-terrorist efforts there could result in reprisals against targets within Russia and potentially aggravate the ongoing conflict in Chechnya.

Even before the 11 September attacks, federal officials paid close attention to anti-terrorist efforts in the Southern Federal District, which includes Chechnya and other regions in the North Caucasus with Muslim populations. Presidential Representative Victor Kazantsev's office periodically reports to Moscow on combating terrorism in the district, in addition to serving as an ad hoc emissary on Chechen issues.

After the 11 September events, which were followed by a surge in Chechen rebel activity, security forces in the district were placed on a higher alert. Nevertheless, in regions such as Dagestan, law enforcement authorities strengthened security in an all too routine response to any crime perceived to be linked to religious extremism. Dagestani Mufti Akhmed Khadzi Abdullaev expressed concern about the linkage between Islam and terrorism and stated that the world should not equate terrorists with their religious affiliation (*Nezavisimaya Gazeta*, 14 September). Muslims in Dagestan and other republics have been quick to condemn terrorism and repudiate any connection to Islam (*Nezavisimaya Gazeta*, 22 September). President Putin mentioned in his 24 September television address that the Spiritual Board of Muslims of Russia had requested a meeting with him and proposed holding an international Islamic conference in Moscow, to be called "Islam against Terror."

By pointing to connections between Osama bin Laden's group and Chechen rebels, the Putin government clearly sees an opportunity in joining the coalition against terrorism to portray Russian intervention in Chechnya as an integral part of the anti-terrorist struggle. Already the Council of Europe, Germany, and the United States have softened their criticism of Russian policy toward Chechnya in response to Russia's cooperation in the anti-terrorism effort. Human rights activists fear that, in the absence of international scrutiny, a new crackdown is likely in Chechnya, with disastrous consequences for an already beleaguered civilian population. - Elizabeth Wishnick

## **PATTERNS OF REGIONAL DEVELOPMENT**

**CRACKS APPEAR IN KOMI'S AUTHORITARIAN SYSTEM.** On 26 September, the Komi Republic legislature declared that the republic no longer asserted its sovereignty, partially bringing republican constitution in line with federal norms. However, the conflict over the republic's constitution is extremely complicated, involving numerous political groups, and will not be resolved by a one time act. The two candidates in the republic's presidential 16 December elections, incumbent Yurii Spiridonov and the speaker of the republic's legislature, Vladimir Torlopov, proposed competing plans for bringing other aspects of the constitution in line with federal norms. The legislature's plan ultimately prevailed, perhaps opening the way to reduce some of the authoritarian aspects of the republic's existing political system.

The Komi procurator had charged that significant parts of the Komi constitution did not conform to federal norms. Spiridonov and many of the republic's legislators did not agree with

many of the procurator's objections. When the republican court backed many of them, the legislators appealed to the Russian Supreme Court. However, the Supreme Court declared that the procurator was correct and gave the republic six months (to 6 October) to bring its constitution into line. If the parliament did not comply with the court order, it faced disbanding.

The deputies were not happy about the court order, but felt the need to comply. Deputy Speaker Valerii Potolitsin expressed the mood of many when he said, "I think that the court acted for political reasons. But we are law-abiding and will comply with it."

Facing the threat of the legislature's disbandment, the deputies and Spiridonov each drew up a set of proposed amendments. Since relations between the executive and legislative branches are among the most problematic aspects of the republican constitution, the two sets of proposals prepared by the president and the legislature had little in common. In Komi, the strong president and weak legislature barely provide for a division of power.

Spiridonov's plan sought to further reduce the power of the Komi legislature. In the past, it approved the structure of the executive branch and all of the president's deputies. Spiridonov proposed allowing only his first deputy to be confirmed by the legislature. The president also sought to take away the legislature's ability to influence the appointment and removal of the finance minister, a particularly sore point.

In contrast, the legislature's plan proposed amendments that would allow the deputies to vote no confidence in the republican president, his deputies, and the finance minister. The parliament would also gain the right to approve the president's social-economic development program as well as the budget and accounting of the previous year's budget. Additionally the deputies sought to keep the parliament's right to approve the structure of the republic's government.

Such conflict between the legislative and executive branches is unprecedented in Komi (*Respublika*, 25 September). Spiridonov and Torlopov are well into their political campaigns and clearly seeking to demonstrate their leadership of the republic. At its 26 September session, the legislature adopted the set of constitutional amendments the deputies had proposed and rejected the amendments proposed by Spiridonov. This was a major blow to the president. It further weakened him after President Vladimir Putin had failed to attend ceremonies marking the 80th anniversary of Komi statehood, even though the regional authorities had long trumpeted the president's arrival.

The most important result of the parliament's meeting is the possibility it holds out for the decline of authoritarianism in Komi. The case of Komi is extremely significant for many other Russian regions with authoritarian regimes because it shows that even a particularly well entrenched regime can begin to show cracks. Following the legislature's decisions, there will be a tough political battle between Spiridonov and Torlopov for the leadership of the republic. - Yuri Shabaev in Syktyvkar

### **KURSK ADOPTS NEW CHARTER THAT EMPOWERS LOCAL GOVERNMENT.**

Facing a Russian Constitutional Court deadline of 6 October, the Kursk Oblast legislature adopted a new version of the oblast's charter, replacing the old one that was in violation of the Russian constitution. If the legislature had not adopted the new charter, deputies feared that it faced disbandment in six months.



The amendments to the charter include serious changes such as a provision to create full-powered local governments at the raion level. Currently only the cities of Kursk, Kurchatov, and Zheleznogorsk have such local governments.

Kursk today has 511 local entities as established by the 1996 oblast charter. The residents of these raions must now vote to create 31 full-powered local governments, which will be ruled by local councils. These councils will prepare and monitor the implementation of raion budgets. Each council will elect a chairman. Since the oblast authorities plan to hold elections for these new councils in March 2002, when a Russian-Belarusan parliament will be elected, the referendums creating the local governments must be held by February 2002 (*Kurskaya Pravda*, 28 September).

Currently the governor appoints the heads of local governments. Since the governor does not want to lose his control over the local governments, the oblast charter allows the governor to appoint his own representatives to the localities, similar to the way that the president can appoint representatives to the regions.

To avoid problems that compromise the division of power, the new charter forbids the heads of local governments from concurrently seeking a seat in the Oblast Duma. This provision provoked considerable debate in the oblast legislature because Kursk Mayor Sergei Maltsev and Zheleznogorsk Mayor Aleksandr Kichigin are currently members of the oblast parliament. They argued that the new provision would limit their rights. Even though the oblast procurator agreed with the mayors, the deputies refused to allow the mayors to run. Mostly likely, the oblast will face many difficulties in bringing these new local institutions to life and ensuring their functioning. - Sergei Sarychev in Kursk

**POLITICAL OPPOSITION GAINS POWER IN MARI-EL.** Since Leonid Markelov was elected president of Mari-El in December 2000, the political opposition has not quieted down. Markelov's advocacy of the Marii language as a state language and his appointment of Federation Council members who have little connection to the republic have made him a target of criticism.

However, Markelov has moved swiftly against such opponents, closing four newspapers in three months. Closing the papers turned out to be relatively easy for the president: the paper *Kudo + Kodo*, which has a subscriber base through out the international Finno-Ugric community, was closed for the minor offense of paying a 400 ruble debt one day late. The authorities held "confidential" conversations with the other editors to shut their papers.

Another form of opposition appeared on 6 September, when the president asked the republican legislature to amend the republican budget, transferring 10 percent of the fourth quarter income tax from the raions and 35 percent of the income tax collected in the capital city Ioshkar-Osha to the republican budget. The republican government wanted this money because its income fell 80 million rubles short of anticipated receipts. Ioshkar-Osha Mayor Vladimir Tarkov opposed this move because it would cost the city 32 million rubles. Tarkov publicly complained that his city only received 5 percent of the profit tax, when other republican cities received 19 percent. He claimed that during the first eight months of this year, the city lost 60 million rubles to the republican budget.

The republican government's efforts to resolve its economic problems at the expense of the best-off parts of the republic make sense. But even the "richest" Ioshkar-Ola is receiving only 56 percent of its necessary income. The city already pays its employees much less than those performing similar jobs for the federal government. Thus, the city is planning to take the republican government to court over the issue.

The confrontation between the republican president and Ioshkar-Ola mayor is unprecedented for Marii-El, though it is common elsewhere in Russia. The next presidential elections are not for another three years. Thus, it is possible that a political-economic opposition will appear in Marii-El, and not just an intellectual opposition. - Vyacheslav Zыkov in Ioshkar-Ola

### **KABARDINO-BALKARIYA PREPARES TO ELECT UNPOPULAR PRESIDENT.**

Although the election date has not been set yet, most local observers are convinced that Kabardino-Balkariya President Valerii Kokov will have no trouble winning a third term. In the last elections, Kokov won 98.8 percent of the votes in a race with no alternative candidate. This result was entirely predictable since the president has all power in the republic and even appoints the heads of local government (in violation of the Russian constitution).

In the last election, Kokov was truly popular as a peacemaker in the troubled North Caucasus region and as a guarantor of stability. Now the situation is different. Apart from his closest colleagues, few would like him to win another term.

The republic has one of the lowest living standards in the country (see *Rossiiskaya gazeta*, 14 February). More than 46 percent of the population live below the poverty line. The level of unemployment is one of the highest in the country. Many working-age residents of the republic are leaving in search of work elsewhere. Many of those forced to leave are women who work as traders in markets across the country. They often must leave their children behind to earn a living. Republican residents are heading for such distant regions as Krasnoyarsk, Amur, Irkutsk, and Sakhalin. Here there are openings for tractor drivers, joiners, carpenters, stove-repairers, roofers, lumber jacks, electricians, gas line layers, teachers, doctors, and agronomists, while there are few in Kabardino-Balkariya.

Against the backdrop of poverty among the vast majority of the population and the outflow of educated workers to other regions, 10-20 percent of the population have income that exceeds all imaginable norms. Evidence of this is the beautiful houses in the prestigious section of the capital Nalchik, known as the "noble nest" among the people. The highest ranking republican bureaucrats, ministers, deputy prime ministers, and the heads of various agencies live here. Naturally, this elite is doing whatever it takes to reelect Kokov.

Kokov will most likely not be the only candidate in the elections. General Mukhamed Batyrov, 51, an ethnic Kabardinian, has also announced his intention to run. He gave an interview to a newly formed local opposition newspaper in which he was sharply critical of Kokov. Although Batyrov is little known in the republic, observers believe that he would win considerable support in free and fair elections because the people are looking for an alternative to Kokov. Nevertheless, most believe that the republic is "sentenced" to another term under Kokov. - Lyudmila Maratova in Nalchik

## **POLITICAL ECONOMY**

**BASHKORTOSTAN OPENS DOORS TO BIG RUSSIAN BUSINESS.** On 26 September Bashkortostan Prime Minister Rafael Baidavletov and Wimm-Bill-Dann President David Yakobashvili signed a cooperation agreement. Wimm-Bill-Dann is Russia's leading producer of dairy products and juices and one of the country's six largest food processors. It controls one third of Moscow's food market. It is interested in Bashkortostan because the republic has Russia's largest herd of dairy cows and the greatest milk yield. Only one third of this yield is actually processed and sold because the republic's dairies failed to compete in market conditions and have gone bankrupt.

Thus Wimm-Bill-Dann hopes to exploit the local base of raw materials to produce and sell milk in Bashkortostan and beyond its borders. The company plans to work in the region for the long term and, according to the terms of the contract, invest hundreds of millions of dollars in the local economy during the next several years.

For their part, the republican leaders hope to use the outside investment to save local factories and strengthen the local economy. Baidavletov said that the republican leaders did not make the decision to work with Wimm-Bill-Dann easily. They studied Wimm-Bill-Dann's activities in other regions before establishing a relationship with the company. Wimm-Bill-Dann has already signed similar agreements with Krasnodar Krai and Moscow Oblast. This summer Wimm-Bill-Dann bought from the Bashkortostan government a 70 percent stake in the republic's largest dairy, Ufamolagroprom.

In addition to investments, Wimm-Bill-Dann agreed to preserve the social services currently provided by the factory it purchased, avoid mass layoffs, and create new jobs, especially in rural areas. Working with the republican authorities should protect the company against any bureaucratic encroachments. To this end, the republican government invited the local leaders of the cities where Wimm-Bill-Dann will work to the signing ceremony to convince them of the benefits to be won from cooperating with the company.

This treaty is Bashkortostan's third this year with large Russian companies. Earlier, the republic signed a treaty with Alfa-eko (part of the Alfa group) and with LUKoil. These treaties are the work of Baidavletov, who is most likely to succeed Bashkortostan President Murtaza Rakhimov. Welcoming Russian big business to the region is a significant shift from past policies and suggests that the republican leadership is no longer afraid of such businesses, which will not be subordinate to republican leaders. - Igor Rabinovich in Ufa

## **NATURAL MONOPOLIES IN THE REGIONS**

**ELECTRICITY MONOPOLY CRACKS DOWN ON ULYANOVSK.** In a conference call with the heads of regional energy companies on 2 October, Unified Energy System head Anatolii Chubais charged that Ulyanovsk Oblast had been stealing electricity from the country for years. Chubais, in particular, blamed former Ulyanovsk Governor Yuri Goryachev, who, Chubais charged, had brought about the oblast's almost complete financial destruction. The oblast's municipal governments owe the utility about 3 billion rubles in arrears, about two year's worth of electricity for the oblast. Thus, the utility considers Ulyanovsk to be among the most

likely regions to face problems this winter. The debts are the main obstacle the oblast faces in securing the heat it needs.

Local energy officials said that EES would only turn on local heaters at the beginning of the cold season if the mayor agreed to pay off the city's debts in full. EES is requiring the city of Ulyanovsk to pay 360 million rubles in current expenses by the end of the year and 2.4 billion rubles in accumulated debts by the end of 2002.

The mayor is prepared to pay for the city's current expenses, but considers an effort to pay off the more than 2 billion ruble debt over the next year impossible. The mayor wants to pay back the debt over five years, but Ulyanovskenergo is unwilling to accept this longer period.

Thus, to ensure that the city will be heated this winter, Governor Vladimir Shamanov must travel to Moscow to cut a deal with Chubais. - Sergei Gogin in Ulyanovsk

## **FOREIGN TIES**

### **CENTRAL FEDERAL DISTRICT LEADERS EXAMINE FOREIGN TIES.**

Presidential Representative to the Central Federal District Georgii Poltavchenko and the 18 governors of the district met in Orel on 29 September to discuss the evolution of trade ties with Belarus, Ukraine, and Moldova, the three CIS countries closest to the district's borders. Ambassadors from these countries as well as Security Council Secretary Vladimir Rushailo attended the meeting.

Of the 18 regions in the federal district, five have borders with the CIS. Poltavchenko noted that in the past, the federal government had developed free economic zones to encourage trade with the CIS, but that form of cooperation did not produce the desired positive results. Therefore, the central regions are in the process of seeking new forms of cooperation. The Russian side hopes that increased levels of trade will improve the economic situation in all countries and improve the level of integration within the CIS.

The conference participants examined the obstacles that prevent the Russian regions from improving trade, investment, scientific, and cultural links with their neighbors. A critical barrier is an insufficiently developed legal base, with differing national laws on foreign economic and business activity. There are also important customs, tax, and administrative barriers.

The participants in the meeting agreed to create a Euro-region that would give the Russian regions the independence to seek their own trade partners in Ukraine, Belarus, and Moldova. The logic of this approach is that the regions themselves have the best sense of the local situation.

The presidential representatives are also planning to open a common agricultural market within the CIS. The preconditions for such a market are in place: almost all of the countries have a similar economic situation, all are experiencing industrial growth, and all are increasing investments in the agro-industrial complex. Many of the CIS countries do not produce agricultural products that they can export onto the world market, therefore establishing a CIS market makes sense for them. Poltavchenko declared that the CIS agricultural market would be one of the largest in the world. The participants decided to seek improvements in the legal base for cross-border economic cooperation. Additionally, they agreed to set up a federal district

information center that would be a clearinghouse of data on the trade, industry, and investment potential of the border regions of the Central Federal District and Belarus, Moldova, and Ukraine. - Roman Novikov in Orel

## **TRIP REPORT**

*Last week I visited Nizhnii Novgorod and Rostov-na-Donu as part of a project funded by a grant from the Carnegie Corporation of New York. While traveling in the Russian regions is always an adventure, this trip was even more so. As my EWI colleague Petr Kozma and I were leaving the Rostov administration building, police were just starting to evacuate all the employees because someone had called in a bomb threat. Even our hotel turned out to be a target, as we had to evacuate it after another bomb threat. Luckily the threats turned out to be hoaxes. No one seemed to know if they were connected to the recent elections in Rostov, the fighting in Chechnya, or something else. While we did not solve this mystery, here is a report on our conversations. - Robert Ortung*

## **SOUTHERN FEDERAL DISTRICT (ROSTOV-NA-DONU 25-27 SEPTEMBER 2001)**

**KAZANTSEV FOCUSES ON MORE THAN JUST CHECHNYA.** The Southern Federal District, which includes the north Caucasus regions, Volgograd, Astrakhan, and Kalmykiya, is unique among Russia's seven federal districts because of the on-going fighting in Chechnya between separatist rebels and federal troops. Here Putin's decision to rely mainly on generals to serve as his presidential representatives makes the most sense. In the south, Putin named Viktor Kazantsev, a general who led Russia's troops in Chechnya as the head of the North Caucasus Military District, as his representative.

Kazantsev divides his time between Chechnya and the more normal activities of presidential representatives in the rest of Russia, according to Elena Stroiteva, the *Izvestiya* correspondent in Rostov-na-Donu. When the situation heats up in Chechnya, as it has now, Kazantsev focuses his attention on dealing with the crisis. When events are relatively calm there, Kazantsev spends his time in Rostov or the rest of the federal district dealing with other issues.

Kazantsev occupies some of the best office space in Rostov, right on the city's central square. On the other side of the square is the governor's office and offices for regional legislators. Kazantsev has a staff of about 130-150 people. Additionally, his building is home to some 900 federal officials. Kazantsev drew on mostly military or Federal Security Service officials for his subordinates, with deputy presidential representatives Viktor Krokmal and Viktor Anpilgov his key civilian appointees. In several cases, Kazantsev appointed the officers responsible for ensuring the conscription of young men in the regions as his federal inspectors in various regions in his district. When local journalists complained one month ago that the staff was too tight lipped about providing information, Kazantsev issued an order to his subordinates to make themselves more accessible and the situation has since improved. Kazantsev has also appointed a former ORT journalist as his press secretary, taking another step toward meeting journalists' needs.

## Mediator in Chechnya

The development of events in September 2001 show that Putin relies on Kazantsev as his special representative in Chechnya. On 24 September, Putin announced his extensive cooperation with the international anti-terrorism effort in an address broadcast live on national television. At the end of his speech, he issued an ultimatum to the Chechens to enter negotiations to turn in their weapons voluntarily within 72 hours. Putin's demand was not the first such ultimatum and one that had little chance of success since the Chechen fighters have ignored such statements in the past. In the address, Putin put Kazantsev in charge of organizing the disarmament effort and Kazantsev and his deputies immediately got to work. Kazantsev is heading a working group that is moving throughout the North Caucasus region, while his deputies are heading up groups based in Grozny and Rostov.

Although Putin's 72-hour time frame did not succeed in getting the Chechens to turn in their weapons, it did kick start negotiations between Kazantsev and Chechen President Aslan Maskhadov's representative, Akhmed Zakaev. The new talks mark a departure for Putin, who in the past refused to recognize Maskhadov as Chechnya's leader.

## The District Office and Regional Development

Beyond Chechnya, one of Kazantsev's key activities is his coordination of a federal program for the economic development of the Southern Federal District. Rostov Legislative Assembly Speaker Aleksandr Popov cited this as an example of efforts by Kazantsev to lobby the interests of the Southern Federal District in Moscow. In this sense, Putin's representatives to the regions have also become advocates for their region's interests at the federal level.

Although the federal government has adopted the development program as a whole, many of the projects within it are not funded. Kazantsev's office helped coordinate a meeting in Moscow that brought together all the State Duma members from the Southern Federal District (about 50 deputies) with the region's governors and legislative leaders. Some believe that lumping all the unfunded regional program together will give southern politicians more leverage in securing funding. Since the Southern Federal District includes some of the country's poorest and most heavily subsidized regions, the provision of federal aid is especially important to them. Kazantsev's program focuses particularly on these needy cases.

Despite Popov's comments, Vice Governor Valerii Khripun dismissed the idea that Kazantsev could provide much help in terms of lobbying. Khripun noted that Rostov Governor Vladimir Chub has strong personal ties in Moscow that work in favor of the region. He also pointed to the large State Duma delegation from Rostov, which cooperates closely with the governor. Khripun stressed that the governor did not need any help from Kazantsev in his lobbying efforts.

Additionally, Chub's staff takes credit for developing the regional program, creating a small point of tension with Kazantsev. Chub's people claim that he prepared the program as the head of the North Caucasus Interregional Association. They say that all Kazantsev added to it

was projects for the three regions in the okrug (Volgograd, Astrakhan, and Kalmykiya) that are not also in the association.

In another initiative, Kazantsev tried to encourage a larger number of flights between Southern Federal District cities. Generally, there are few flights among Russian regions and travelers are forced to take the train or fly through Moscow. Kazantsev thought that it would be a good idea to have more regular flights between Rostov and Volgograd. However, he expected the regional administrations to provide financial support for these new air routes because they have yet to attract enough customers to be profitable without subsidies. This effort quickly failed due to a lack of money.

Under Putin, the Russian federal government is trying to use the stakes it owns in important factories more effectively. Thus, Kazantsev has designated a representative to sit on the board of directors of key regional enterprises. So far, these representatives have not played a major role in the management of the enterprises, according to sources at Rostselmash, the giant combine maker. They are essentially observers, although they play a key role in gathering information.

Kazantsev has met with regional business people, but has not made much headway in establishing relations with them. While well respected as a general, Kazantsev's military background means that he has little practical economic experience and lacks a grasp of the region's complicated economic processes.

#### Inter-Agency Coordinator

Paradoxically, General Kazantsev sees himself as a peacemaker in the region, working to smooth over conflicts that develop within the northern Caucasus regions. He even seems to have developed a methodology for dealing with such conflicts: hiring the losing party onto his staff. In Karachaevo-Cherkesiya, Kazantsev sought to smooth over the on-going conflict between President Vladimir Semenev and his opponent in the presidential elections, Stanislav Derev, by hiring Derev onto his staff. Similarly, when the Russian-appointed head of the Chechen government Akhmad Kadyrov and former Grozny Mayor Bislam Gantamirov could not overcome their differences, Kazantsev intervened by hiring Gantamirov as a federal inspector. The presidential representative has even sought to heal splits within the ranks of the Cossacks. Some Cossacks support the government and receive state subsidies, while independent Cossacks in the area back the Communist Party. Apart from the Cossacks, Kazantsev devotes special efforts to addressing the problems of all ethnic Russians in his district. Of course, even in these peace-making activities, local observers note that Kazantsev behaves like a general and lacks the subtle touch of someone like Volga Presidential Representative Sergei Kirienko.

Some observers believe that the ministries and not the governors are the real enemy of the presidential representatives. The appearance of the presidential envoys and the creation of ministerial offices at the federal district level (for federal agencies like the Ministry of Internal Affairs, tax police, tax inspectorate, and Justice Ministry) has made life more complicated for the regional representatives of these federal ministries. They are doubly subordinated since they must coordinate their actions with their ministerial superiors in Moscow and with the presidential

representatives in the federal districts. Regional politicians like Popov believe that the presidential representative system makes management more, rather than less, complicated.

Currently, the federal district Ministry of Internal Affairs and Rostov Oblast Ministry of Internal Affairs chiefs' offices are vacant and Kazantsev and Chub are struggling to name their own people to these positions. The federal district Ministry of Internal Affairs office is newly created and its role in the Southern Federal District remains uncertain. In the case of the Rostov Oblast office, local observers believe that Kazantsev was not happy with Chub's influence over the MVD in the past, leading to the removal of the Rostov police chief. Until recently, the governor had a formal voice in the appointment of the regional police chief, but amendments to the law on the police adopted this summer removed this input. In the case of Rostov, the governor's powers in this area seem to be decreasing, but it is still too early to draw definite conclusions.

### Relations with Governors

In his relations with the governors, Kazantsev faces many of the same problems that the other presidential representatives face. In public, Kazantsev has good relations with all 13 governors in his district except Ingushetiya President Ruslan Aushev, who speaks openly about his differences with Kazantsev. Aushev is one of the few Russian politicians who maintains contact with Maskhadov. Since generals like Kazantsev view Maskhadov as a terrorist, they hold Aushev in deep contempt.

Despite polite public relations between Kazantsev and Rostov Governor Vladimir Chub, whose region hosts Kazantsev's offices, one local observer described the relations between the two men as "armed, but respectful, neutrality." The situation is very similar to the one in Khabarovsk, where General Konstantin Pulikovskii is working in the region dominated by Governor Viktor Ishaev. In Rostov, there was always one center of power. Now there are two and the distribution of power between them is not always clear. When Minister of Economic Trade and Development German Gref visited the region at the end of 2000, journalists had difficulty figuring out who was hosting him, the governor or the presidential representative.

Despite the lack of clarity, a regional political system in which there are two centers of power has some benefits over one in which there is just one ruler. Business representatives appreciate the greater competition between regional and federal officials, even though there is no ideological differences between them. The competition often creates opening for the businesspeople to exploit in pursuing their own interests. In a unipolar system, the businesspeople often face a more monolithic wall of resistance.

Just after Chub announced that he would seek another term in the regional elections held on 23 September, Kazantsev conducted an inspection of the oblast administration's work. Although Chub declared that Kazantsev had found no dirt, observers believe that the presidential representatives must have turned up some incriminating evidence during Chub's more than 10 years in office. Some believe that Kazantsev could potentially use this evidence to keep Chub in line.



Outside Rostov and Chechnya, Kazantsev reportedly has little influence. In regions like Krasnodar and Astrakhan, local politicians initially thought that Kazantsev would play an important role shortly after his appointment. However, they now see him rarely and do not view his office as an important vehicle for interacting with the federal government, according to Elena Kulakova, a journalist at Radio Ekho Rostova.

As in other federal districts, Kazantsev's staff has made an effort to shape the kind of information that residents receive. His staff has organized a weekly television show with information about developments in the 13 regions that make up the federal district. His offices also publish a newspaper that comes out twice a month. Both of these efforts have failed to reach a large audience and Kazantsev's staff is trying to come up with something that will attract more interest.

**ROSTOV REELECTS GOVERNOR CHUB.** On 23 September Rostov voters reelected Governor Vladimir Chub with 78.11 percent of the vote. As local observers pointed out, only one-and-a-half candidates competed in the election, since the Rostov Oblast Electoral Commission had refused to register Communist State Duma member Leonid Ivanchenko, the region's former Communist Party boss who was removed after the 1991 failed coup attempt and Chub's only realistic opponent. The commission charged that there were too many invalid signatures among the lists Ivanchenko presented. The only other candidate in the race was a little known politician whose main purpose was to ensure that the election was technically valid by providing more than one registered candidate.

The Communists had hoped to build on the momentum they had developed in Nizhnii Novgorod, where their candidate won in the July gubernatorial elections, and in Irkutsk, where the party's flag carrier lost a closely fought run-off in August. Currently, about 16 of Russia's 89 regions have Communist governors. However, Chub probably would have won in Rostov Oblast even if the electoral commission, which is controlled by the governor in many regions, had not eliminated the Communist candidate.

Since Rostov requires that 33 percent of the voters participate in the elections for them to be valid, Chub had to make sure that there was sufficient turnout to ensure victory. The Communists announced a boycott effort in an attempt to force new elections. Ultimately, though, turnout was 48.34, well above the minimum required figure, and even higher than the turnout in the last gubernatorial elections in 1996.

Observers were divided over why Rostov voters faced elections that largely amounted to a referendum on their governor. Some charged that instead of examining a random sample of Ivanchenko's signatures, the electoral commission simply kept checking signatures until it found enough invalid ones to disqualify the Communist even though an unbiased assessment could have allowed Ivanchenko to be registered. By law the commission should check 3 percent of the signatures, but some believe it looked at as many as 10 percent. If this scenario is accurate, Chub may have wanted to eliminate a potentially dangerous opponent. However, given Chub's overwhelming strength in the region, some observers suggested that the Communists themselves had initiated the scandal in order to win sympathy even if they could not win the governorship. In a slight twist on this alternative theory, observers in Rostov suggested that Ivanchenko himself had orchestrated the disqualification so that he could strengthen his position inside the

Communist Party, where he is among the top 10 leaders, even though he could not win the election.

Putin met with Chub in July and the Kremlin largely supported Chub in order to prevent another embarrassing defeat at the hands of the Communists. Presidential Representative to the Southern Federal District Viktor Kazantsev basically stayed out of the election, though he did call on voters to participate in the elections, an appeal that worked to Chub's benefit. Kazantsev's first deputy, Viktor Anpilogov, a former vice governor under Chub with strong business ties in the oblast, could have made a credible bid for the governor's office, but chose not to do so.

Vice Governor Valerii Khripun, who coordinated the campaign effort for Chub, rejects any assertions that the elections were undemocratic. He points out that participation in the 2001 elections was higher than in 1996 and that Chub won a larger percentage of the votes as well as a larger number of votes in comparison with five years ago. According to Khripun, "these numbers answer all questions."

Chub has been in office since October 1991 so there is a high level of continuity among the Rostov Oblast elite. Such longevity has led to the deterioration of the quality of the administration's personnel at the second and third levels, according to Andrei Miroshnichenko, a founder of the independent newspaper *Gorod N*, who currently works as an editor at Moscow's *Finansovaya Rossiya*. However, Miroshnichenko believes that the level of corruption in the oblast has dropped when comparing the Yeltsin and Putin eras.

The high level of consensus among the elite (Rostov lacks the typical battle between the governor and mayor or between the governor and regional legislature, for example) makes it very hard for a free press to flourish. In Rostov, in contrast to other regions, there are simply no major economic interests willing to fund an opposition press. Some have described this as an "economy of agreement."

Vice Governor Khripun contends that Chub won another term because of the accomplishments achieved during his time in office. The regional economy is flourishing and local farmers collected a bumper crop of 6 million tons of wheat this year. The administration boasts that its help was crucial in reviving such local factories as Rostselmash and Donskoi Tabak (a cigarette maker), which are now among the region's largest tax-payers. The region's economic health allows it to provide relatively generous social benefits to its population. The administration prides itself on improving the region's roads and rural schools. The "Road to School" program addresses these twin goals by setting up schools in rural areas, building roads to them, and bussing farm kids to these schools.

Rostov residents constantly compare their region with Krasnodar and Stavropol krais, the other major ethnic Russian regions in the North Caucasus. The Communists dominate those regions and their economies are reportedly not doing as well. In 2000 Krasnodar's long time leader Nikolai Kondratenko decided against seeking another term even though he legally could have and remained popular with voters because he realized that his economic model was not working and remaining in office would have meant dealing with numerous daunting economic problems, Rostov observers believe. Recently Krasnodar has dramatically raised prices for communal services, while Rostov has done so gradually over many years and has been able to avoid any sharp spikes. Now Rostov residents pay 80 percent of the cost of municipal services,

whereas they paid only 30-40 percent in the past. The oblast provides subsidies so that the poorest residents can afford the services. Regions like Krasnodar which have suffered sharp price hikes have not been able to implement such targeted aid programs in a manner quick enough to meet the population's needs, often provoking protests about the price hikes.

Among Russia's regions, Rostov seems to be a special case. While it should be more like the troubled Voronezh, Krasnodar, and Kursk in its political and economic systems, it is actually closer to the more vibrant Samara and Nizhnii Novgorod. Local observers ascribe these differences to Rostov's past as a trading city and its entrepreneurial culture. Governor Chub is also credited with Rostov's success due to his reform policies and extensive personal connections at the federal level. In contrast to Kondartenko, Chub never played the ethnic card in the region and is very careful to crack down on any attacks by one group against another.

**RUSSIAN BUSINESSES BUY UP FACTORIES IN ROSTOV.** Through the end of the 1990s, the governor of Rostov and local enterprise directors controlled all of the important businesses in the region. That situation is now changing, as many national Russian companies are buying up local firms. After a couple of years of uncertain relations between the authorities and the new owners, a new and more effective business-government relationship is taking hold in the region, according to Olga Kurushina, a journalist at *Gorod N*, an independent business newspaper in the region.

Under the old system, the governor and enterprise directors worked together to obtain capital for regional factories from the only source that could provide it: Moscow. The regional leaders lobbied federal bureaucrats to secure the resources needed to keep afloat the large and inefficient factories that could not survive in Russia's new economy on their own. Rostselmash's managers cried, "give us money to make combines and we will ensure the production of enough bread to feed Russia." Now the state is no longer in a position to provide this capital.

However, Russia's large national companies do have the resources to make local factories work. After the 1996 presidential elections, some of Russia's biggest banks began moving into the region. However, many of these banks collapsed in the August 1998 crisis and could not continue their activities. However, after the crisis, such giant Russian companies as Russian Aluminum, Severstal, and MAIR, have bought controlling stakes in Rostov's three large metal factories. The Alfa group lost a bitterly fought battle with Severstal for one of the factories. Sodruzhestvo has purchased Rostselmash. And the St. Petersburg-based Baltika, a foreign-owned company, has purchased the local brewery.

Typically, the new owners provide more than just capital to the local factories. They send in new managers who are young and adept at working in current conditions. In most cases, the old managers of the factories could not function without infusions of aid from the Russian government.

For some time there were questions about how the new managers would work with the region's political authorities. In the past, the factories had supported the region's social sphere, providing things like day care and health services. The new managers have shed these functions from the factories and placed the burden on the city governments. Where the old managers sought to preserve as many jobs as possible, the new ones focus on profits and are willing to let

unnecessary workers go. One of the main problems under the old system was that the factories did not have enough resources to pay local taxes and therefore accumulated huge debts.

In Rostov's new political economy, the new factory owners have set up a different kind of relationship with the authorities. Rather than the old system where the enterprise directors provided direct political support to the governor, who in turn helped secure financial resources for the factories, the new managers have established a more institutionalized relationship. They pay their taxes and promise to pay off factory debts over time. Rather than directly supporting the governor, they prefer to maintain political neutrality. Thus, the authorities can never confidently say if the factory managers are with them, against them, or simply apolitical. Certainly, the new representatives of big companies like Rostselmash complain that the authorities have yet to adopt good legislation on business that provides adequate protection for investors.

Because the Rostov economy is growing and the factories are working, the cities have enough resources to deal with their new social obligations. While the cities could always use more money, they have been able to avoid any social crises. Moreover, the situation now with things like salary debts to teachers and doctors is much better than it was three to four years ago, though debts for children's benefits remain large.

## **VOLGA FEDERAL DISTRICT (NIZHNII NOVGOROD, 24 SEPTEMBER 2001)**

**PRESIDENTIAL ADMINISTRATION LACKS STRATEGY FOR LOCAL GOVERNMENT.** The presidential administration lacks an overall strategy on what to do about local government. The overall thrust of Putin's reforms launched one year ago generally ignored local government, beyond giving the governors the power on paper to fire mayors (except those in regional capitals). The few times that Putin has discussed local government have been positive, but these statements have not been connected to any decisive actions. Thus, the general policy toward local government is one of neglect.

With this mood at the top, the seven federal districts have been left to their own devices in defining a policy toward local government and there seems to be little coordination among them on how to proceed. Under the leadership of Deputy Presidential Representative Leonid Gilchenko, the Volga Federal District is the one paying the most attention to local government issues.

The key question is whether to increase the financial resources available to the local governments so that they can deal with the tasks facing them. Theoretically, there are two possible solutions: give the local governments more money so that they can deal with their problems or limit their responsibilities so that the resources they currently have are sufficient to deal with them. Naturally, mayors are opposed to any attempts to limit their powers and are seeking greater resources. The governors want to take as many resources and powers from the mayors as possible. The federal government is undecided on what to do and a debate is currently under way among federal officials. On one hand, federal officials are not inclined to devolve greater resources to the local level. However, there is little agreement on where to concentrate resources. Doing so at the regional level is considered dangerous for the integrity of the Russian federation. But federal officials also recognize that hoarding all resources at the top

would lead to over-centralization and generally inefficient policies. Thus there is a stalemate in this policy area and little progress is being made.

Gilchenko and the presidential administration as a whole are, however, trying to increase their ability to gather information about regional and local governments. Rather than simply reading reports written by the governments themselves, the presidential administration is holding a series of receptions with the public in order to gather complaints that give an indication of the popular mood. In the Volga Federal District, for example, there were a large number of complaints about the oblast administration's attacks on local government in Saratov Oblast and human rights violations in Tatarstan.

The lack of resources at the federal district level makes it difficult for the presidential representatives to gather such information. Gilchenko simply does not have enough staff members to meet directly with the population and solicit their opinions. George Soros's Open Society Institute has provided some money to the federal district for this purpose. But Gilchenko would like to set up a non-profit organization that would organize meetings with the population and collect their complaints. The presidential administration would sign a cooperation agreement with this organization to ensure close cooperation. One way that the administration envisions compensating the members of this organization is providing them with letters of recommendation for their efforts. Thus, young people willing to volunteer could use the letters to secure better jobs later.

**KIRIENKO CONDUCTS PRESIDENTIAL CADRE POLICY.** Presidential Representative to the Volga Federal District Sergei Kirienko is the only one of the seven presidential representatives seeking to build up a loyal staff that could support his ultimate presidential ambitions. Starting last year, Kirienko has sought to fill staff positions through competitions. He is seeking out and identifying talented and ambitious young people who will make his office work effectively. The best of these people could serve as a base for a presidential campaign should Kirienko choose to run in the future.

Currently, Kirienko's office is holding a competition for the office of Chief Federal Inspector in Kirov Oblast. People seeking to work on Kirienko's staff send in applications. Then they pass through a written test in which they must describe a project for the district. At the next stage, applicants must work in a group in which they collectively develop a proposal and present it to other competitors, trying to demonstrate their powers of persuasion.

While only the four top finishers are offered jobs in the administration, the top 24 enter a list known as the "golden reserve." Kirienko's administration then relies on these people to enact various parts of their policy, either providing them with grants for various projects or designating them to set up analytical centers where they live. Currently there are 114 people on Kirienko's staff.

While these competitions have helped Kirienko identify talented new staff members, they have not worked perfectly. The winner of the competition in Perm Oblast for chief federal inspector resigned one year after taking his new job. Also Kirienko has not used this method to fill all positions. In Tatarstan, for example, the chief federal inspector is a holdover from the Yeltsin era.

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**PATTERNS OF REGIONAL DEVELOPMENT**

**PRIMORSKII'S DARKIN SURPRISINGLY SUCCESSFUL IN FIRST 100 DAYS.**

*After eight years of rule by Yevgenii Nazdratenko, Primorskii Krai has a new governor in Sergei Darkin, a man who has no experience as a politician, never gave an interview before his election, and did not appear in the media before the campaign began. Andrei Kalachinskii, one of the RRR's Vladivostok correspondents, recently met with Darkin and was pleasantly surprised.*

In our conversation, Darkin stressed several times that he was one of the few Primorskii businessmen who did not have access to state property or money when he began. Many claim that businesses launched in the early 90s were either funded by the state or by "money from the

shadows." Since Darkin did not have state money, many accuse him of criminal links. Darkin claims that not all of the "shadow money" comes from criminal sources.

Now Darkin feels that he can act completely independently. He does not need government funds or access to free fishing quotas. His company, Roliz, is neither extremely successful nor very large. It is not one of the 100 largest tax-payers in the krai. But it is an independent and flexible company that gave Darkin valuable experience in surviving the difficult conditions of the real market.

In this sense, Darkin is a man of his time. He comes to the oblast administration as a manager. He claims that he is interested in results and not process, the abilities of people rather than their loyalty. Even though he has remained in the shadows, he has surprised many during his first three months in office.

First, Darkin did not give administration positions to the people who helped him in the campaign. He also did not give these people money from the krai budget. Rather, Darkin named only former managers from his company as deputy governors. The only exception is former Ussuriisk Mayor Vladimir Vedernikov, who is now in charge of preparations for winter, an almost impossible task that is not likely to help Vedernikov's career. Vedernikov helped Darkin purchase an Ussuriisk factory, which, restructured now as Primorskii Soy, is to become the largest producer of vegetable oil in the Far East and Siberia.

Second, the Krai Duma has unexpectedly given Darkin its full support and has already adopted the region's 2002 budget without amendments. In the past, the budgets were usually adopted several months into the year. It is worth remembering that on the eve of the runoff, Speaker Sergei Zhekov had threatened to seek Darkin's removal from the elections for various campaign violations. Now that dispute is forgotten and the Primorskii governor has the full support of the legislature for the first time.

Third, Darkin has limited the power of the krai's mayors to distribute budget funds. Now all public money has been transferred from various banks to the krai treasury. Additionally, the krai's money is controlled by the federal treasury, following the demands of Prime Minister Mikhail Kasyanov.

Fourth, Darkin has managed to build up greater fuel supplies in preparation for winter than in the past. Nevertheless, the krai administration continues to fight with Unified Energy System (EES) leader Anatolii Chubais. Darkin refused to give EES subsidiary Dalenergo bank guarantees and failed to increase the price consumers pay for electricity. However, Darkin did remove all benefits local industries received in buying electricity.

Darkin's main enemies now are the representatives of the federal district, headed by Presidential Representative to the Far East Konstantin Pulikovskii and his deputy Gennadii Apanasenko. The federal district officials represent political and economic opposition. They cannot forgive Darkin for the electoral defeat Apanasenko suffered at his hands in the gubernatorial election earlier this year. They also do not understand his economic policies. Pulikovskii is an old-fashioned general and Apanasenko is a typical Soviet director. These differences will become even more apparent when the federal officials start to lobby the interests of "their businesses."

Pulikovskii and Apanasenko mostly work through the local leaders in the krai, such as the heads of the rural raions and the mayors of Nakhodka and Vladivostok. However, mayors

Viktor Gnezdilov and Yurii Kopylov have not been able to successfully develop their cities. They are used to spending public funds without any oversight. In Nakhodka, the mayor controls the city council. However, Vladivostok has not had a council for nine years and Kopylov has no plans to explain himself to the city Duma that was recently elected. The deputies have effectively expressed no confidence in him, accusing him of giving away city property for prices far below market value. The union of federal and local authorities against Darkin is already clear in the upcoming elections for the krai Duma. Kopylov and Gnezdilov have announced that they will seek seats in spite of a law that forbids mayors from serving simultaneously as legislators.

The main action, however, is in the economy as Darkin is supporting any initiative he believes will help the krai. This approach has led to a redistribution of resources in the markets for forest products, fish, minerals, tourism, and transportation. Already, representatives of the food processing industry are boycotting Darkin by reducing their tax payments. - Andrei Kalachinskii in Vladivostok

**KRASNODAR GOVERNOR BLAMES CENTER FOR REGION'S POOR ECONOMIC HEALTH.** Krasnodar Governor Aleksandr Tkachev announced at a September press conference that he is working to transform his region from one that relies on federal subsidies to one that contributes more to the federal budget than it takes. However, he charged that federal policies are preventing him from achieving this goal. In particular, whenever the region increases its income, the federal government reduces the amount of subsidies that it provides. In 2001, Krasnodar is receiving 1.3 billion rubles from the federal government. Tkachev said that his administration builds different relations with the krai's raions. When they increase their income, he does not reduce the subsidies that they receive. Tkachev claimed that such a policy stimulated economic activity.

Since Krasnodar is one of Russia's largest grain producers, the health of its economy is based largely on the price of this commodity. Former Governor Nikolai Kondratenko constantly sought the highest prices. When grain prices were low, he would block the purchase and export of grain across krai borders in anticipation of higher prices. Such actions violated Russian law, but made Kondratenko very popular in the region.

In the conditions of the post-Yeltsin era, Tkachev can hardly take measures that so openly violate Russian law. Nevertheless, he has ordered the oblast administration's Agriculture Department to create a structure that will "handle price-setting and help the peasants." Moreover, the governor sees no reason for setting up grain markets because they did not prove themselves when they operated earlier. - Oleg Tsvetkov in Maikop

**GOVERNOR SEEKS TO BUILD "COMMUNISM" IN OMSK; ATTACKS PRIVATE BUSINESS.** Omsk Governor Leonid Polezhaev has launched a campaign to raise salaries, provide cheap salami, and lower the price of bread. He is also turning up the pressure on small and medium businesses.

Polezhaev complained at a recent oblast administration meeting that low salaries were hindering economic growth in the region. Omsk ranks 12th in terms of the level of growth, but only 54th for average salaries. The average salaries for workers in machine building and construction is about \$60-70 a month. Polezhaev partly blames the region's defense industry,

some factories of which have not paid salaries in months. He argues that the oblast preserved the defense enterprises in the early and mid-90s through various tax breaks, subsidies, and lobbying the federal government for special regional programs. Often the administration closed its eyes to the fact that many of the enterprises paid low salaries in order to save money. Now Polezhaev believes it is time for the enterprises to pay higher salaries in order to stimulate the regional economy.

Although Polezhaev was critical of the defense enterprises, which are closely tied to the regional authorities, his real target was private business. Polezhaev claimed that 30 percent of the oblast economy exists in the shadows. Of the 70,000 private enterprises in the region, he claimed that 44,000 show no income but somehow manage to survive for years. Many private enterprises pay their employees in cash and off the books. Thus, enterprises, working with banks and insurance companies, do not pay taxes on many millions of rubles.

Polezhaev complained to the federal district level tax authorities, charging that they simply keep track of the situation without doing anything about it. The oblast authorities now plan to monitor the federal tax collectors to see how well they are collecting the taxes that flow into the local budgets. Polezhaev complained that under the new federal district system set up by Putin, the federal authorities do not pay attention to regional needs.

The day after Polezhaev's comments, the regional legislature adopted a new law that raises taxes on small and medium-sized enterprises by 7-10 times. Additionally the governor created a special inter-agency commission with participation from the oblast's power ministries and chaired by First Deputy Governor Andrei Golushko. Now the directors of local enterprises and private companies must report to it how much they have raised salaries in the past. Additionally, the heads of the tax collection agencies are reporting how many criminal cases they have filed. Many of these discussions are broadcast on oblast television.

The federal tax police are in a particularly difficult position. The governor charged that the IT Bank, Asko Insurance Company, and Omsk Wine Factory were working together to avoid taxes. However, one month ago, the tax police had to drop their case against the companies for a lack of evidence. If the tax police reopen the case now, it will look like gubernatorial pressure on the federal agency.

According to the Ministry for Economic Development and Trade, Omsk is slipping from a region at a medium level of development to one at a lower level. Consumer buying power is slipping and is now less than half of the Russian average. The level of investment in basic capital is now 2,200 rubles per person, when the Russian average is 7,900.

However, local television viewers do not get this news. Rather Viktor Makhnev, the chairman of the oblast's Economic Committee, recently went on the air to announce that the strong wheat harvest meant that bread prices would drop 50 kopecks immediately and by one ruble in the future. The director of Omsk Bacon, Russia's largest producer of pork products, said that he would reduce the price of sausage 5 percent in the region, which would now have cheaper sausage than its neighbors. Overall, Polezhaev's tactics amount to populism and an attempt to build Communism in a single oblast. - Pavel Shagiakhmetov in Omsk

## **FEDERATION COUNCIL**

## **ULYANOVSK LEGISLATURE REJECTS KIRIENKO MAN AS FEDERATION COUNCIL REP.**

On 5 October, the Ulyanovsk Legislative Assembly failed to elect Ulyanovsk Chief Federal Inspector Valerii Sychev as its representative to the Federation Council. The votes for and against were evenly divided, so Sychev's candidacy failed.

The legislature has not been able to fill the spot since June, when former Speaker Sergei Ryabukhin became an auditor in the Russian Audit Chamber. Ryabukhin nominated as his successor Viktor Smirnov, a staff member of the Federation Council who was in charge of work with the Great Volga Interregional Association. However, the deputies did not support his choice and called for alternative candidates.

Over the course of three months, no candidate was found, so current Speaker Boris Zotov used his prerogative to nominate Sychev. In doing so, he had the support of Governor Vladimir Shamanov and the presidential administration. The main argument in favor of Sychev's nomination was that he had good connections at the highest levels.

However, several of the regional legislators thought that it would be better to send someone from among their ranks since it would be much easier for the legislature to work with that person. Nevertheless, the deputies could not find a worthy candidate and simply ended up rejecting Sychev.

Sychev's failure to win the legislature's support should send a signal to his boss, Presidential Representative in the Volga Federal District Sergei Kirienko. Sychev became the chief federal inspector one year ago because of his connections with the presidential administration. However, he was never part of the "golden reserve" of personnel selected through Kirienko's process of picking staff members on the basis of rigorous competitions (see *EWI Russian Regional Report*, 3 October).

## **MEDIA ISSUES**

**FEDERAL DISTRICT TELEVISION COMING TOGETHER IN SIBERIA.** Although Siberian television did not meet its 1 September deadline to start broadcasting, work is now progressing quickly on the station. As reported earlier, Siberian Aluminum has already provided a \$10 million credit for the station.

The head of the enterprise is the Novosibirsk State Television and Radio Company (GTRK) Chairman Yakov London. Despite his high state position, London controls several television stations in the region. For example, he founded the commercial Novosibirsk station NTN-4 and personally edits the contents of the evening news. London also has close ties to Russian Press Minister Mikhail Lesin. Therefore observers believe that Lesin's Video International company will handle ad sales for the new Siberian network.

Currently the Siberian network's organizers are buying up stations throughout the Siberian regions, with broadcasting expected to begin in the beginning of December. London claims that his team has managed to take control of key stations "in many cities." If London and his associates are successful, they will control an enormous information network that will serve state interests. Most likely, the station will provide extensive coverage to Presidential Representative in the Siberian Federal District Leonid Drachevskii and President Putin. The

network will be particularly useful in the State Duma and presidential election campaigns and in the elections of local leaders.

Local observers fear that the new network will capture much of the Siberian advertising market and send the revenues back to the Moscow-based Video International. In Altai Krai, Deputy Governor Yurii Visloguzov criticized the network for buying the local Channel 7, which previously had been used by six other television companies. Visloguzov accused the network of "aggressively grabbing up new markets." With London's help, Video International already controls 80 percent of the advertising market in Novosibirsk. - Maksim Shandarov in Novosibirsk

## **POLITICAL ECONOMY**

**PERM FIRM TO HEAD URALS TELECOM FOR POLITICAL REASONS.** Russia's more than 80 regional telephone companies are merging in a process that will likely culminate in the creation of seven new super phone companies, a number equal to the number of federal districts in the country. Only in the Urals Federal District does the reach of the new phone giant not correspond with the borders of the district. In fact, the core of the new holding company will be Perm Oblast's Uralsvyazinform, which is located in the Volga Federal District.

While the Perm company has a larger capitalization and higher profits than all the phone companies in the Ural Federal District, it will lead the Urals telephone holding company for political, rather than economic, reasons. Since Presidential Representative to the Urals Federal District Petr Latyshev has extremely poor relations with Sverdlovsk Governor Eduard Rossel, Latyshev could not allow the governor to increase his influence through basing the new holding company in Yekaterinburg. Latyshev has close connections to Perm, where he once headed the oblast's branch of the Ministry of Internal Affairs. Additionally, the general director of Perm's Uralsvyazinform, Vladimir Rybakin, is the head of the Perm chapter of the pro-Kremlin Yedinstvo party, which gives him just the right political credentials.

The form of the new company was a topic of debate for six months since the various oblast telecoms did not want to be subordinate to a company outside their federal district. The Sverdlovsk Oblast telecom made the loudest protests. However, on 27 September, the shareholders in Uralsvyazinform voted to take over Chelyabinsk's Svyazinform, Sverdlovsk's Uraltelekom, Khantymaniiskokrtelekom, Tyumentelekom, Kurgan's Elektrosvyaz, and Yamalelektrosvyaz (KompanONline, 28 September).

Rybakin believes that the mergers will facilitate the creation of a powerful and well-capitalized company able to compete on the national market. Additionally, the stocks of the company should be more liquid, increasing their market value. - Konstantin Kolyvanov in Perm

**ACCOUNTING CHAMBER ISSUES REPORT CRITICAL OF KALININGRAD ZONE.** This summer the Russian government adopted a program for the development of Kaliningrad Oblast and in November the State Duma will begin consideration of a bill on establishing a special economic zone for the region. According to a report from the Accounting Chamber issued last week, the previous program and attempt to set up a special economic zone were not successful.

The special economic zone was established in 1996. However, last year the cost of customs and tax breaks was ten times the size of the oblast's income (1.3 billion rubles). The tax and customs benefits made it much more profitable to import rather than export, undermining the purpose of the special zone. The goods being imported were not new forms of technology or equipment, as had been envisioned, but consumer goods. Thus, the audit concluded that the oblast had not become a special economic zone, but rather a trade zone that had run up 1.3 billion rubles in debts. Now the oblast owes the Russian government 200 million rubles and Dresdner Bank much of the rest. Governor Vladimir Yegorov says that the oblast cannot repay these sums unless the debt is restructured. Additionally, various tax and budget code violations have cost the federal government an additional 350 million rubles. The violations have also set back the regional and local governments 19 million rubles.

In examining the implementation of the federal government's 1998-2005 development plan, the auditors found that there was very little money to actually implement the plan and that the money that was actually appropriated was spent ineffectively. Auditor Sergei Ryabukhin pointed out that the money was not spent on important investment projects that would create profitable enterprises, but on resolving immediate social problems and financing various non-commercial organizations. Last year the federal government spent 35.8 million rubles on this program, about a third of the official budget.

The auditors listed 44 proposals to lift the exclave out of crisis. They included increasing the managerial effectiveness of the zone and allocating sufficient federal resources to implement the program. Yegorov was happy with the results of the audit because they blame many of the oblast's problems on its past leadership and provide a basis for seeking more federal money. The new federal program plans to spend 92.9 billion rubles on the oblast through 2010. However, only 20 percent of this money will come from the federal treasury. The rest of the money should come from investors, many of whom are extremely skeptical about the plans. Alfa Bank's Petr Aven said that the oblast should create a favorable investment climate rather than hoping for money from the federal budget. - Svetlana Mikhailova in Moscow

## **PRESIDENTIAL REPRESENTATIVES**

**CONFERENCE EXAMINES PROGRESS OF PUTIN'S FEDERAL REFORMS.** On 21-22 September, the Nizhnii Novgorod Research Foundation, the George Washington University, and the EastWest Institute, with financial support from the Carnegie Corporation of New York, held a seminar in Boldino to examine the progress of Putin's evolving relationship with the Russian regions. Many of the conference papers (some in English and some in Russian) are now available on-line at the EWI website (<http://www.iews.org/rrrabout.nsf>) and more will be available shortly. Below is a synopsis of the main presentations. Naturally, these summaries only hint at the richness of the papers. The papers and comments represent preliminary findings and we would welcome any criticisms, comments, or suggestions for future revisions. Please send them to: [rorttung@iews.org](mailto:rorttung@iews.org)

**CENTRAL FEDERAL DISTRICT: SHORTAGE OF STAFF LIMITS WORK.** One of the key features of the Central Federal District is Presidential Representative Georgii

Poltavchenko's close friendship with President Vladimir Putin, according to Nikolai Petrov of Macalester College. Only the Northwest's Viktor Cherkosov has a similar friendship with Russia's leader. Despite this friendship, however, the results of Poltavchenko's work are the least clear of the seven presidential representatives.

One problem is that Poltavchenko lacks a staff large enough to deal with the tasks he has been assigned. He employs 114 people, but only 53 of these are programmatic officers, with the rest in support positions. A large number of the key staff members served in the special services in St. Petersburg. In the regions, many of the staffers have been in place since before the creation of the federal districts. Poltavchenko is seeking to increase the size of his staff and tries to make up for the lack of resources by soliciting the free advice of various scholars and experts.

Petrov argued that the role of the new federal districts was large in increasing the power of the center over the regions. The various gubernatorial elections that have taken place in the Central Federal District have allowed the presidential representative to enter the district's political life. Petrov rejects assertions that the Kremlin "lost" the gubernatorial elections in places like Tula, Ryazan, Ivanovo, and Kursk oblasts because Communists came to power. What is more important is the Kremlin's "victory" in weakening the institutional power of the regional leaders and correspondingly increasing the Kremlin's power. During these elections, the presidential representative's main task was not to back one candidate over the others, but to take a political inventory of the regions, identify and intercept financial flows, and establish connections with all political players. The presidential representative has been effective in setting up ties with the federal district's businesses and these ties will have a powerful effect on who wins the next round of gubernatorial elections. Petrov noted approvingly that Poltavchenko bases his work on cooperation with the district's governors and other regional authorities.

Given the career backgrounds of Poltavchenko's staff, his main focus is on organizing the work of the various law enforcement and military ministries in the district. However, this work is rarely discussed in the press and the results are extremely hard to analyze. Of the visible changes, former chief federal inspectors have become heads of the Ryazan Federal Security Service (FSB) and the Tambov Ministry of Internal Affairs. In Voronezh, the head of the regional FSB has been elected governor. The two-year old dispute between the Moscow city authorities and the federal government over the appointment of the Moscow police chief has been settled with a compromise figure. The new police chief at the federal district level is an outsider whose last assignment was as the police chief of Rostov Oblast.

In answering questions following his talk, Petrov argued that the creation of the presidential representatives was much more important in its psychological impact than in the representatives' actual activities. At first the governors feared the representatives, but now they see that the representatives do not affect them adversely and can, in some cases, offer help. However, some of the representatives' powers are not legitimate, such as the phrase in the original presidential decree, which gives them the right to organize the work of the regional authorities. This phrase is too broadly defined. Nevertheless, Petrov pointed out that he believes that the powers of the representatives had shrunk since when they were created in May 2000.

Petrov also pointed out that there is a difference between what Putin says about the representatives and what they actually do. Putin has repeatedly told the representatives not to



intervene in the affairs of the governors. But all of the representatives are trying to coordinate the information that federal district residents receive, all are playing a role in gubernatorial elections, and all are curtailing the powers of the governors. Petrov agreed with assertions that people with a military background were not necessarily the best for these positions and predicted that some of the current representatives would eventually be replaced.

**SOUTHERN FEDERAL DISTRICT: GENERAL HAS TROUBLE WITH COMPLEX ETHNIC ISSUES.** The Southern Federal District is asymmetrical (with several oblasts and republics), multiethnic, and is home to numerous religions. Unfortunately, Presidential Representative Viktor Kazantsev, who most recently was in charge of the North Caucasus Military District, does not always understand how to operate in these conditions, according to Larisa Khoperskaya, who worked for one year as a federal inspector before returning to an academic position. Khoperskaya tutored the general in understanding the concepts of federalism and multiculturalism in preparation for his defense of a candidate's decree in philosophy, but her student did not always assimilate the nuances of his studies. In some unscripted public remarks after securing his degree, for example, Kazantsev declared that "on the territory of our federal district, we will impose a unified multi-culture."

Kazantsev has not succeeded in influencing any of the numerous regional elections that took place in the south. His office collected a lot of information on violations in all stages of the campaigns (forming the electoral commissions, nominating candidates, campaign finances, vote counting) but could not do anything practical with this information. There will be many additional elections in the region in the coming year, but it is not clear how the presidential representative will respond. Khoperskaya pointed out that the presidential representative could do little in the 23 September Rostov Oblast elections because the electoral commission was not subordinate to him. In those elections, the commission refused to register the Communist candidate, the only contender who had a realistic chance of defeating the incumbent governor.

In terms of nationalities policies, the main issues Kazantsev addresses are Chechnya, the conflict between North Osetiya and Ingushetiya, and the turbulent situation in Karachaevo-Cherkesiya. In Chechnya, beyond his recent task of conducting negotiations with Chechen President Aslan Maskhadov, Kazantsev is working to prepare a new constitution for the republic and switching from military operations to police surveillance.

Kazantsev often visits the conflict zone in North Osetiya and Ingushetiya. However, his activities tend to be limited to making populist declarations about addressing some of the region's problems, followed up by little real activity. Khoperskaya pointed out that the official number of refugees is often greatly exaggerated for political purposes. She claimed that there is no global catastrophe there, but that various groups are trying to take advantage of the problems that do exist.

In Karachaevo-Cherkesiya, Kazantsev initiated the distribution of key posts in the republic along ethnic lines. Now the republican president is an ethnic Karachai, the vice president is Russian, the prime minister, Cherkes, and other groups have key positions in the government. Dagestan has a similar system: assuring each of its major ethnic groups representation in the republican parliament and a presidential office that rotates among the different ethnic groups. However, this system is currently not functioning because the incumbent

president refused to step down after his term ended and continues to seek additional terms in office.

The increasing politicization of Islam in the region is another major problem. In particular, the rise of Wahhabism is most noticeable in Dagestan. Additionally, there have been numerous political assassinations throughout the region. The presidential representative also has to deal with the problems of the ethnic Russian population and the Turkish movement.

Kazantsev employs a staff of about 100, with 70 located in Rostov and the rest in the other regions of the federal district. One of the key criteria in picking these people was ensuring that they had no connections to the governor of the region where they would serve.

**SIBERIAN FEDERAL DISTRICT: DRACHEVSKII AVOIDS OPEN CONFLICT WITH GOVERNORS.** Leonid Drachevskii is one of two presidential representatives who does not wear an officer's uniform. His main career experience is in diplomacy and his key aides came to Siberia with him from the Russian Ministry for CIS Affairs, according to Maksim Shandarov, a correspondent for *Kommersant-Sibir* based in Novosibirsk. Another key staff member is former Minister for Northern Affairs Vladimir Goman. Drachevskii's staff numbers just over 100, with about half in Novosibirsk and half in the 15 other districts of the district. Drachevskii faces many difficulties in naming officials to key spots in poorly populated, but economically important regions like Taimyr and Evenkiya. One way Drachevskii dealt with the lack of qualified personnel was to retain Yeltsin's old presidential representatives, but send them to new regions. For example, the former presidential representative of the Ust-Orda Buryat Autonomous Okrug is now the representative in Tyva. Drachevskii simply did not have the financial resources to bring in many high-quality staff from Moscow and set them up with apartments in Novosibirsk.

Although there have been many gubernatorial elections in the district, Drachevskii has never stated his political opinions about the candidates. He has even gone so far as to fire any staff members who seek office (in contrast to the presidential representatives in the Urals and Far East).

Drachevskii mainly works through the Federal District Council, whose membership includes all 16 Siberian governors. The body meets once every four to six weeks in various Siberian cities to discuss one key problem. Often federal officials are invited to the meeting and subjected to harsh criticism by the regional leaders. For example, the governors were particularly tough in their comments about Unified Energy System Anatolii Chubais' plan to reform the country's electricity monopoly. In such meetings, Drachevskii usually acts as an arbiter without taking sides. Another issue of increasing concern is Siberia's long border with Kazakhstan and China.

Drachevskii has encountered considerable difficulty bringing regional laws into line with federal norms. Amendments to the Khakasiya constitution contain more violations than the clauses that they replaced. Tyva has rewritten its constitution in a method designed to give more power to the republican president. Thus, Drachevskii prefers simply to state that laws have been brought into line rather than discuss the actual content of these laws.

Drachevskii has done little to help the press in many regions. In Kemerovo and Omsk (after the departure of the mayor who opposed the governor), the governors completely control

the local media. There are many problems in other regions as well, but Drachevskii does not publicly criticize the governors for them.

Drachevskii has set up special relations with powerful financial interests that have effectively privatized various regions in Siberia. Siberian Aluminum largely controls Khakasiya and representatives of Norilsk Nickel have come to power in Taimyr. However, Drachevskii does not announce his meeting with local financial-industrial groups and it is difficult to obtain information about them.

In terms of the economy, one of Drachevskii's key goals is to restore the economic links that existed between the district's factories in the past, but have since been destroyed. For example, he has worked hard to convince Norilsk Nickel to purchase new equipment from Siberian manufacturers rather than foreign suppliers. However, Drachevskii and his economics deputy Igor Prostyakov are interested in restoring ties only within the Siberian Federal District, and no further. The presidential representative's staff was not able to name any examples of cooperation with neighboring federal districts when asked.

In July, scholars at the Siberian branch of the Russian Academy of Sciences, members of Drachevskii's staff, and a variety of experts prepared a development plan for the Siberian region, which apparently has Putin's approval. However, the governors played little role in it and some regions oppose parts of the plan. For example, the Altai Republic does not want to build a road to China as the plan envisions because it would cross some of the local peoples' traditional burial grounds. Many of the provisions of the plan seem to serve the interests of raw material extracting companies in the region rather than addressing the concerns of local residents. And, as usual with such development plans, it is not clear where the money will come from to pay for most of the projects.

**FAR EAST FEDERAL DISTRICT: FEW SUCCESSES FOR PULIKOVSKII.** The Far Eastern Federal District includes 36 percent of Russia's territory, but only 5 percent of its population. It is seven time zones from Moscow and is largely cut off economically from the rest of the country. Presidential Representative Konstantin Pulikovskii is often criticized because he ran an unsuccessful campaign to elect his deputy Gennadii Apanasenko as the governor of Primorskii Krai. However, he has more influence over the region than is apparent, according to Petr Kozma, the editor of the EastWest Institute's *Rossiiskii regionalnii byullen* and a former legislative assistant to State Duma Member Viktor Cherepkov, the former mayor of Vladivostok. Kozma argued that Sergei Darkin, who defeated Apanasenko was not the candidate supported by former Governor Yevgenii Nazdratenko, as many observers claim. Kozma claimed that Nazdratenko believed Darkin would be easily manipulated by the Kremlin and therefore sought to work out a deal with his old rival, Cherepkov, who would not be susceptible to such pressures. Thus, even though Pulikovskii's deputy lost the election, the Kremlin nevertheless won a governor it could manipulate.

Other federal officials have played a major role in reshaping Moscow's policy toward the region. For example, in dealing with Primorskii Krai's on-going energy crisis, Anatolii Chubais replaced the head of the krai energy companies with specialists recommended by Nazdratenko's administration. Moscow has increased its fuel subsidies to the region and is paying them in full, according to a paper prepared for the conference by Elizabeth Wishnick,

deputy editor of the *Russian Regional Report*. Prime Minister Mikhail Kasyanov and Emergency Situations Minister Sergei Shoigu are taking the lead in preparations for the 2001-2002 winter, leaving Pulikovskii to play a minor role. Additionally, the federal government is now managing the krai budget through the federal treasury. Pulikovskii freely admits that he has been unable to fulfill the main task Putin assigned him: coordinating the activities of federal agencies based in the Far East Federal District.

Pulikovskii has also had difficulty bringing Sakha's laws into line with federal norms. On 5 February, Sakha legislators passed an amendment to their constitution asserting that the republic's diamonds were exclusively republican property. However, the Kremlin is unwilling to cede ownership of 99 percent of Russia's diamond wealth.

In the past there has been little cooperation among businesses across regional lines. Pulikovskii has set up a federal district business council to encourage more cooperation than competition. However, it is not clear that Pulikovskii's attempts will have any more chances for success where past attempts have failed.

[Reports on the other federal districts will appear next week.]

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**RESPONSES TO INTERNATIONAL TERRORISM**

**SARATOV SPECIALIST DISMISSES POSSIBILITY OF CHECHEN BIO-TERRORISM.** The director of Saratov's Microbe (*Mikrob*) Anti-Plague Research Institute, Vladimir Kutyrev, acknowledged the existence of reports that Chechen rebels planned to attack 20 large cities in Russia with biological weapons, but pointed out that there is no evidence that the Chechens have such weapons. He claimed that existing security measures would prevent such dangerous viruses from falling into the hands of terrorists. He said that the supposed stockpiles of bacterial weapons did not exist and that security measures at the institutes, which work on such issues, were adequate to prevent any leaks.



Since Saratov is an agricultural region, it is possible for people to acquire anthrax from local cattle. During the last decade cases of anthrax have appeared in animals in 12 raions of the oblast. In most cases, the animals were owned by private farmers and had not been inoculated against the disease. Four people were infected in incidents in 1991 and 1998. However, the authorities identified the problems in time and the patients were successfully treated. No one has died of anthrax in the region for decades.

In 2000 four cases of anthrax were found in privately owned pigs and state-owned cattle. These animals were destroyed and their carcasses burned. People became infected in cases where non-professionals slaughtered the sick animals. The Microbe Institute has a rapid reaction force to deal with emergency situations. Anthrax has yet to be eradicated among the local cattle herds. Kuttyrev believes that the situation would not be critical if private farmers took steps to inoculate their herds.

Kuttyrev warned that the situation was much worse in neighboring Kazakhstan. There an institute analogous to Microbe had to close because of a lack of funding. In Kazakhstan, besides natural occurrences of anthrax, there are also incidents of plague. There have been several cases of the disease this year, including some with fatal consequences. Kuttyrev claims that his institute was able to take steps in time to prevent the disease from being carried into Russian border regions. - Yuliya Yeliseeva in Saratov

**HOW REAL IS THE TREAT OF EXTREMISM AMONG RUSSIA'S MUSLIM POPULATION?** In an interview with Interfax, Chairman of the Council of Muftis in Russia Ravilii Gainutdin said that there was a real threat of extremism within the Muslim part of the population. In its 9 October edition, the Tatarstani newspaper *Vremya i dengi* argued that in the context of the US attacks on Afghanistan, such comments should be taken seriously.

Gainutdin blames the state's lack of attention to the problems of the Muslim population for making such a development possible. During the last decade, young Muslims have not had opportunities to receive a religious education in Russia and have headed to Arab countries to do so. "There they were educated exclusively in a mono-religious atmosphere where adherents of Islam do not have the experience of living and cooperating with others, as we have in Russia. After living in these countries for seven or eight years, the young people return to Russia, where they seek the same conditions for our Muslims that exist in Muslim countries."

The mufti believes that the state should provide financial and other kinds of aid to Russia's Muslims. "We are speaking about setting aside money to create Muslim institutes and universities, and helping prepare instructors to teach non-religious disciplines. We can take care of the religious aspects ourselves," Gainutdin said.

He noted that Russian Muslims have repeatedly brought these problems to the attention of Presidents Boris Yeltsin and Vladimir Putin. However, Gainutdin charged that the state did not pay enough attention to this problem and did not recognize the dangers inherent in ignoring it.

"If the situation does not change," Gainutdin said, "in several years, we will face radical and extremist groups of people."

Deputy Tatarstani Mufti Valiulla Khazrat supports these views. He has been engaged in setting up Muslim education in the republic since 1998. In recent years, the mosques have been

returned to their congregations and new buildings have been built. But, "What is the point of these new buildings if there is no one to serve in them?" Khazrat wonders. "Russia's Muslim societies simply lack well-trained personnel. In the republic, we have opened six madrassas, which provide secondary religious educations, and it is possible to receive a higher education in the Russian Islamic university. Now there are about 500 students in the republic," Khazrat said. He admitted that the Muslim education in Tatarstani schools may not be at the same level as in Arab schools, but stressed that it is adapted to Russian conditions. - Midkhat Faroukshin in Kazan

## **PROTEST MOVEMENTS**

**KURSK PROTESTERS TARGET GLOBAL ISSUES FOR FIRST TIME.** On 5 October, an unusual act of protest took place in Kursk Oblast. Members of the pro-Communist Popular Patriotic Union formed a living chain stretching the length of Lenin Street to express their negative opinion toward almost everything happening in the world and Kursk Oblast. The protest was unusual for Kursk, where such public political demonstrations are rare. Similar demonstrations took place in the cities of Kurchatov and Zheleznogorsk.

The Communists marched under new banners denouncing globalization and the usual placards blasting "anti-people" reforms in Russia. For the first time, issues of globalization took priority over domestic Russian problems.

Most of the demonstrators probably could not define "globalization." But it is not hard to understand when they mean when they say this word. For them globalization is when you wear Turkish shoes and a Polish suit, smoke American cigarettes, drink Russian vodka, and prefer German cars and Japanese electronics. You love Italian music and English literature, but nevertheless, something is not right in your life. Who is to blame? Globalization, the new enemy number one.

In Kursk, the fight against globalization means the usual leftist denunciations of the reforms of Minister of Economic Trade and Development German Gref and attempts to recall local State Duma members elected on the Unity platform. Banners showed these deputies as snakes with human heads bowing before the dollar, suggesting that they had sold out to the "globalists and capitalists." Other banners denounced the buying and selling of land. Some targeted capitalism and called for the return of socialism. Others carried portraits of Lenin, Stalin, and Fidel Castro. Since the Communist Party had organized the demonstration, none of the posters aimed at Kursk's current governor, Yevgenii Mikhailov. In fact, some banners praised the governor, making clear that the Kursk Communists are fighting national leaders and international trends, but not the regional authorities. Some placards called on Kursk Mayor Sergei Maltsev not to raise prices for public transportation and housing, while preserving free education and health care.

Generally, the marchers avoided any excesses and were well behaved. Some young people (mostly college students) were among the crowds, but there was no real union of young and old leftists. There was nothing like the violence at other such protests in Seattle or Genoa. - Sergei Sarychev in Kursk

## **CENTER-PERIPHERY RELATIONS**

### **CONCENTRATING CAPITAL HELPS TATARSTANI LEADERS IN BATTLE WITH PUTIN'S CENTRALIZATION.**

by Gulnaz Sharafutdinova, George Washington University

The process of large-scale capital concentration and corporate vertical integration started in Russia in the late 1990s. Major Russian enterprises, particularly in the oil, chemical and metallurgical sectors started building large empires by acquiring additional property in related sectors. Mammoth companies like YUKOS, Russian Aluminum, the MDM group, and Uralmash launched the trend. Now, the process of capital concentration is taking place at the regional level as well. For example, Tatneft, the oil-company that serves as a cornerstone of Tatarstan's economy, has launched its own process of capital concentration. While such concentration in the large Russian firms might enhance the ability of the federal government and, particularly, the Russian president to control the oligarchs (to the extent that they need governmental protection), the process of concentration occurring under the control of regional governments might lead to the strengthening of regional elites vis-a-vis the federal center.

Tatarstan's Tatneft started expanding into other sectors of Tatarstan's economy in 2000. Who was affected by Tatneft's moves? In 2000 the republican government transferred its controlling 34.59 percent share of Nizhnekamskshina to Tatneft on the condition that the oil giant invest in this large tire-maker. Tatneft promised to invest up to 1.2 billion rubles in the course of 2001-2002. In addition, Tatneft acquired the Zavod tekhnicheskogo ugleroda in Nizhnekamsk. The republican government owned a majority share of this joint-stock company (77.06 percent), which it sold to Tatneft. To complete the deal, Tatneft agreed to finance the plant's 2001-2002 investment projects at a cost of 233 million rubles. The plant provides an indispensable intermediate material for Nizhnekamskshina - its biggest client, which purchases about 80 percent of the plant's output. Following these acquisitions, Tatneft transformed itself into a holding company in December 2000. Six months later, in June 2001, Tatneft obtained a blocking stake in Ak Bars bank by raising its share of the financial institution's charter capital from 10.05 percent to 24.37 percent. Tatneft secured these shares from the republican government in exchange for canceling state debts. In July 2001 the republican government decided that Tatneft should become a strategic investor in Transuglevodorod – the major extractor, transporter, and distributor of coal in Tatarstan. There are signs that Tatneft is now conducting an aggressive campaign to gain control over Nizhnekamskneftekhim, a large petrochemical plant in the republic that generates much of the region's revenue.

What does this all mean in the context of the Russian political and economic situation, taking into account the specific political and economic development of Tatarstan?

Famous for its "special" relations with Moscow, Tatarstan has adopted policies that differ greatly from those employed in other Russian regions. Because it pursued its own privatization policies, the government of Tatarstan still controls most of the republic's key enterprises, including Tatneft. Trying to prevent outsiders from gaining access to the republic's

wealth, the government of Tatarstan blocked the entry of Moscow-based banks into the republic. Furthermore, when the rest of Russia pursued radical economic reforms in the 1990s, Tatarstan's government adopted a policy that allowed for a "softer entry" into the market, regulating prices for certain basic products and implementing social assistance programs.

Seen in this context, Tatarstan's current process of concentrating capital could be the republic's effort to catch up with broader Russian trends, with some time-lag due to previous economic policies. Indeed, the general orientation of economic policies in Tatarstan seemed to change during the late 1990s, when the government started to talk about the need for liberal reforms, establishing competitive regional enterprises, and adjusting to market conditions.

However, taking into account the fact that the major economic units in Tatarstan remain in the hands of the regional government, economic factors are not the only determinants in deciding the future of the companies. Concentrating capital within the confines of a single republic is likely to have considerable implications for center-periphery relations in Russia. In fact, Tatneft's acquisition drive seems to be part of the republican government's strategy to deal with Putin's attempts to re-centralize the Russian state. The republican leaders' goal is to maintain the autonomy they acquired in the 1990s.

Given Putin's recentralization efforts and the loss of Tatarstan's tax privileges acquired as a result of 1994 power-sharing treaty, the process of grouping resources into one company serves political as well as economic purposes. Specifically, it looks like an attempt by the republican government to secure its hold over financial flows within the republic. Functioning as independent enterprises, Tatarstan's major companies have to pay high value-added taxes (VAT) that go into the federal budget. Integrated under Tatneft, these companies operate as a single unit. The VATs that would have been taken by the federal center from separate firms now remain within a single company - in this case Tatneft - which pays less tax as a single unit. In this way, the republican government gains much firmer control over the regional economy and can legally avoid paying more tax rubles to the federal government. In short, whether as a result of a carefully thought-through strategy by the republican government or as the unintended consequence of a natural process of catching up with wider Russian trends, some financial flows that used to be controlled directly by the republican government and from 2001 could have been controlled by the federal government, now are being transferred to Tatneft, a company entirely controlled by the republican government.

**BASHKORTOSTAN CHIEF FEDERAL INSPECTOR ANALYZES FIRST YEAR.** In September, Bashkortostan Chief Federal Inspector Rustem Khamitov marked his first year in office. Former State Duma member Aleksandr Arinin and former Bashkortostani Prime Minister Marat Mirgazyamov had been considered for the job. They had both tried to compete against Bashkortostan President Murtaza Rakhimov in the republic's 1998 presidential elections, but were removed from the race, allowing Rakhimov to run uncontested. In selecting Khamitov, who was considered to have good relations with Rakhimov, the federal authorities sought to avoid open confrontation with the Bashkortostani elite, preferring instead to seek political compromises. Before Khamitov entered the picture, there had never been a presidential representative in Bashkortostan. The arrival of Khamitov did not give this post significant political authority, but it is still an irritant for Rakhimov.

Khamitov is not particularly visible in resolving problems between Moscow and Bashkortostan. His main role is in organizing meetings between high-level Kremlin officials and Rakhimov. Such meetings have included sessions with Deputy Chiefs of Staff Vladislav Surkov and Dmitrii Kozak, Presidential Representative to the Volga Federal District Sergei Kirienko, and even Putin himself, who has met with Rakhimov three times in the last year. Khamitov claims that his main achievement during the last year is not falling under the authority of the Bashkortostani authorities and maintaining his independence. He has avoided the extremes of becoming overly close to the regional leaders and entering into conflict with them. He rarely participates in official ceremonies, thereby holding the republican authorities at arms length. However, he lost the confidence of the republican authorities who have ordered official newspapers not to publish information about his activities. He plans to overcome this information blockade by opening an Internet site so that he can communicate directly with the public.

Khamitov claims that his very presence has had a positive effect on the federal agencies working in Bashkortostan, since they have felt that they are necessary to the federal authorities for the first time. He lists this, and the return of the population's confidence in the federal authorities, among his main successes over the course of the year. However, Khamitov still has little influence over the federal agencies in Bashkortostan. As in the past, Rakhimov allies control these agencies, particularly, the power ministries. Nevertheless, Khamitov noted that the heads of the republican branches of the federal ministries were experienced bureaucrats and sought to avoid conflict with the president's representative.

Khamitov sees his main function as providing feedback for federal managers who work with the region. He sends information back to Moscow and Nizhnii Novgorod on the local reaction to federal policies. He praises the federal government's careful approach toward Bashkortostan, and credits this success to Kirienko, who in contrast to other presidential representatives, opposes the use of harsh measures against regional leaders. Khamitov does not rule out punishing the regional leadership if it does not carry out a presidential order, but claims that currently all federal instructions are gradually being implemented. - Igor Rabinovich in Ufa

**VORONEZH GOVERNOR DENOUNCES FEDERAL BUDGET.** Last week Voronezh Governor Vladimir Kulakov and the Oblast Duma, which has a pro-governor majority, sharply denounced the draft 2002 federal budget Putin has sent to the State Duma. Local observers point out that this is one of the few times that the governor has opposed a presidential initiative. After being in office for one year, the governor has established good working relations with the Kremlin.

Oblast Duma Speaker Aleksei Nakvasin charged that the parameters of the proposed 2002 federal budget would be much worse for the oblast than the 2001 budget. He noted that the federal budget called for increasing the salary of civil servants, but placed the main responsibility for doing so on the oblast budget, which is already running a deficit. The benefits provided in the current federal budget would cost up to 2 billion rubles, according to some estimates, and such a cost would have a negative impact on the oblast economy. Nakvasin called for filing a case with the Russian Constitutional Court, challenging the social clauses of the

2002 federal budget. Kulakov hopes to meet with President Putin to discuss these problems (*Bereg*, 12 October). - Yuliya Fedorinova in Voronezh

**NOVOSIBIRSK GOVERNOR, FEDS FIGHT OVER AIRPORT.** Recently the Novosibirsk Oblast authorities tangled with the federal government over the right to appoint the director of Novosibirskenergo. Now federal and regional authorities disagree over who should control the city's airport, Tolmachevo.

A recent meeting of shareholders sought to replace the recently deceased director of the terminal. Initially, acting Director Vyacheslav Shatalin was supposed to be appointed director. He apparently had the backing of the federal Property Ministry, which owns 51 percent of the airport's shares, and the governor's administration, which owns no shares. However, Shatalin abruptly and unexpectedly resigned from the job. Then Aleksandr Borodin, who serves simultaneously as the representative of the property ministry and as the chairman of the Tolmachevo board of directors, proposed that the former director of the Kazan airport, Salikh Sultanbikov, take over.

Novosibirsk Deputy Governor Viktor Kosourov quickly retorted that the governor's administration would not allow the appointment of an outsider to the post. Even though the oblast administration does not own a single share in the airport, it feels entitled to intervene in the affairs of the company. The head of the West Siberian Department of the Transportation Ministry, Vladimir Tasun, backed the deputy governor, even though he works for the federal government and logically should support its position. Some observers believe that Tasun was acting out of personal interest. Some of his relatives operate business ventures on the airport grounds and the arrival of an unknown official as the head of the airport could cause problems for the businesses already working there.

In theory, the federal property ministry should be able to dictate its terms because it owns a 51 percent stake in the airport. However, after a week of lobbying, the local authorities persuaded the federal shareholders to appoint Shatalin after all. However, the federal officials only agreed to let him stay in this position two years, rather than the usual term of four. Thus, the oblast authorities did not win an absolute victory over their federal counterparts. - Maksim Shandarov in Novosibirsk

## **POLITICAL ECONOMY**

**TVER ECONOMY SPLIT BETWEEN MONOPOLISTIC, COMPETITIVE SECTORS.** Competitive market relations are reasonably well established in Tver Oblast: only 22 percent of the region's enterprises work alone in their market niche. Until 1998, domestic firms largely competed against foreign producers. Now, with the devaluation of the ruble, most competition comes from domestic firms and factories located in the CIS countries. In the other part of the economy, there are about 87 key enterprises that are basically natural monopolies, according to the Tver branch of the Anti-Monopoly Ministry (*Veche Tveri*, 12 October).

Monopolies are most visible in the housing and municipal services sphere, where there is only competition in the service and housing repair sectors. Water, heat, and electricity suppliers

are all monopolists. Moreover, about 99 percent of the population are tied to their houses for financial reasons.

The banking sector is also heavily monopolized. The Tver branch of Sberbank holds 95 percent of the region's personal savings accounts and 65 percent of corporate accounts. There are eight Tver-based banks and 6 branches of banks from other cities in the region, but none of them are able to compete with Sberbank.

Telecommunications make up another monopoly, with Eletrosvyaz controlling this segment of the market, even though there are about 100 small alternative networks. Only 37 percent of the households have phone service in the cities and 20 percent in the rural areas, thus there is great potential for growth. The oblast has several cellular phone service providers, but their development is limited by the population's lack of discretionary income.

Competition is most highly developed in food processing. Tver has two giant bread producers that compete against each other successfully and export their bread outside the region. Tver also boasts 34 dairies and 8 meat processing plants. There is intense competition in the field of alcohol production. Practically every raion has its brewery, which competes well with the regional giant Afanasii-pivo. Though it has won a share of the Russian market, Afanasii trails behind Moscow and St. Petersburg producers in the oblast.

The retail trade sector is also heavily competitive. Key sectors with many suppliers include petroleum products and auto parts. Some even believe that there are too many spare parts providers. There is strong competition in the fields of education, tourism, restaurants, real estate, and household services. Imported textiles make up about 70 percent of the market, but there is growing competition.

In many ways, the Soviet legacy inhibits competition. There are insufficient transportation networks, a lack of good retail space, and poorly developed advertising opportunities (only 3 percent of the population have access to the Internet). Perhaps, most important of all, is the low salaries of the population. - Boris Goubman in Tver

## **PRESIDENTIAL REPRESENTATIVES**

**CONFERENCE EXAMINES PROGRESS OF PUTIN'S FEDERAL REFORMS.** This week we publish reports on the last three federal districts from the 21-22 September conference examining the progress of Putin's evolving relationship with the Russian regions. The Nizhnii Novgorod Research Foundation, the George Washington University, and the EastWest Institute, with financial support from the Carnegie Corporation of New York, sponsored the conference. For the earlier summaries, please see the Russian Regional Report from 10 October. Many of the conference papers (including several posted since last week) are now available on-line at the EWI website (<http://www.iewe.org/irrabout.nsf>). The papers and comments represent preliminary findings and we would welcome any criticisms, comments, or suggestions for future revisions. Please send them to: [rorttung@iewe.org](mailto:rorttung@iewe.org)

**VOLGA FEDERAL DISTRICT: LITTLE HAPPENING TO BRING REGIONS TOGETHER.** The Volga Federal District is unique in the appointment of Sergei Kirienko, a

public politician, as its representative. It is highly developed industrially, and extremely complex ethnically, with Tatarstan and Bashkortostan located on its territory.

In the numerous gubernatorial elections that have taken place in the district (Ulyanovsk, Tatarstan, and Mari El), Kirienko has not openly supported any of the candidates, but generally placed his bet with the candidate most likely to win at the end of the campaign, according to the Nizhnii Novgorod Research Foundation's Rustam Bikhmetov. In Nizhnii Novgorod, where Communist Gennadii Khodyrev won the governorship, Kirienko faced open opposition for the first time.

In the last year, several large Russian financial-industrial groups have purchased key factories in Nizhnii Novgorod and Kirienko has worked hard to demonstrate equal relations with all of them. There has also been a re-division of the media market in Nizhnii Novgorod, with the presidential representative, Nizhnii Novgorod mayor, and former Transneft Director and unsuccessful gubernatorial candidate Dmitrii Savelev taking the major shares.

Looking at Kirienko's actions in Tatarstan, Gulnaz Sharafutdinova, a political science graduate student at George Washington University, noted that the political situation remains much the same as it was. Nizhnii Novgorod played essentially no role in the recent reelection of Tatarstani President Mintimer Shaimiev. Tatarstan is currently discussing potential amendments to its constitution or even the possibility of adopting an entirely new constitution. However, as in the past, the key problems are solved at the meetings of key elites in Moscow (not in Nizhnii Novgorod).

Tatarstan has already lost some of the privileges it used to have according to the 1994 treaty with Moscow. Now, it pays 16 billion rubles a year more in taxes than it did in the past. But the republican elite hope to get up to 61 billion rubles in aid from Moscow as part of a federally-approved program for the development of the republic during 2001-2006.

Currently, Shaimiev controls the main financial flows in the region and all of the local big businesses. Therefore, Kirienko focuses his attention on developing ties with small and medium-sized businesses.

Sharafutdinova noted a major difference between the employees of the federal ministries in the region and Kirienko's people. Kirienko has brought together a group of ambitious, highly professional individuals, focused on accomplishing their official mandate. Operating as a team, they are now trying to re-establish the federal authority in the regions. However, they face the usual problem of not having a clear set of mechanisms as well as sufficient resources for accomplishing this task.

In coordinating key appointments in the region, Kirienko secures the agreement of the Tatarstani government. For example, the republican police chief, an ally of President Mintimer Shaimiev, has remained in place so far. Beyond holding numerous meetings, the presidential representative has done little to coordinate the activities of the federal ministries in the republic.

Midkhat Faroukshin, a political scientist at Kazan State University, pointed out that Kirienko and his staff have little public influence in the region. They lack the resources to set up a media outlet or an analytical center. He noted that Kirienko had deeply offended Shaimiev by filing a Constitutional Court case to determine that the federal government could prosecute the republic for not removing the sovereignty clause from its constitution for almost a year after being ordered to do so. Shaimiev preferred to work out the problem informally.



Sergei Borisov, the president of the Nizhnii Novgorod Research Fund, pointed out that there were competing hypotheses about the purpose of the presidential representatives. One hypothesis suggests that the seven federal districts are new territorial entities, which may ultimately take the place of the regions and serve as a form of defederalization in Russia. A second hypothesis is that the new institution has a more pragmatic goal: it is an instrument of recentralization whose purpose is to weaken the power of the governors. After one year, there is evidence for and against both hypotheses.

If the primary goal of the federal government was to sew the regions together, then little is being done. Integration in Russia is much less pronounced than in other states. Travelers have difficulty moving between regions because there are few flights and few convenient roads. Additionally, in the Volga region, in contrast to Siberia, Kirienko has not set up a governors' council to discuss federal district issues.

**NORTHWEST FEDERAL DISTRICT: SHADOWY RELATIONS WITH BUSINESS, LAW ENFORCEMENT.** Wesleyan University's Peter Rutland pointed out that Putin's main task for the seven presidential representatives was to prevent the breakup of the Russian Federation. This goal would suggest that the institution would only exist temporarily, but all institutions, once created seek new roles. However, the presidential representatives do not want to work as open politicians, preferring to perform their functions in the shadows.

In the five gubernatorial elections that took place in the Northwest recently, Presidential Representative Viktor Cherkesov played no role in three. Former Kaliningrad Governor Leonid Gorbenko was removed as the Kremlin wanted but Nenets Governor Vladimir Butov was able to stay on despite efforts to replace him. Among the regional leaders, Cherkesov has particularly bad relations with St. Petersburg's Vladimir Yakovlev, Komi's Yurii Spiridonov, and Novgorod's Mikhail Prusak. Prusak has denounced the idea of establishing the presidential representatives in general. He is particularly angry that recent reforms led to the closing of Novgorod's Sberbank branch and the oblast's office of the Forestry Ministry. These federal institutions continue to perform their functions from St. Petersburg. Additionally, the presidential representative has criticized Prusak's policies arguing that the impressive levels of foreign investment the region brought in has not actually increased the level of overall economic development there. Cherkesov has suggested reforms in the country's investment laws that would limit the financial flows that Prusak currently has access to, further angering the governor, according to Aleksandr Duka, a professor at St. Petersburg's Mining Institute.

In addition to his duties in bringing regional laws into line with federal norms, supervising anti-corruption campaigns, monitoring elections, tracking the media, and supervising security institutions, Cherkesov is looking for new responsibilities, such as meeting with diplomatic representatives and encouraging domestic and foreign investment in the region. Cherkesov is setting up ties to the district's businesses and meets with them regularly. Although his exact role is unclear, Cherkesov is supporting such major companies as LUKoil and Severstal. The presidential representative apparently helped LUKoil increase its operations in Nenets (against the governor's wishes) and aided Severstal in buying Vorkuta Coal, blocking a move by MDM bank.

Anecdotal evidence suggests that there have been relatively few changes throughout the district in the leadership of the regional branches of the power ministries. However, in the city of St. Petersburg, there is constant turnover in the leadership of the police ranks because of the agency's inability to deal with the city's crime and corruption among top officers. Cherkesov has significant time to addressing major corruption problems in Pskov.

Gathering data on Cherkesov's activities is difficult. Duka studied the 133 statements Cherkesov's office produced in its first 14 months. One third of them deal with economic issues. Duka described the announcements as an intervention by administrative players into the district's political life.

**URALS FEDERAL DISTRICT: LATYSHEV INCREASINGLY IN CHARGE OF RICH REGION.** Boasting Tyumen, Sverdlovsk, and Chelyabinsk oblasts, the Urals Federal District is one of the richest of Russia's super-regions, with Kurgan Oblast being the only region that has a depressed economy, according to Sergei Kondratev, a dean at Tyumen State University. Although Presidential Representative only has a staff of 63, Kondratev argues that he is effectively increasing the power of the federal government in the region.

Under Putin, the presidential staff in the federal districts is seen as relatively powerful and there was a strong competition among regional elites to work there, a situation that did not hold in the Yeltsin era. Many regional leaders, most notably Sergei Sobyenin, the former chairman of the Khanty-Mansii Autonomous Okrug Duma (and now governor of Tyumen Oblast) saw the presidential representative's office as a step up on the career ladder, even if the governors and mayors retained control over the region's financial resources.

Even without controlling these financial flows, the presidential representative has established himself in the Urals and is successfully carrying out some of its functions. One of the most notable changes is that the Khanty-Mansii and Yamal-Nenets autonomous okrugs, the source of 90 percent of Russia's natural gas and 60 percent of its oil, had to give up some of their most lucrative powers, including ownership rights over the raw materials on their territory.

In interviews with the media, Latyshev lists bringing regional laws into line with federal norms as one of his main accomplishments. However, he has done a much less spectacular job in dealing with crime in his district. Many crimes in the district are simply not reported leading investigators to open 52 investigations of employees of the Ministry of Internal Affairs for falsification and corruption (especially in Sverdlovsk and Chelyabinsk oblasts). Latyshev has angrily denounced the Urals branches of the federal power ministries for taking sides in the numerous regional conflicts over property rights. He is also angry that most regional enterprises are not paying taxes and is carrying out audits to expose their illegal practices. Additionally, Latyshev is focusing attention on the drug trade coming into Kurgan, Tyumen, and Chelyabinsk oblasts from Kazakhstan. One of his main responses is strengthening the border to shut down this activity.

Of the three gubernatorial elections that took place since the district was created in May 2000, the presidential representative has played an active role in only one. First Deputy Presidential Representative Sergei Sobyenin won the governorship in Tyumen, unseating the incumbent, Leonid Roketskii. Latyshev's staff wanted to get rid of Roketskii because they saw him as a "governor of conflict," who was not able to solve the problems of integrating the rich

north and poor south of Tyumen Oblast. In elections in Chelyabinsk and Kurgan, incumbents won another term.

All governors in the Urals were unhappy that the rise of the presidential representatives meant that they lost their past power over the regional police and other law enforcement agencies, but only Sverdlovsk Governor Eduard Rossel entered into open conflict with the federal authorities. Although Rossel continues to display his antipathy for Latyshev, Rossel is clearly losing ground against him. Latyshev has removed Rossel's people from the head of Sverdlovsk FSB and the Ural Military District. Additionally, Latyshev did not seek Rossel's consent in naming the new head of the Urals customs agency, firing the Sverdlovsk Oblast procurator, and creating a Security Collegium with the goal of fighting corruption. The head of the Sverdlovsk police, Aleksei Krasnikov, cooperates with Latyshev as does Yekaterinburg Mayor Arkadii Chernetskii, a long-time Rossel foe. Latyshev can also limit Rossel's power by working through the federal district procurator, tax inspector, tax police, and Ministry of Internal Affairs officials. The appointment of federal district level officials in these ministries cuts the links between Russia's governors and federal police and tax collection officials.

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**INTERNATIONAL TERRORISM AND RUSSIA**

**ISLAMIC GROUPS ACTIVE IN ADYGEYA.** With the terrorist attacks in the US on 11 September, there is increased interest in the spread of extremist Islamic groups around the world. Russian authorities have been tracking their rise in Russia for several years. For example, a presidential administration commission working in the spring of 2000 found that "Representatives of foreign Islamic organizations from the United Arab Emirates, Saudi Arabia, and Libya, seeking to spread the ideas of Wahhabism among the population, have increased their activities in Adygeya. They are working through students from Ingushetiya, Chechnya, and Dagestan who are studying in Adygeya's universities. They have attempted to set up extremist Islamic organizations of young people working with the International Organization of Islamic Youth" (*Prezidentskii kontrol*, August 2000).

Currently the Adygeya Republican Procurator is investigating the activities of an organization known as the Islamic Appeal (*Islamskii prizyv*). The group's literature says that its headquarters are located in Tripoli, Libya. The group's program suggests that it engages in humanitarian and missionary work in the CIS countries. However, its charter states that it works to "spread Islam in any part of the world through all possible means." It seeks to educate the population in the spirit of a unified Muslim ideology and prepare propagandists to spread the group's ideas. The group wants all Islamic states to adopt the Koran as their basic law.

Currently, the official republican press is not publishing any information about the group. However, in 1999 it reported that the Adygeya Cabinet of Ministers and the group had signed an agreement allowing the group to open a representation in the republic. In 1999 the Islamic Appeal also signed a protocol of intention to cooperate with the Spiritual Department of Muslims of Adygeya and Krasnodar Krai and a general agreement to implement a program designed to set up a system to spread information throughout the North Caucasus from Adygeya.

In signing these agreements, the republican leaders violated several federal norms, including a 12 March 1996 presidential decree assigning a coordinating role to the Foreign Ministry. The foreign ministry was never consulted during this process. Moreover in November 1998 Adygeya's government signed a protocol with the group declaring that "The government of the Republic of Adygeya salutes the Libyan people and its leadership, which is firmly standing against American hegemony, and calls for removing the air blockade and sanctions against Libya" again without consulting the ministry. The republican government also set up a joint venture with the group, with ownership stakes split 50:50, and contributed 1.2 million rubles to its charter capital.

It is hard to measure the group's real influence on Muslims in the region or its political and economic power. In one case, the Adygeya group Adyge-Khase supported the idea of forming the information distribution system in its newspaper *Guaze*. It claimed that it wanted to provide "the truth about Chechnya." However, after Putin came to power stressing a crackdown on Chechnya, Adyge-Khase's statements about the republic became much more tempered.

In 1999 Islamic Appeal sponsored an international economic conference in the republic with representatives from Libya, Iraq, Jordan, Kuwait, Syria, Sri Lanka and Sierra Leone. Among the Russian regional leaders present were Karbadino-Balkariya President Valerii Kokov, North Osetiya President Aleksandr Dzasokhov, and former Krasnodar Krai Governor Nikolai Kondratenko. Federal civil servants also attended.

While the purpose of the conference was ostensibly economic, the speakers made many political statements. Kondratenko expressed his support for Libyan leader Muammar el-Qaddafi and Iraqi President Saddam Hussein, described the foreign guests as "strategic partners," and said that the "world does not have to be unipolar." He noted that "the Muslims and the Orthodox have a common enemy."

In January 2001, the republican procurator announced that the agreement between Islamic Appeal and the republic's Cabinet of Ministers violated Russian legislation. As a result, the republican Supreme Court's Judicial Collegium on Civil Affairs declared the agreement void. The procurator is continuing to investigate the group's activities in the republic. The procurator



plans to close Islamic Appeal's representation until the Russian government can decide whether the group has a right to exist in Russia. - Oleg Tsvetkov in Maikop

## **CENTER-PERIPHERY RELATIONS**

**RAKHIMOV CRITICIZES FEDERAL POLICIES IN CHECHNYA.** Bashkortostani officials have yet to comment on the terrorist attack on the USA and the beginning of military operations against the Taliban in Afghanistan. The Russian mass media believes that this silence by Bashkortostani President Murtaza Rakhimov and Tatarstani President Mintimer Shaimiev is strange. The press believes that the two leaders are facing contradictory pressures. On one hand, President Putin and the Russian government fully support the US. On the other, the leaders of Muslim countries, with whom Rakhimov and Shaimiev have special relations independent of the Russian leadership, are less enthusiastic. According to *Nezavisimaya gazeta* (11 October), the silence of the two republican leaders also reflects their ambivalent feelings about what is happening in Russia.

At the end of September, Rakhimov criticized Russia's policy in Chechnya. He said that it was time to seek a peaceful solution to the Chechen problem among "Chechen leaders who are not connected to the bandits." Observers believe that Rakhimov has in mind Chechen President Aslan Maskhadov, with whom he has close relations. Rakhimov believes that the use of the Russian army in Chechnya is illegal because "the constitution does not assign the army the task of fighting terrorists; this is the job of other special services." At the same time he expressed a positive opinion about the Russian army, pointing out that recent events in the world make it necessary to restore its past greatness and restore prestige to military service. He suggested that the 2002 federal budget should give them sufficient funds to support their functioning. He said that the money should be used to increase salaries and to supply the military with modern equipment "and not for fighting its own people under the guise of a war with terrorism."

On 3 October, *Rossiiskaya gazeta* published an interview with one of Rakhimov's key opponents, Supreme Mufti for the Muslims of European Russia, the CIS, and the Baltic states Talgat Tadzhuiddin, whose office is in Bashkortostan. He is a well-known critic of Islamic extremism, particularly Wahhabism in Russia, and a consistent supporter of the federal government's use of force in Chechnya. Thus he expressed support for Putin in his battle against "international terrorists hiding behind apparently Islamic slogans" and noted that the tragedy in the US confirmed the correctness of Russia's policy in Chechnya.

Putin has rewarded Tadzhuiddin for his constant support of federal policy, ordering that Tadzhuiddin's organization be given a plot of land for building an office in Moscow, something Tadzhuiddin has sought since the mid-1990s. This gesture is also a signal by the federal government to Rakhimov, demonstrating to him that the supreme mufti enjoys the patronage of the federal authorities. - Igor Rabinovich in Ufa

## **LAND**

**COMMUNIST GOVERNORS ORGANIZE AGAINST PRIVATIZATION OF AGRICULTURAL LAND.** This week President Vladimir Putin is expected to sign a new law

that will turn non-agricultural land into private property. The measure only affects 2 percent of Russia's land, mostly the soil under houses and dachas. The big battle over privatizing agricultural land is yet to come. Putin's administration has made clear that it wants to push ahead with liberalization to create a real market in agricultural land. However, he faces considerable opposition in the key agricultural regions.

Until the last minute, it was not clear if the Federation Council, even in its new generally pro-Kremlin mood, would pass Putin's land code at its 10 October session. To move the process along, Putin invited the new presidium of the State Council to a meeting in Orenburg Oblast and asked them "to do everything to shut down the speculation surrounding the adoption of a land law."

Russian agriculture faces enormous problems, as Mordoviya President Nikolai Merkushev laid out in his document to the State Council Presidium session. These problems include:

- smaller fields for growing crops and reduced numbers of livestock
- destruction of the industrial base for producing lime fertilizer
- the collapse of institutions designed to address social problems in rural areas
- the collapse of the federal government's 1996-2000 program to develop the agro-industrial complex (it only received 4.4 percent of the required financing)
- the shrinking export of Russian agricultural products and the \$5.6 billion trade deficit in this sphere
- agricultural enterprise debts totaling 225 billion rubles, a figure that is 12 times the profits the enterprises make, meaning that they will never be able to repay what they owe
- the fact that 25 percent of agricultural enterprises are unprofitable and therefore cannot take advantage of whatever benefits are offered to them.

All this information took the edge off claims that the situation was improving. This year federal support increased two-fold and more commercial bank loans are available. Additionally, Russia produced a record grain harvest of 82.5 million tons.

Putin admitted that there were more problems than achievements in the agricultural sector, but stressed that this part of the economy was no longer characterized by "stagnation" or "perpetual ineffectiveness." He claimed that two years ago, the sector lost 40 billion rubles, but that now it had a 20 billion-ruble profit. He also praised the appearance of vertically integrated agricultural holding companies that produce, process, and market agricultural products.

Participants at the State Council Presidium session discussed two approaches to solving agriculture's problems: forming a market and increasing subsidies. Farmers are seeking greater federal intervention in the grain market. The state is proposing different ideas: providing risk insurance and opportunities for leasing agricultural equipment through government-supported organizations.

The main opponents to reforming the agricultural system and privatizing agricultural land are governors who spent their careers in the agricultural sector or the Communist Party bureaucracy and now lead the majority of grain producing regions. They have a large stake in maintaining the old system with its annual state agricultural subsidies, the existence of a "gray" market for grain, regional blockades of grain exports, and the predominant role of large state enterprises, whose leaders work closely with the governors. Rather than directly opposing the

federal initiatives, they rely on resources provided by leftist political parties to propagandize the idea of maintaining state ownership of the land. They are actively working within the State Duma and regional legislatures, where agricultural lobbyists are strong. This summer 36 regional legislatures criticized the Land Code that Putin will sign and sought to return it to the State Duma for further amendment. Of course, the governors are not united in this cause and Samara Governor Konstantin Titov has announced that he is ready to privatize agricultural land within the context of his region.

In the spring, Putin had promised the governors that they would be able to decide whether to turn agricultural land into private property in accordance with a national law that only set out the framework for land relations. Nevertheless, the question of whether the Federation Council would approve the Land Code remained unanswered until the last minute. Putin's comment to "end the political speculation" provided the turning point. Ultimately, the Federatsiya group in the upper chamber was able to assemble 103 votes in favor of the Land Code, with 29 senators voting against, and 9 abstaining.

The vote raises a question about whom the senators represent, the regional authorities who delegated them to the Federation Council or the president. Two members of Federatsiya voted against the land code and now the leaders of the faction are planning to expel them from the group. They supposedly came under pressure from the regional legislatures who chose them. However, many regional legislatures were angered that their representatives voted in favor of the measure, despite regional opposition to the president's initiative. - Pavel Isaev in Moscow

## **PATTERNS OF REGIONAL DEVELOPMENT**

**REGIONAL ELITE CONTROLS BELGOROD LEGISLATURE.** Although the Communists nominated the largest number of candidates in Belgorod's 14 October regional legislative elections, they won only one seat. Even a visit from party leader Gennadii Zyuganov one week before the elections did not help. In the 35-seat legislature, only 12 members won another term meaning that new members will make up about two-thirds of the new body.

The main victors were general directors from various industrial and agricultural enterprises who now make up 53 percent of the legislature's new membership. These men (and one woman) have enormous influence over their employees and the people working in businesses dependent on the enterprises. Many of them are also major shareholders in their companies. Now all of Belgorod's major enterprises have representation in the legislature. These firms include Belgorodenergo (a subsidiary of Unified Energy System), Belgorodregiongaz (a subsidiary of Gazprom), the Lebedin Mining and Processing Combine, the Stoilen Mining and Processing Combine, the Oskol Electro-Metallurgical Combine, and the Praim Corporation. Four deputies represent agricultural enterprises, including the regional legislature's only female member.

Among the deputies are seven mayors, including the mayor of Belgorod, Georgii Golikov. Every mayor that sought a spot in the regional legislature was elected. Additionally, four of the new deputies are relatively high-ranking employees of the governor's oblast administration. Combined, this group of deputies makes up about one-third of the legislature's membership.

Of the membership, 6 deputies are ethnic Ukrainians (19 percent of the membership) and the rest are Russians. This breakdown reflects the ethnic composition of the region, which borders Ukraine.

A new trend in the oblast is that about 10 percent of the voters marked their ballots against all candidates, a relatively large number compared to past elections. In some urban districts, this number reached as high as 20 percent.

Despite the large number of new deputies, the new deputies reelected Anatolii Zelikov as their chairman. In addressing the body, Governor Yevgenii Savchenko stressed his satisfaction that the new members of the legislature represented various sectors of the "real economy" and expressed the view that the oblast's executive and legislative branches would work without conflict.

The assembly must address the problems of economic growth as this year the oblast returned to the output level it had reached in "pre-crisis" 1990. According to the governor, the main problem is that the oblast is only using half of its economic potential. Thus the governor believes that the legislature should adopt policies to support the most promising industrial sectors in the oblast economy. It should also work actively to improve the economic health of regional enterprises. The governor also stressed the need to improve conditions for small business and the overall investment climate.

The legislature faces major challenges in preparing a budget for 2002. Because the federal government is now taking a greater share of tax revenue, the oblast calculates that it lost 1 billion rubles in revenue that it would have otherwise received in 2001. Estimates of losses to the federal government in 2002 are an additional 670 million rubles. The oblast's sources of income remain poorly defined. The State Duma is currently discussing lowering the current 5 percent sales tax. Business tax rates are also likely to change soon. It is also unclear how much of its money the federal government will transfer to the regions. The governor proposed that the legislature work closely with him to address these problems. - Sergei Sarychev in Kursk

### **TRIP REPORT: GORDON HAHN IN ST. PETERSBURG (AUGUST-SEPTEMBER 2001)**

*Gordon M. Hahn, a visiting scholar at Stanford University's Hoover Institution recently traveled to St. Petersburg. This week the RRR publishes his report on what he found there.*

**ST. PETERSBURG CONCERNED ABOUT MONEY AS PUTIN REFORMS.** Neither St. Petersburg Governor Vladimir Yakovlev nor the Legislative Assembly has offered much resistance to President Vladimir Putin's federal reforms. The new president did not get off to a good start with the leaders of his hometown. When Yakovlev sought a second term in 2000, shortly after Putin himself was elected, the president tried to run a candidate against him. However, when Putin realized that Yakovlev was unbeatable, he reluctantly accepted defeat. The current arrangement between the national and city leaders reflects the emergence of an apparent, though perhaps temporary, truce between Putin and Yakovlev.

Yakovlev and the city's Legislative Assembly do not object to Putin's efforts to bring regional legislation into conformity with federal law. St. Petersburg does not have many violations, but like many other regions, it has been slow in bringing its laws into compliance and continues to adopt new laws which violate federal norms. In March Deputy Prosecutor-General for the Northwest Federal District Vladimir Zubrin singled out the city (along with Pskov, Komi, and Kareliya) for presenting "serious difficulties" and ignoring prosecutors' demands to change laws that violate federal legislation. The Legislative Assembly only recently brought the city's law on the civil service into compliance with federal law. In August Zubrin protested Yakovlev's creation of a city-owned St. Petersburg Electrical Grid (SPbES) as inconsistent with federal policy.

St. Petersburg's elite is even less concerned about the second wave of Putin's federal reforms intended to tackle the "official asymmetry" established by the 46 bilateral federal-regional treaties Moscow and the regions signed between 1994 and 1999. St. Petersburg's own agreement with the center brought it few, if any, concrete benefits. Petersburg's politicians generally argue that the bilateral treaties have served their purpose by preserving the unity of the federation in the wake of the collapse of the Soviet Union and that now they should be modified, if not abrogated.

While there has been little complaining about Putin's legal initiatives, some deputies in the Legislative Assembly are concerned about Putin's efforts to control a greater share of Russia's money flows. Thus Mikhail I. Amosov, the chairman of the Yabloko faction and a member of the assembly's Budget and Finance Committee, criticizes the federal authorities' growing tendency to centralize tax revenues. This campaign has been under way since 1994, he notes, but Putin is pursuing it much more aggressively than Yeltsin did. According to a study by the Legislative Assembly's Yabloko faction, in 1993 the federal government kept 36 percent of the tax revenue collected in Petersburg, while the city got the remaining 64 percent. However, by 2001 the distribution of tax revenue between the federal government and the city will reach the national average of 58 percent for the federal government and 42 percent for the regional budget. St. Petersburg estimates that these figures amount to a 6 billion-ruble loss for its budget (14 percent of total revenues) compared to 2000 as a consequence of the federal government's decision to take a larger share of the tax.

Centralized funds are to be transferred to the regions on a needs-tested basis, in part on the assumption that federal bureaucrats are more honest than regional apparatchiks, who supposedly routinely divert funds to projects for which they have not been designated. Amosov doubts the soundness of this assumption, questioning the honesty of Moscow bureaucrats and the efficiency of the federal bureaucracy. He argues that centralization of tax revenues is depriving the regions of the wherewithal to address their socio-economic problems and development challenges.

Moreover, Amosov is also demanding that federal authorities adhere to their own laws, in particular those pertaining to inter-budgetary issues. He argues that the federal government, and especially the Finance Ministry, has consistently violated its own budget legislation, infringing on the rights of the regions in the process. The Budget Code allows the Finance Ministry to sequester or cut unilaterally funds designated for a region regardless of what is actually written in the budget. It can recalculate budget parameters at the end of the fiscal year

or redirect up to 10 percent of the region's designated transfers for other purposes. The federal authorities have chronically failed to transfer monies designated in the federal budget for various social needs and for reconstructing the Kirov-Vyborg branch of the Petersburg metro, which collapsed in 1995 and cut off half a million people from the city center. Even after St. Petersburg State Duma Deputy Sergei Popov won a court case in 1999 against the Finance Ministry for such practices, the city did not receive the money, which the court ruled had been withheld illegally.

To address such problems, the Petersburg Legislative Assembly's Yabloko faction is sponsoring a draft federal law 'On Guarantees for the Budgetary Rights of the Subjects of the Russian Federation' to be submitted to the State Duma that would amend the Budget Code. The amendments require that all transfers for each region be delineated with functional classifications in a separate sub-section of the federal budget and that a "special regime" be set up to execute budget transfers. That regime requires quarterly reporting on fulfillment of transfers such that 25 percent of the funds will be transferred to the regional budgets every quarter. Federal obligations to regional budgets may be altered only in accordance with a precise system for reducing or redirecting expenditures established in the Budget Code. Any re-direction of funds intended for regional budgets to a purpose other than that stipulated in the federal budget could be undertaken only with the permission of the governor and would have to be compensated in full.

#### **PRESIDENTIAL ADMINISTRATION PRESSURES CITY ON FEDERATION**

**COUNCIL PICKS.** In June the St. Petersburg Legislative Assembly elected its vice-speaker Sergei Mironov as its representative to the Federation Council in Moscow. Interviews with Assembly members revealed that the Kremlin attempted to influence the selection of the Legislative Assembly's representative by telephoning deputies. The presidential administration is likely to repeat this practice when Governor Yakovlev chooses his representative by the end of the year since it is likely easier to influence one governor than a majority of 50 legislators. Thus, the Federation Council's new membership is proving to be the result of federal-regional inter-elite bargaining, limiting the degree to which the new senators represent their region's elite, to say nothing of the electorate.

**PETERSBURG DOMINATES INEFFECTIVE FEDERAL DISTRICT.** St. Petersburg in many ways dominates the Northwest Federal District created more than one year ago to strengthen federal power in the regions. It accounts for about half of all budget revenues produced in the federal district, which includes ten other regions. While many predicted that relations between Governor Yakovlev and Presidential Representative Viktor Cherkosov would be contentious, they have not reached the level of antagonism dividing Sverdlovsk Governor Eduard Rossel and Presidential Representative to the Urals Federal District Petr Latyshev. Observers believe that the low level of conflict is a result of Cherkosov's failure to have much of an impact. Many view the federal district as little more than a source of handouts for lesser bureaucrats and scholars. In this regard, Peterburgers frequently mention the federal district's Institute for Strategic Research, a regional branch of Russian Economic and Trade Minister German Gref's Moscow institute of the same name.

Yakovlev did not oppose Putin's effort to reassert federal control over the regional police. When Minister of Internal Affairs Boris Gryzlov introduced the new deputy minister responsible for the police in the district, his criticism of the city's crime fighters sent shock waves through the city's political elite. Gryzlov's attack on the city's failure to root out the Tambov organized crime group was seen as a warning to Yakovlev, who is viewed by some as the group's protector. With his parliamentary immunity set to expire by 1 January 2002, when he must surrender his seat in the Federation Council, Yakovlev is vulnerable to investigation. The threat or beginning of an investigation would be a useful weapon for Putin in dissuading Yakovlev from seeking a third term.

The groundwork for a war of *kompromat* between Yakovlev's Smolny headquarters and the federal district has been laid. A division of the city's media into those loyal to Smolny or the okrug has been developing since last year. Yakovlev's administration controls or enjoys the support of the local television and radio company TRK "Peterburg", the city's daily *Sankt-Peterburgskie vedomosti*, *Peterburg-Ekspress*, the largely apolitical *Vechernii Peterburg*, the St. Petersburg supplements to the national newspapers *Izvestiya SPb* and *Komsomolskaya pravda*, and the news agency *RosBalt*. The district has taken control of the Petersburg broadcasts of Russia's state television and radio company VGTRK (the RTR TV channel & Radio Rossii), the Petersburg branch of ITAR-TASS, the daily *Nevskoe vremya*, and Chas Pik Publishers. Cherkesov's wife edits the influential weekly newspaper *Petersburgskii chas pik*. In addition, Boris Berezovskii has been using his dailies *Kommersant* and *Nezavisimaya gazeta* against Yakovlev or at least to foment conflict between Smolny and the federal district to further his own as yet unclear ends. There have been rumors that Berezovskii intends to enter the St. Petersburg media market aggressively. He has recently added a St. Petersburg supplement to editions of *Kommersant* sold in the city and purchased Radio 'Modern', a popular local music station.

The absence of a *kompromat* war between the federal district and the administration so far may be due to a lull between elections. With the Legislative Assembly elections now set for late 2002, it is likely that preparatory strikes will begin after the New Year. The degree of Smolny's involvement will be a good barometer of Yakovlev plans to orchestrate a third term.

**YAKOVLEV CONTEMPLATES A THIRD TERM.** Although Yakovlev's current term does not expire until 2004, local pundits are already gauging his chances for remaining in power after that time. Yakovlev's decision will have an important impact on St. Petersburg's future and relations between the federal and northern capitals. At present, his approval rating hovers around 60 percent. Whether he can maintain this level of support will be determined in large part by the socio-economic condition of the city, given the increasing tendency of "economic" voting behavior even in less democratically-oriented regions. The drive to give the city a complete facelift before its 300th anniversary celebrations in May 2003, a year before the gubernatorial elections, could give the city a boost sufficient to rub off on Yakovlev. In addition to federal funds devoted to this effort, the draft 2002 St. Petersburg budget devotes nearly 4 billion rubles for the anniversary makeover.

The facelift is an extensive one. One cannot walk anywhere in the city without confronting road repair, building restorations or construction. There are currently some 50

large-scale projects going on in the city center. But not all is going well. Financial problems and work delays have plagued construction of a beltway road around the city (MKAD), a key part of the anniversary effort, and it is far behind schedule. In September, around the clock drilling and other construction activity near houses around the city's outskirts provoked a public protest and court appeal. The Russian Supreme Court mandated that the city had to provide alternative housing, otherwise the project would be ruled illegal. Such grumbling is a harbinger of what could come if the reconstruction projects are not completed on time or yield unsatisfactory results. Public consternation will only be compounded if reports continue to appear about the misuse of funds. The foundation that Yakovlev recently set up for the 300th anniversary could further feed the corruption that already plagues the city. Cherkesov and the federal district's Audit Chamber and Prosecutor can be expected to watch the use of these and federal expenditures in preparation for the anniversary.

Petersburg was recently ranked the fifth most corrupt region, according to data from a research institute affiliated with the Prosecutor-General's Office published in *Nezavisimaya gazeta* on 7 September. The city has been rocked by several major corruption scandals over the last few months. Vice Mayor Valerii I. Malyshev had to step down temporarily after prosecutors accused him of taking bribes in return for his appointment of EKSI Bank as the depository for the city's 200 million non-devaluated rubles account for St. Petersburg's 2004 Olympic Committee in 1996. There is speculation that these charges are part of a struggle between Malyshev and Vice Mayor Yurii Antonov to succeed Yakovlev. In part because of its reputation for crime and corruption, the city lags behind neighboring Leningrad Oblast in attracting foreign investment measured *per capita*. Few investors are interested in Petersburg despite Putin's frequent efforts to bring foreign dignitaries and businessmen to the city by holding summits or escorting foreign guests there.

**MOSCOW OLIGARCHS MOVE INTO PETERSBURG.** A wave of Moscow oligarchs has been descending on the northern capital. PromStroiBank is the most powerful St. Petersburg bank and has ambitions to become a player at the federal level. Bank Chairman Vladimir Kogan hopes that his close relations with Putin will help realize his goals. A year ago the MVD sent troops into PromStroiBank's headquarters on Nevskii Prospekt in what Kogan condemned as an illegal search. Some analysts believe that then Minister for Internal Affairs Vladimir Rushailo was working in alliance with exiled magnate Boris Berezovskii, who apparently has designs on Petersburg. Berezovskii-allied oligarch Aleksandr Mamut's MDM Bank now is seeking to oust PromStroiBank from the leading position on Petersburg's financial stage. MDM has purchased several Petersburg banks and taken a controlling stake in the city's Petrovskii Narodnyi Bank. It lured top executives, including Olga Kazanskaya, from PromStroiBank to take over at Petrovskii.

Muscovites are invading Petersburg's telecommunications market as well. After successfully expanding into ten regional markets, Moscow's Mobile TeleSystems (MTS) is just setting up shop in Petersburg. It recently purchased the second largest standard signal licensee in the Northwest Federal District, Telecom XXI, to compete with Northwest GSM, the most lucrative holding of St. Petersburg-based Telecominvest. While there are political consequences from economic competition, Peterburgers like Amosov, Lenkov, and St. Petersburg Deputy to



the State Duma Aleksandr V. Shishlov discount any political motive in the Muscovites' advance.

Still, St. Petersburg challenged Unified Energy System's (EES) plans to monopolize electricity distribution under the reform plan initiated by EES Chairman Anatolii Chubais and backed by the government. In September St. Petersburg Deputy Governor in charge of fuel and energy Aleksandr Smirnov confirmed that the city's creation of the St. Petersburg Electrical Grid (SPbES) was aimed at preventing Moscow from gaining control of the city's grid as a consequence of the reform. The city administration reports that it has given the new firm about 110 million worth of city property currently used by Lenenergo (RosBalt cited in Regions.ru, 15 October 2001). Smirnov declared that "distribution grids should not belong to generating companies." SPbES Director Sergei Milokhin disclosed that significant funds were being invested so SPbES could expand. Lenenergo is currently suing the city and the Regional Energy Commission over the case.

The descent of Moscow oligarchs on Petersburg mirrors the much larger and well-known descent of Petersburg bureaucrats on Moscow, as Putin tries to build a loyal team. This trend is depleting the ranks of talented administrators in Petersburg, while simultaneously raising the ire of Muscovites who lose out to the newcomers from the north.

**CORRECTION:** Due to a mistake that occurred in the process of editing, last week the RRR erroneously reported that "Transuglevodorod was a major extractor, transporter, and distributor of coal in Tatarstan." In fact, the company deals with mazut and other hydrocarbons. Tatarstan does not have any coal production.

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**GOVERNOR'S ELECTIONS**

**STROEV WINS THIRD TERM IN OREL.** In an election with almost no suspense, Orel Governor and Federation Council Speaker Yegor Stroev won reelection as governor on 28 October, scoring almost 92 percent of the vote with 70 percent turnout. No one doubted that Stroev would win another term, but questions remained about the ultimate size of his victory. In his last election, he won the support of 97 percent of the voters. There were relatively few protest votes as only 3.8 percent of the electorate voted "against all."

Despite his victory, Stroev will have to give up chairmanship of the Federation Council, a position that gave him much greater power than being governor of Orel. This change is a result of Putin's 2000 initiative to reform the national legislature's upper house, forcing all governors out as de facto members by 1 January 2002. Stroev's departure from the national scene as the

country's number three leader will undoubtedly set off a political scramble to fill the top job in the upper chamber.

Rostov Governor Vladimir Chub's 78 percent victory on 23 September set the bar high for Stroevev and administration employees openly said that Stroevev had to do much better in Orel Oblast. Thus, the governor was extremely interested in who his competitors would be. Although no one had a chance of defeating Stroevev, the incumbent feared that someone might be able to winnow down his support. Since Orel only has a population of 900,000 and is little noticed in Russian national politics, it was relatively easy for the governor to use the powers of his office to achieve his electoral goals.

Initially, Stroevev had two main opponents, Pskov Oblast Vice Governor Vladimir Kapustyanskii and the head of the Orel branch of the Union of Right-Wing Forces Vyacheslav Alekseev. Even though pollsters claimed that neither would win more than 3-6 percent of the vote, Stroevev feared that such sums, combined with the votes given to other potential candidates, would bring him close to Chub's total. Thus, the oblast electoral commission refused to register either candidate, citing problems with the signature lists they submitted and other minor violations, and the courts then rejected the candidates' attempts to appeal the commission's decisions. Ultimately, three opponents did register to oppose Stroevev, but they were relatively unknown and did not pose a threat to the governor's ability to rack up a super-majority.

Stroevev engaged in the usual campaign activities for an incumbent. The governor increased public spending in the region, especially in rural areas where he is particularly strong, and made sure the media heavily publicized his efforts. Using his connections, Stroevev secured the registration in Orel of Stroitransgaz, one of Europe's largest construction companies working in the oil and gas sector. This success dramatically increased the region's tax revenue, spurred the construction of 6,000 km of pipeline and led to natural gas lines for all oblast households. Stroevev also attracted German investment in regional farm equipment, though now officials admit that they did not consider all the consequences, such as the region's new dependence on foreign suppliers. Additionally, Stroevev plastered the region with posters depicting him standing over Orel's skyline with the slogan: "Stroevev: Stability, Justice, Creation" and traveled extensively to promote his good works. No one bothered to complain officially that there were obviously more than 500 such posters even though the publication data on the posters claimed that only 500 had been printed.

Whether consciously or not, Stroevev does everything he can to associate the positive achievements of the region with himself personally. Good students and those fighting in Chechnya win supplemental "Stroevev" stipends. On 1 August, Stroevev raised the salaries of civil servants, doctors, and teachers 50 percent, a very popular move on the eve of the campaign.

Stroevev naturally benefited from his high position in Moscow and the connections it gives him. All local media mention his Federation Council title before his gubernatorial title. Stroevev is not a member of any political party, but has his own people in many parties. The Kremlin has been happy with his ability to work with the senators and get decisions through the upper chamber. Yedinstvo backed him in the campaign. So did the Communists, with whom Stroevev also has good relations.

Thus, Stroevev is a relatively unique phenomenon in Russian politics. It is hard to criticize a person who is acceptable to all and can effectively manipulate the levers of power on the federal

level. Even the Union of Right-Wing Forces distanced itself from the elections and its criticism did not call into question StroeV's ability to rule the region. - Petr Kozma in Orel

## **BIG BUSINESS IN THE REGIONS**

**LUKOIL PURCHASES GIANT NIZHNIY REFINERY.** LUKoil has purchased the giant Norsi-Oil Refinery in Nizhnii Novgorod Oblast, making it the latest in a string of large Russian companies to invest in the region (see *EWI Russian Regional Report*, 16 July 2001). The company announced its intention to bid on the refinery in July, when LUKoil President Vagit Alekperov said that if LUKoil were able to purchase Norsi at auction, it would invest \$400 million to \$600 million in the refinery to refurbish it and pay for current expenses.

LUKoil now owns a 91.37 percent stake in the refinery. Roman Abramovich's Sibneft purchased a 8.41 percent stake from Tatneft in the beginning of October. LUKoil, which already owned a 6.01 percent share, was able to purchase the state's 85.36 percent stake for \$26 million. Presidential Representative to the Volga Federal District Sergei Kirienko had said that the factory was worth \$100 million and Norsi Vice President Aleksandr Meleshkin claimed it was worth \$150 million. However, a representative of LUKoil said that given the refinery's debts, it was not worth more than the company paid for it. Despite these assertions, some outside observers believe that LUKoil simply agreed with its main competitor, Sibneft, to divide their spheres of influence: LUKoil would purchase Norsi, while Sibneft would focus on the Dzerzhinsk Chemical Complex. Presumably this deal prevented Sibneft from bidding on Norsi.

"Norsi plays a large role in the region's economy and its purchase by a major Russian oil company will help develop the entire petro-chemical complex of the oblast," according to former Nizhnii Novgorod Governor Ivan Sklyarov. He believes that LUKoil's investments at the plant will create more jobs. The plant was built in 1958 and many parts of it have not been renovated since then. Norsi Vice President Aleksandr Meleshkin said that LUKoil's purchase of the refinery was the only way to guarantee Norsi continuous supplies of oil, the lack of which had been a major concern in the past. Current Communist Governor Gennadii Khodyrev also blessed the results of the auction. He expressed the hope that the new owner would not pay less attention to environmental concerns and that the situation for the factory's workers would improve. - Yurii Rodygin in Nizhnii Novgorod

**LATYSHEV HOSTS LUKOIL, LOBBIES GAZPROM.** Presidential Representative to the Urals Federal District Petr Latyshev is continuing to score points in winning the support of the Ural business elite. He recently hosted LUKoil President Vagit Alekperov in his offices and introduced him to various local officials and business people.

As a result of the meeting, the mid-Urals and LUKoil will sign a cooperation agreement in the coming months. LUKoil is one of the largest tax-payers in the country and controls a quarter of the petroleum products market in the region.

Sverdlovsk Governor Eduard Rossel, a constant critic of Latyshev, has also tried to demonstrate his close relations with Alekperov. However, local observers believe that LUKoil is better off working with the presidential envoy since Rossel often criticizes the federal government. LUKoil naturally needs to maintain good relations with the Kremlin. Recently,

Alekperov expressed skepticism about the creation of the Urals Oil Company (UTK), a subsidiary of the Tyumen Oil Company, that Rossel actively backed.

LUKoil needs political support to solve several problems. It needs licenses to develop new deposits and rent the land under its gas stations. It also seeks tax breaks for its drilling operations. Accordingly, it seeks relations with Latyshev only on mutually advantageous terms. Naturally, the company also must maintain good relations with Rossel.

Latyshev joined the other presidential representatives in their recent meeting with Gazprom head Aleksei Miller in his Moscow office. Yamal-Nenets, where Gazprom produces 90 percent of its natural gas, is located in the Ural Federal District. Latyshev lobbied Urals interests at the meeting, directing Miller's attention to a number of business issues that needed to be resolved in the Urals district. - Sergei Pushkarev

## **CIVIL SOCIETY**

### **PERM'S THIRD SECTOR PREPARES FOR MOSCOW CIVIL FORUM**

**MEETING IN NOVEMBER.** On 18 October, Perm Oblast's non-governmental groups held a second meeting to prepare for the national Civil Forum meeting in Moscow on 21-22 November ([www.civilforum.ru](http://www.civilforum.ru)). The Perm group supported the national organizers in the search for "the development of mechanisms of dialogue and equal partnership between society and the authorities" and the "provision of legal, economic, and other conditions guaranteeing the independent existence, effective work, and independent development of non-profit organizations and other institutions of civil society."

The participants in the meeting said that the earlier concerns that the authorities were using the meeting to demonstrate their unity with society and create a "manageable civil society" had been addressed by the NGO leaders' ability to win concessions from the authorities. Thus, the authorities conceded that the November Forum will be politically neutral, its organizational committee will work transparently, and the main effort will go into developing mechanisms of cooperation between the authorities and civil society. Additionally, delegates will not be elected to the Forum, there will be no elections at the Forum, and the Forum will not create any leadership bodies "authorized to speak on behalf of all civil society." The main priority will be how to create "a common space" for negotiations between civil society and the authorities on socially important issues.

There will be 5,000 participants in the Forum and Perm Oblast will be able to send 82 individuals. Perm has a relatively large quota because the national organizing committee believes it is relatively advanced in the area of civil society. Most regions have a quota of about 35, a figure arrived at by multiplying the region's population by a coefficient measuring the level of civil society. The Perm Civil Forum organizing committee has listed and ranked the region's organizations and sent it to Moscow so that the national organizers can invite the individual participants. - Andrei Suslov in Perm

## **CENTER-PERIPHERY RELATIONS**



### **SIBERIAN GOVERNORS SEEK CONSTITUTIONAL CHANGES TO CONTROL RESOURCES.**

Several Siberian governors said that they believe that the next step in dividing powers between different levels of government is amending the constitution. They made the remarks at a meeting of the Siberian Federal District commission on dividing power and responsibilities between the various levels of government held last week. The meeting was part of the on-going efforts of a federal commission headed by Deputy Presidential Chief of Staff Dmitrii Kozak on how to divide power between different levels of government.

Irkutsk Governor Boris Govorin, the head of a working group on managing natural and other material resources, said that all Siberian regions participating in the work of the commission believe it is necessary for the regions to preserve the "dual key" system of controlling natural resources. In other words, the regions should have an equal say with the federal government over the use of natural resources on their territory. Govorin said that this was the reaction of the Siberian regions to the proposal of regions in the European part of the country (where there are fewer resources) to give the federal government exclusive control over natural resources. Govorin said that he considers the policies of the European regions mistaken. The Siberian governors said that they wanted to keep the right to monitor the resource use since they believe that the development of natural resources by the federal government would be an intervention into the traditional affairs of the Siberian peoples. - Teleinform in Irkutsk

### **ULYANOVSK LEGISLATURE CHOOSES PRESIDENTIAL ENVOY FOR FEDERATION COUNCIL.**

On 29 October, the Ulyanovsk Oblast Legislative Assembly elected Chief Federal Inspector Valerii Sychev as its representative to the Federation Council. On 5 October, Sychev stood as the only candidate in the body's election, but did not secure the majority of votes required (see *EWI Russian Regional Report*, 10 October 2001). However, on 18 October Speaker Boris Zotov nominated Sychev a second time.

Speaking at the session where Sychev was elected, Governor Vladimir Shamanov said that the issue had gone beyond the borders of the region and was being discussed at the national level. He cited an article in *Selskaya zhizn*, which asserted that Shamanov would benefit from Sychev's election as senator and subsequent move to Moscow because it would give Shamanov the chance to rule the region alone.

Shamanov declared that he had not intervened in the nomination process and that he was not pursuing such a goal. He said that he had "business-like, state-centered" and good personal relations with Sychev and was not interested in pushing him out of the oblast.

Sychev stood on the ballot with an additional three candidates, all members of the Legislative Assembly. Sychev won 16 votes, while the combined others collected only nine. Sychev said that there were currently two candidates to replace him as chief federal inspector: Federal Inspector Aleksandr Ivanov, who secured his current job by winning a competition organized by Presidential Representative Sergei Kirienko, and Gennadii Savinov, who represented former Governor Yurii Goryachev's administration in Moscow. - Sergei Gogin in Ulyanovsk

### **POLITICAL PARTIES**

## **PRUSAK BLASTS PUTIN'S TIES TO OLIGARCHS, CENTRALIZATION**

**POLICIES.** Russia has not created a democratic society; civil institutions continue to be weakly developed, and the center is increasingly concentrating power, resources, and money in its hands, Novgorod Governor Mikhail Prusak told a conference call with journalists from Kareliya last week. On 25 September Prusak became the chairman of the Democratic Party of Russia and is using this position to speak out to residents in all regions of Russia.

"All Russia's money is concentrated in Moscow, or to be more precise, within the Kremlin and the White House," the governor asserted. "It is not normal that you have to go to Moscow for permission to develop a sandpit. It is not normal when over the course of a year we collect a billion rubles in customs' fees and all this money goes to Moscow and then we have to go there to seek subsidies. Earlier six members of the Politburo ruled us, now it is six oligarchs. We support Vladimir Putin, but he is not subordinate to the people; he does not have a popular mandate because the oligarchs brought him to power. Therefore, he is limited in his activities. Now there are no preliminary discussions of plans to develop the country, fill the state coffers, or change the tariff policy. Everything is being decided for us. I do not believe that Putin decided to divide the country into seven districts. It is impossible to rule such enormous groupings. It is impossible to unite regions where conditions are so completely different, as is the case, for example, between Kareliya and Novgorod. Kareliya would be better off integrating with Finland. They have much more in common than Kareliya does with, say, Leningrad Oblast." These comments expand upon Prusak's earlier declarations that Putin's creation of the seven federal districts was not necessary and that Russia's electoral system does not provide for real democracy.

According to Prusak, the country's horizontal economic ties have been destroyed and the development of small and medium-sized business is being repressed. He admits that such businesses are not simply a collection of craftspeople and traders, but also points out that they are not providing the basis for large business, as happened in more developed countries. In Russia, Prusak believes, several companies have subordinated the whole country to their own interests. These conglomerates are now producing and selling practically everything imaginable, from cars and oil to matches.

Prusak also worries that a redistribution of resources is taking place in favor of the center and such companies as "Unified Energy System and the oil and gas monsters." Eighty percent of the budget stays in Moscow and the rest is divided unevenly between the regions. Moscow glitters against the background of dying villages. "We are on the cusp of disintegration," the governor said.

People who do not agree with the policy of the state have decided to spread their ideas through the Democratic Party of Russia (DPR), according to the increasingly outspoken governor. Prusak stressed that the DPR is not a protest party, and tried to distinguish it from other Russian parties, which he described as mostly protest parties. The goal of the DPR is that all regions of the country, regardless of whether they have oil and natural gas resources, should at least live above the poverty line. Things would be that way if the center reduced its appetite, Prusak claimed.

At the moment, the DPR is very weak and does not wield any political power. Presently its main task is to inform people about its goals and set up branches in the regions.

Answering a question from the RRR's correspondent about whether the party planned to support any candidates in up-coming gubernatorial elections, Prusak said that he had ordered all regional branches of the party to refrain from intervening in gubernatorial politics. The party is still weak and serious people would hardly be interested in its support, he admitted. However, once it becomes stronger, the party will definitely participate in electoral campaigns, Prusak believes. - Maksim Timofeev in Petrozavodsk

## **PATTERNS OF REGIONAL DEVELOPMENT**

### **KRASNOYARSK ELITE SPLIT ON EVE OF LEGISLATIVE ELECTIONS.**

Krasnoyarsk Krai will elect members to its regional legislature in December. Governor Aleksandr Lebed does not have much influence in the current legislature, which is fractured among many groups, and would like to have better control over it before the 2003 gubernatorial elections. According to the krai's unusual electoral rules, voters fill 22 seats through single-member district (20 seats for the krai proper and one seat each for the two autonomous okrugs in the north) and 20 seats by party list. Already there are ten groups participating in the elections:

1. Yedinstvo
2. The Bloc "For Lebed"
3. The Communist Party of the Russian Federation (KPRF)
4. Former aluminum magnate Anatolii Bykov's Bloc
5. Former Governor Valerii Zubov's Bloc
6. *Nashi* (Ours)
7. *Nadezhda i opora* (Hope and Support)
8. Northern Party
9. Union of Right-Wing Forces (SPS)
10. Liberal Democratic Party of Russia

The only questions remaining are whether the Agrarian Party will participate independently and the role of several small extreme nationalist and Communist groups. Such extremists did not have much impact in past elections.

In characterizing the elections as a whole, first, there are no serious "independent" candidates since all have the support of leading political parties. Second, relations with Governor Aleksandr Lebed shape the positions of all the parties. Third, the krai's political, economic, and intellectual elite is fragmented and could not adequately resist the influence of the Lebed-backed, Moscow-based political consultants who have structured the campaign. Thus, Lebed and his political team have divided the entire krai elite into small groups that oppose each other and weakened not only his open enemies (such as former aluminum magnate Anatolii Bykov, former Governor Valerii Zubov, Legislative Assembly Chairman Aleksandr Uss, analyst Vyacheslav Novikov, and others) but also his friends and allies, who could just as easily turn into his competitors. Lebed, who won power as an outsider, does not trust any of the local elite groups. None of them actually support him, but some of the Communists and Krasnoyarsk Mayor Petr Pimashkov have formed a tactical alliance with him. A fourth consideration is that since Lebed came to power in 1998, there are many new owners of krai factories. Most of

these owners live in Moscow or abroad and do not play the same kind of role in the krai politics as the previous owners, who were enormously powerful.

Relations with Lebed have opened a split within the Communist Party between those who support him and those who do not. Krai Communist Party leader Vsevolod Sevastyanov joined Lebed's bloc, while other members of the party have set up their own bloc called Nashi (Oleg Pashchenko, Mikov, Yurii Abakumov, and others). Thus *Krasnoyarskaya gazeta* Editor Oleg Pashchenko joined Nashi and effectively destroyed the traditional alliance between the Communists and Agrarians. These conflicts could have a significant impact on the course of the campaign and could reduce the Communist vote total by up to 10 percent of the electorate. In the past, the Communists have gained up to 20 percent of the vote.

Additionally, Lebed has managed to prevent the formation of a coalition among his main enemies: Bykov, Uss, Zubov, and Novikov. Now these opposition leaders will wage separate campaigns that will reduce their chance for success because they will be competing for the same votes and will be less able to monitor the activities of the electoral commission.

The greatest intrigue surrounds the formation of the Yedinstvo bloc, led by Krasnoyarsk Mayor Petr Pimashkov. Many local observers believe that Pimashkov is the most likely candidate against Lebed in the 2003 gubernatorial elections. His current term as mayor will be nearly up by then and he is very popular among the city's voters. Naturally, he will be in a better position for the gubernatorial elections if he heads a strong faction within the krai legislature, especially if this faction is the pro-Kremlin Yedinstvo.

Nevertheless, Lebed strongly supported Pimashkov as the head of the Yedinstvo bloc. While at first this move seems irrational, it makes more sense viewed in the context of the threat Lebed faces from the northern part of the krai. There Taimyr Governor Aleksandr Khloponin and Norilsk Nickel General Director Johnson Khagazheev set up their own bloc, the Northern Party, in opposition to Lebed. The Northern Party would like greater economic and political independence for the northern autonomous okrugs, which are formally part of the krai, but in Russia's convoluted federal system, also distinct regions. Norilsk is extremely important because the tax revenue from the metal factory there makes up 70 percent of the income for the krai budget. In the short term, Lebed benefits tactically from the split of the Northern Party from the Yedinstvo list because it reduces the number of groups working under Pimashkov. After Pimashkov, the number two person on the Yedinstvo list is Norilsk Mayor Budargin. Budargin must decide where he stands, with his fellow northerners or with Pimashkov and the krai administration. If he withdraws from the list, then the registration of the entire Yedinstvo list will be canceled according to krai law. If Budargin leaves the list, then Pimashkov will have to bear the full responsibility, facing the wrath of the federal authorities who naturally want a strong Yedinstvo faction in the krai legislature.

With little hope that Lebed's traditional party *Chest i Rodina* or the newly organized For Lebed bloc could win many votes, Lebed's allies have set up a second pro-gubernatorial bloc called *Nadezhda i opora* which is headed by the veteran Krasnoyarsk politician Valerii Sergienko and Deputy Governor Nadezhda Kolboi. The leaders of this bloc claim that it is independent of the governor, but few accept these assertions. Its membership includes the directors of the region's large enterprises and key civil servants. The appearance of this bloc completed the fragmentation of the elite, dividing the different economic and political factions.

Thus, Lebed has support from his political allies in the For Lebed bloc, part of the KPRF, and Yedinstvo. He also has economic support from the Nadezhda i Opora block of enterprise directors. His opponents include the leftists in Nashi, the northern interests in the Northern Party, and the groups involved in Bykov's and Zubov's blocs. - Pavel Avramov in Krasnoyarsk

**TITOV FACES HARD BATTLE IN SAMARA LEGISLATIVE ELECTIONS.** The 9 December Guberniya Duma elections could play a decisive role in the Samara, one of the largest cities in the Volga region. Governor Konstantin Titov's political weakness opens the door for the entrance of opposition political groups onto the oblast stage led by Samara Mayor Georgii Limanskii and the Communists who support him. The Communists are actively participating in the campaign and hope to set up an anti-governor majority faction in the oblast legislature. Titov currently controls the regional legislature, although his grip is weakening. A Communist victory would be an undesired outcome for the political and business elite that formed in the oblast during the last decade.

Observers are extremely pessimistic about the governor's chances for electing his allies to the legislature. Titov's decision to run for president in 2000 against Vladimir Putin not only adversely affected his relations with the Kremlin, but significantly diminished his team in the region. Titov's current weakness in the region demonstrated to the governor's opponents that his entire system of government was vulnerable. The exit of Vice Governor Vladimir Mokrii, who is now a member of the State Duma, was a significant blow. "It suddenly turned out that the team did not have a hidden leader to whom the law enforcement agencies, social organizations, and mayors were willing to subordinate themselves," *Samarskoe obozrenie* (15 October) noted. Titov's team is now demoralized and there is no one willing to make decisions.

Limanskii and the Communists immediately capitalized on Titov's weakness. Now the average voter is coming to accept the idea that the legislature should work in opposition to the governor.

Titov's weakening position is clear in the oblast legislature. In 2000 the deputies adopted his budget in the second reading in 15 minutes, even though it gave half of the budget to agricultural interests and openly favored specific companies. Now the mayors of Syzrana and Zhigulevsk, who are also members of the legislature, have criticized the amount of money the oblast budget proposes to transfer to their cities. In the past they had worked quietly within the framework the governor set. The mayors' position puts them in accord with Limanskii. In a secret ballot, the deputies rejected the draft budget, but eventually passed it in open voting which the governor closely monitored.

Presidential Representative to the Volga Federal District Sergei Kirienko is well aware of the situation. He is careful not to support either side and is trying hard not to argue with anyone. Therefore, both sides are criticizing him. Several Samara newspapers have pleaded with him not to allow a "red dawn" over Samara the way he did in Nizhnii Novgorod, where Communist Gennadii Khodyrev won in July. Titov's allies have also asked the envoy to intervene at the Samara State Television and Radio Company, which has given a lot of air time to the mayor.

Titov's opponents point out that his family has enriched himself during his ten-year rule. The governor's son Aleksei is a co-owner of 15 large oblast enterprises and four banks. However, the younger Titov is vulnerable to political change since he is a minority owner in most cases and the majority shareholders could easily abuse his rights were his father considerably weakened. *Samarskoe obozrenie* even compared Titov's family to the Ceausescus in Romania.

At a 18-19 October forum on Strategies of Regional Development held in Samara with co-sponsorship from the Volga Federal District, Titov made several gestures in support of Kirienko, even thanking him for his bravery in deciding on the 1998 default as prime minister. Titov proposed that the eight interregional economic associations in the country should reorder their memberships so that they coincide with the boundaries of the seven federal districts. According to Titov, this reform would allow the presidential envoy to reduce the number of staff members he has to devote to economic issues. This way, Titov said turning to Kirienko, the interregional association "would work along side you and under your leadership - and the results would be much better." - Petr Kozma in Samara

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CENTER-PERIPHERY RELATIONS

**JUSTICE MINISTRY SIGNS FIRST TREATIES IN FAR EAST.** On 2 November, Russian Justice Minister Yurii Chaika and the governors of all regions in the Far Eastern Federal District except Sakha signed agreements on coordinating efforts in legal affairs. The documents, the first to be signed between the ministry and individual regions, assign each side's responsibilities. Presidential Representative to the Far Eastern Federal District Konstantin Pulikovskii initiated the process according to his press service.

The agreements will be in effect for four years. In the case of Primorskii Krai, the krai can request the ministry to examine draft legislation as it is being prepared. Additionally, the krai is required to send all new legal acts to the ministry within seven days of their adoption. The purpose of the agreements is to prevent the adoption of regional laws or executive orders that

violate the Russian constitution or federal law. In the most visible issues of this kind, the federal government is now fighting with Sakha over whether the incumbent president has the right to seek an additional term (see related story in this issue).

Pulikovskii said that such treaties are needed now because the existing legislation has yet to be brought into line with federal norms. "If the laws were perfected, than maybe today we would not need to sign this agreement. However, since we must admit that this is not so, we will take this path: the path of signing agreements between individual agencies." Chaika said that the agreements will allow the ministry to participate in the legislative process and control (*regulirovat*) personnel issues in the regions. - Oleg Zhunusov in Vladivostok

**AUTHORS OF SIBERIAN DEVELOPMENT PLAN ANGRY OVER FEDERAL EDITS.** The Siberian authors of a strategic plan to develop the region through 2020 are angry about edits officials at German Gref's Minister of Economic Development and Trade made in the text. Head of the Siberian Center for Strategic Initiatives Vasilii Kiselev said that the ministry removed plans for entire economic sectors crucial to the Siberian economy.

President Putin requested the program during his visit to Novosibirsk in November 2000. In March 2001, Presidential Representative Leonid Drachevskii's staff set up the Siberian center. In July, a first draft developed by the Siberian branch of the Russian Academy of Sciences was presented to the president and won his approval. However, ministry officials deleted sections dealing with electricity, forestry products, and other important sectors. From the section on coal all that remains is a phrase pointing out that developing the coal sector is important for Russia's energy security in case there is not enough natural gas. Additionally, the federal bureaucrats removed the regions' right to participate in dividing up the income generated from natural resources and influencing pricing policy. In place of these lucrative rights, the federal officials assigned regional officials responsibility for housing, education, and health care.

The dispute is ironic because Kiselev's Siberian center, which is essentially a branch of Gref's Center for Strategic Initiatives in the capital, was supposed to work in close contact with its Moscow parent. Now, it turns out that Gref's subordinates in the ministry do not agree with what the minister's own think tank is proposing to do in the future.

According to Drachevskii, the Russian government plans to consider the Siberian plan on 15 December so the content of the final draft is extremely important. Kiselev said that the government has already rejected the ministry's version of the draft and that now the federal and regional planners must come up with a compromise version. Kiselev said that the Siberians are prepared to make some concessions, but that they will never give up the right to income from natural resource development and participating in setting prices for such vital services as electricity and transportation. Federal officials are already in the region to work through the differences.

Most likely Drachevskii will have the final say. Since the government has already rejected the ministry's version, the ministry will most likely have to compromise with the regional authorities. For their part, the governors, led by Irkutsk Governor Boris Govorin, are determined to maintain their right to some of the proceeds from developing Siberia's natural resources (see *EWI Russian Regional Report*, 31 October). - Maksim Shandarov in Novosibirsk

## **GOVERNOR'S ELECTIONS**

### **DESPITE FEDERAL OPPOSITION, SAKHA'S NIKOLAEV SEEKS THIRD TERM.**

The federal government's efforts to reduce the governors' influence on federal policy has led to its increasing inability to control the governors at the regional level. Moreover, in recent elections in such regions as Irkutsk and Rostov, the federal government has had to support incumbent governors it did not particularly like in order to prevent a Communist victory.

Many observers view the current actions of Sakha President Mikhail Nikolaev as an unprecedented rebellion that goes far beyond the activities of Tatarstan and Bashkortostan, regions whose view of their place in the Russian Federation does not match the Kremlin's. Despite the two-term limit on the regional leader established in the republican constitution and republican electoral law, Nikolaev is seeking a third term in office. The republican electoral commission's decision to register him is a direct challenge to the federal government, particularly since Central Electoral Commission Chairman Aleksandr Veshnyakov made clear that he believed that the republican electoral commission had acted illegally. At stake is control over the republic's considerable diamond wealth.

Currently federal law is on Nikolaev's side because it states that the term he was serving on 16 October 1999 is his first. Republican legislation limits the president to two terms and since he was first elected on 20 December 1991, according to these laws his current term would be his second. The Constitution states that when the legislation is contradictory, federal legislation prevails. Thus, Nikolaev had every basis to go to court.

The republican Supreme Court decided in his favor. The federal Supreme Court issued a ruling on 25 September that Nikolaev's supporters and opponents interpreted as backing their claims. Apparently, the vague decision was a purposeful attempt by the court to give the Kremlin the maneuvering room it needed to do whatever it wanted.

Although the Kremlin initially indicated it did not want Nikolaev to run again, it has since failed to oppose him openly, fearing that such an approach would lead to an embarrassing defeat, such as in Moscow Oblast and St. Petersburg in 2000, where candidates the Kremlin openly opposed won anyway. Moreover, Nikolaev met with Putin three weeks ago in the Kremlin and afterwards repeatedly announced that the president supported him. Nikolaev also recently escorted Putin to Lensk to view the reconstruction efforts after the city had been destroyed by flooding this summer. Nevertheless, on 8 October Veshnyakov announced that that Nikolaev did not have the right to seek a third term. However, on 25 October, the local electoral commission registered him anyway. The Central Electoral Commission did not try to remove Nikolaev and the republican Supreme Court postponed any hearing until the Russian Constitutional Court could make a decision. Such a tactic meant that nothing would happen since the Russian Constitutional Court would take at least six months to issue a decision. In response, Veshnyakov asked the Russian procurator to intervene.

Presidential Representative Konstantin Pulikovskii has apparently played little role in the dispute. In comments in Vladivostok on 2 November, he charged that Nikolaev and the republican legislature had worked themselves into a dead-end. He said that all 11 registered

candidates were worthy of the office, but it was necessary to find "a legal solution to this problem."

While the battle over Nikolaev was well underway, ALROSA head Vyacheslav Shtyrov announced that he would also seek the republican presidency. ALROSA is the company that mines the republic's diamonds, generating considerable wealth and providing 70 percent of the republican budget. In the mid-1990s, Nikolaev worked out a deal in which the republic was able to keep 20 percent of the diamonds mined on its territory. Observers believe that the local elite nominated the influential Shtyrov so that they would have a candidate to back in case Nikolaev was pushed out of the campaign for legal reasons.

On 1 November Gokhan head Valerii Rudakov announced that the federal government was planning to increase its influence over ALROSA. Some rumors suggest that the president plans to replace the company's leadership with trusted allies from St. Petersburg. - Pavel Isaev in Moscow

## **CENSUS 2002**

**CENSUS COMPLICATES ETHNIC RELATIONS IN BASHKORTOSTAN.** Even though representatives of 112 nationalities live in Bashkortostan, three groups make up about 90 percent of the population: Russians, Tatars, and Bashkirs. Even though the Bashkirs give the republic its name, they are a minority within the region, a situation that creates the basis for considerable tension as Russia will conduct a new census in 2002.

The last census was conducted in 1989 and set the following proportions: Bashkirs, 21.9 percent, Russians, 39.3 percent, and Tatars, 28.4 percent. Current estimates suggest that the Bashkirs make up 16 to 22 percent of the population, Russians account for about 40 percent of the population, while Tatars comprise 28-33 percent of the population.

However, these numbers could significantly change as a result of the census. Tatar leaders in Bashkortostan Airat Giniatullin and Alfir Sakaev believe that the Bashkortostani leadership will try to use the census to tilt the official count of ethnic groups in favor of the Bashkirs. Ironically, this is possible because the language and culture of the two Muslim peoples are so similar. Thus, among Bashkortostan's official scientific circles there is a widely circulated theory that the Tatar population in the republic actually has Bashkir roots and representatives of the state authorities support these claims. According to this theory, the Tatars, most of whom live in the western part of the republic bordering on Tatarstan, are in fact Bashkirs, but because of the prolonged expansion of the Tatar language and customs, they forgot about their origins and began to consider themselves Tatars. One of the patriarchs of Bashkir ethnography R. Kuzeev, in particular, supports this theory.

Thus Giniatullin and Sakaev and their allies from the Tatar national social organizations in Bashkortostan and Tatarstan believe that the Bashkir authorities will try to restore "historical justice" using a variety of methods. They suggest that the authorities will use their influence to list the entire populations of Tatar villages in western Bashkortostan as Bashkirs. The republican press suggested such a possibility in publishing material about preparations for the census at the end of October. The articles indicated that some citizens were concerned that their identity would not be listed correctly during the course of the census.

However, the Bashkortostani authorities completely reject this possibility, pointing out that each person will be identified only on the basis of his words. The head of the Bashkortostani State Statistical Committee, Akram Ganiev, said that part of the data would be compiled by computer which would rule out any external manipulation. Such assurances did not convince many Tatar activists. They are prepared to protest the results if they diverge significantly from the status quo in Bashkortostan's ethnic balance. - Igor Rabinovich in Ufa

## **BUSINESS AND POLITICS**

**IMPORTANT OIL COMPANY REREGISTERS FROM KOMI TO OREL.** The behavior of oil companies in Russia is increasingly coming into conflict with the interests of regional governments. Such disputes are particularly visible in such lucrative fields as the Timan-Pechora oil and gas deposit.

The most obvious example is LUKoil, which apparently hides some of its income and pays a lower tax per ton of oil into local budgets than do other oil companies (*Komsomolskaya pravda. Respublika Komi*, 16 February 2001). With this powerful company in mind and its increasing weight in Komi politics, Komi's leadership has started to support several medium and small companies active in the republic seeking to prevent LUKoil from securing a monopoly.

Severnaya nef't, controlled by former Russian Deputy Finance Minister Andrei Vavilov, played a prominent role in Komi's oil politics. Today this company is one of the fastest growing in the republic and leaders in the oil region capital of Usinsk and the republican capital of Syktyvkar placed special hope on it.

However, on 24 October, the tax police received official notification that the company had reregistered in Orel and would now pay taxes there. Officially, the company noted that it has recently merged with the Orel company Atlant, setting up a closed stock company called Severnaya nef't-Orel, and therefore decided to reregister in Orel. The loss of the company cost the city of Usinsk 11 percent of its tax income (*Molodezh severa*, 1 November).

In fact, the company decided to reregister because it needed a more powerful patron than it could find in Komi. Initially, the company benefited from its close ties to the Komi leadership. At the beginning of the year, Komi's leaders gave Severnaya nef't a 100 million ruble three-year investment tax credit. Additionally, Komi President Yurii Spiridonov and Nenets Autonomous Okrug Governor Vladimir Butov helped the company win a competition giving it the right to develop the Val Gamburtsev oil deposit, with reserves of 192 million tons. Severnaya nef't's controversial victory in this closed competition, held instead of an open auction, created serious problems for the company. Among its powerful competitors were Rosneft, LUKoil, Surgutneftegaz, YUKOS, and Sibneft, offering bonuses from \$100 million to \$140 million for the rights to the deposit. But Severnaya nef't won even though it only offered a bonus of \$7 million. Naturally, the competitors, and particularly LUKoil, which considers the north its own territory, contested the legality of the competition. Russian Natural Resources Minister Vitalii Artyukhov backed the position of Severnaya nef't's opponents.

The company faced serious problems and required powerful lobbying support, which neither the leadership of Komi, where there will be presidential elections in December, nor the Nenets Autonomous Okrug could provide. So Vavilov apparently worked out a deal with

Federation Council Speaker and Orel Governor Yegor StroeV. Vavilov's company subsequently announced plans to reregister in Orel and build an oil processing plant there. It is no coincidence that in Orel Oblast, Severnaya neft wins all of its court cases, while at the same time LUKoil wins in other regions (*Tribuna*, 2 November).

This case suggests that it is difficult to succeed in big business without close ties to the ruling regional elite. Moreover, the judicial system remains extremely dependent on the regional authorities and other influences and is by no means independent. In these conditions, there can be no real competition among oil companies in the region. - Yuri Shabaev in Syktyvkar

## **REFORMING THE GOVERNMENT**

**TASKS FROM LIQUIDATED FEDERAL MINISTRY DIVIDED UP.** On 17 October President Putin abolished the Ministry for Federal Affairs, and National and Migration Policies as part of his implementation of a plan to strengthen the ministries and increase their responsibilities. The former ministry was established in January 2000 by combining the Ministry of National Affairs and Federal Relations with the Federal Migration Service and was one of the least effective in the Russian government. It had no real power and could not influence the activities of other federal ministries in the regions. The tasks that this ministry was supposed to carry out actually were performed by other ministries, such as the Foreign Ministry, the Finance Ministry, the Ministry for Economic Development and Trade, and the Ministry for Internal Affairs (MVD).

During the last nine years, this ministry was repeatedly reorganized and renamed and it had nine different leaders. The authorities only recognized the need to have a systematic nationalities policy in the early 1990s. In 1992, they set up the State Committee on National Affairs under the leadership of the renowned ethnologist Valerii Tishkov. Subsequent leaders of the agency included Deputy Prime Minister Sergei Shakhrai, former Krasnodar Krai Governor Nikolai Yegorov, former head of the Communist Party Central Committee's Department for Nationalities Policy Vyacheslav Mikhailov, Dagestani Professor Ramazan Abdulatipov, former Perm parliament speaker Yevgenii Sapiro, among others. The final leader was the former Russian ambassador to Azerbaijan Aleksandr Blokhin. The constant turnover in leaders signaled that the state had no clear picture of how to conduct a nationalities policy.

In place of the ministry, Putin established a post for a special regional policy coordinator dealing with all government ministries. The president also gave the government a month to divide the responsibilities of the former ministry among the MVD, German Gref's Ministry of Economic Development and Trade, and the Foreign Ministry. Gref's ministry will most likely inherit issues of regional relations, local government, and oversight over implementing federal programs in the regions. The MVD will deal with migration issues and the regional offices of the ministry (more than 3,000 people in 85 regions) although Deputy Prime Minister Valentina Matvienko believes that issues of work-based migration should be handled by the Labor Ministry.

Using some old studies developed by the Federal Migration Service, the ministry had developed a policy concept (yet to be approved by the government) on regulating migration and attracting well trained workers to Russia. For the first time, the 2002 budget set aside 1.6 billion rubles for these goals. A similar amount is set aside for refugees from Chechnya and another 1

billion rubles for compensation payments. An additional 500 million rubles has been assigned to building homes. It remains unclear whether the Ministry of Internal Affairs, which now is responsible for migration, will get this money because no one knows if the militarized ministry can deal with such civilian issues (Kalmykiya's leaders think the reassignment is a good idea, see related story in this issue). Until now, the MVD's connection with migration policy was fighting illegal immigration. It is also unclear now who will deal with refugees and forced migrants.

Much now depends on who will be appointed to coordinate the activities of federal agencies in implementing a nationalities policy and what responsibilities this post will have. This person will undoubtedly face the same challenges as the former ministry did. This post will probably need the status of deputy prime minister so that the individual involved can rise above the ministries whose work he or she is supposed to coordinate. This individual will also need direct access to Putin. If the new coordinator lacks the personal skill or institutional muscle to have much of an impact, then the presidential administration will continue to make decisions on how to deal with nationalities issues in Russia. - Pavel Isaev in Moscow

### **KALMYKIYA AUTHORITIES SUPPORT POLICE ROLE IN MIGRATION**

**POLICY.** Deputy Chairman of Kalmykiya's republican parliament Aleksandr Sidorenko welcomed Putin's decision to abolish the federal Ministry for Federal Affairs, and National and Migration Policies and transfer responsibility for migration issues to the Ministry of Internal Affairs (MVD), Russia's police. "Who knows this sphere of life better than they do," Sidorenko commented.

Kalmykiya is near the North Caucasus and is a destination for forced migrants and refugees fleeing the conflicts of that region. Since September 1999, 3,109 individuals from Chechnya have come to the region. While the numbers are not large, they represent a population increase of 1 percent for the republic, which has 314,000 residents. If one includes migrants from other regions and unofficial migrants, then the republic faces a significant influx. According to the MVD, the number of crimes committed by foreigners and individuals lacking citizenship doubled during the first nine months of 2001, while the number of crimes committed by citizens of other Russian regions rose 40 percent (*Izvestiya Kalmykii*, 31 October).

As a result of the migration and changes in the traditional ethnic mix within the population, this summer there were several sharp conflicts between groups of Kalmyks and Dagestani migrants. Thus Sidorenko noted that "the problem of uncontrolled migration has become a real headache for republican and local authorities."

Representatives of the MVD in the republic agree. Deputy Minister Nikolai Ochaev said that the Kalmykiya branch of the MVD had proposed that the federal authorities introduce a special registration system in the Southern Federal District. The system would include punishments for those who violate it (*Izvestiya Kalmykii*, 31 October).

The republican authorities also want the federal government to adopt new laws on fighting uncontrolled migration. Thus the republican legislature has called for the quick adoption of a law "On migration in the Russian Federation" as proposed by the legislatures of Krasnodar and Adygeya. The law includes strict registration procedures for migrants (see *Rossiiskii regionalnyi byulleten*, no. 1, 2001). The Kalmykiyan legislators believe that this law is



necessary to stabilize the socio-economic situation in the North Caucasus and Russia as a whole. - Vladimir Volgin in Elista

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**CENTER-PERIPHERY RELATIONS**

**MOSCOW, REGIONS CONTINUE BATTLE OVER DEFINING RESPONSIBILITIES**

By Leonid Smirnyagin, Moscow Carnegie Center

MOSCOW - The Kremlin set up the "Kozak Commission" on 26 June so that the president could take the initiative in reshaping Russia's federal relations. Under Deputy Presidential Chief of Staff Dmitrii Kozak, the commission is preparing recommendations on dividing responsibilities between the center and the regions, revising the bilateral treaties signed during the 1990s with the regions, and eliminating the articles in regional charters that violate the

Russian Constitution. The Kremlin decided to stay at the front of the process of reforming federal relations because of federal officials' unhappiness with the initiatives coming from some of Russia's most influential governors. In particular, the Kremlin did not like the State Council working group documents prepared by Tatarstan President Mintimer Shaimiev and Moscow Mayor Yurii Luzhkov.

Kozak has taken a three-pronged approach to the problem of federalism. First, he has issued assurances that the Kremlin is against any attempt to address federal issues by amending the constitution ("we are not proposing any revolutions"). Second, Kozak seeks to simply federalism so that a "normal manager" can understand it. As he explains, "we must give a clear answer to the question 'who is responsible for what in this country?'" Third, he answers all critics of federal legislation by arguing that it was first necessary to bring all regional legislation in line with federal norms, regardless of the quality of these norms, and only then work on improving the content of federal laws.

The main problem for the Kremlin is article 72 of the Russian Constitution, which defines areas that are to be jointly managed by federal and regional authorities. Since the Kremlin has ruled out constitutional amendments, Kozak suggests a way out by amending about 300 federal laws that will explicitly define the responsibilities of the federal government and the regions within the broader framework of article 72.

Kozak is willing to preserve some of the bilateral treaties signed between the federal and regional governments, but wants to significantly reduce their number. He charged that many of them have no substantive content and only litter the legal field.

In the wake of these steps, the regional leaders quickly began sounding the alarm that the Kremlin was launching another round of centralization in federal relations. However, after their losses in the State Council, the regional leaders no longer count on such large committees or the sympathy of the president for support. Rather, the governors have started speaking out in the press, begun setting up political parties (such as the Democratic Party of Russia now headed by Novgorod's Governor Mikhail Prusak), and holding seminars on theoretical and practical questions of federalism. Such seminars make it possible to build a solid base of opposition to the president's policies.

One such seminar took place in Barnaul (Altai Krai) on 18-19 October. In general, the mood at the seminar was one of opposition to the Kozak commission and the Kremlin's attempts to centralize power. D. I. Tateev, one of the leaders of the Altai Republic, stated openly that the regions should defend their rights or soon there would be nothing left of them. State Duma member Vladimir Lysenko and Federation Council member E. L. Kerpelman offered similar criticism.

Lysenko pointed out that while the attention of the commission and seminars is concentrated on the problem of dividing responsibilities and bringing regional laws into line, regional legislation is gradually deteriorating due to the tensions between the center and the regions. In particular, Lysenko pointed to amendments to regional legislation designed to make it easier for incumbent governors to get reelected. According to Lysenko, 20 regions have changed their laws to elect governors in one round rather than two. These changes create fertile grounds for repeating the recent experience of Pskov Oblast, where the governor won a second term with support from only 7 percent of the electorate. A dozen regions have removed two-

term limits on their executives and more are planning to do so. Lysenko said that regional legislators often ask him to impose term limits at the federal level because regional legislatures are often under too much pressure from the governor to do it themselves.

The final resolutions of the meeting charged that the efforts to bring regional laws into line were serving to deprive the regions of their rights and that the attempt to create a unified legal space made regional legislatures less independent. Thus, the resolutions asserted that "regional laws can and should differ from federal laws and the laws of other regions. They should take into account regional peculiarities and historical traditions." The meeting also supported maintaining bilateral treaties as a framework for center-periphery relations. Participants advocated rewriting article 73 of the constitution, which currently gives the regions all powers not assigned to the federal government or joint federal and regional control, as an explicit list of rights exclusively for the regions.

## **LOCAL GOVERNMENT**

**SAMARA OBLAST ANNOUNCES THAT IT WILL TAKE OVER CITY'S FINANCES.** On 5 November Samara Deputy Governor Viktor Kazakov announced that the oblast was planning to implement strict financial monitoring of Samara, the region's capital city. Additionally, Kazakov announced that the oblast was preparing a decree for Governor Konstantin Titov's signature that would give the oblast external management over the city's finances. The city has responded by charging that the oblast's 2002 budget contains serious legal violations.

According to the Russian budget code, an oblast can take control of a city's finances if the city's debts make up more than 20 percent of its budget. The city's debt now stands at 123 million rubles (*Nezavisimaya gazeta*, 13 November). The Samara case is the first time an oblast government has sought to exercise this right to take over the finance of a city. In practice, though, the introduction of external management by the oblast would have little meaning since the city already is financed out of the oblast budget (*polit.ru*, 12 November).

Samara has long been on the verge of bankruptcy. In 1996, former Samara Mayor Oleg Sysuev raised the share residents pay for communal services from 40 percent to 60 percent of costs. However, in 1997, Sysuev took a position in the Russian cabinet leading to mayoral by-elections in Samara. Georgii Limanskii came to power as the new mayor on the strength of a promise to lower the fees charged for such services. Limanskii won reelection in the summer of 2001 as voters supported his ability to hold down prices for municipal services, even as the city's debts began to mount.

The governor's campaign to impose control over Limanskii's finances takes place against the political battle between the oblast and city leaders to win a majority of seats in the 9 December elections to the oblast legislature (see *EWI Russian Regional Report*, 31 October). Deputy Governor Kazakov said that the oblast was required to take action against the city because the oblast authorities believed that the mayor was spending money in ways that violated the city budget. In particular, he noted high expenses for "the mayor's PR campaign." Following an unsuccessful presidential campaign in 2000, Titov has strained relations with Moscow and is politically weak in his home district. Titov's use of the budgetary weapon against Limanskii

could serve as a model for other regions in which the governor and mayor are in conflict. -  
Compiled from reports by Sergei Khazov in Samara and other sources as noted in the text

## **BUSINESS AND POLITICS**

**NEW ULYANOVSK GOVERNOR PLANS TO MAINTAIN CONTROL OVER PRIVATIZED ENTERPRISES.** Ulyanovsk Governor Vladimir Shamanov seeks to continue the policy of his predecessor, former Governor Yurii Goryachev, in preserving state influence over important privatized enterprises in his region. This conclusion was the main outcome of a meeting of the oblast legislature's Economic Consultative Council, which took place on 8 November.

Oblast legislative Speaker Boris Zotov said that there is a divergence of views about privatization in Ulyanovsk: some believe that it has not taken place at all, while others assert that "everything has been sold off." The purpose of the council session was to get a clear picture of what the oblast is doing with state property and assess the progress of privatization of state property.

According to Anatolii Khvastunov, director of the Ulyanovsk Oblast Department for Property Relations, 223 state enterprises have changed hands since the beginning of the privatization process. The state owns shares in 154 of these enterprises, including a majority stake in 35 of them.

Goryachev's policy was to increase the state's stakes in privatized enterprises, often swapping overdue debt payments for a company's stock. When Shamanov came to power he criticized the previous governor for poorly managing state property. In 2000, the state's property assets only contributed 1.7 million rubles to the oblast budget. The administration announced plans to train personnel to better represent state interests in corporate boards of directors. Khvastunov said that he was prepared to convert 53 additional oblast enterprises into stock companies, but that 100 percent of the shares would remain in state hands. He noted that the administration's priority was to maintain control over local enterprises. However Professor Vladimir Yefimov expressed doubts about these plans, asking whether the main priority would be the interests of the state or workers' collectives at the factories.

Zotov claimed that Ulyanovsk is the only Russian region that does not have a law on property. A draft of such a law is now in preparation. The oblast legislature has several times failed to ratify a list of oblast property for a lack of information. - Sergei Gogin in Ulyanovsk

## **ENERGY ISSUES**

**NUCLEAR POWER PLAYS GROWING ROLE IN CENTRAL FEDERAL DISTRICT.** Since the Central Federal District lacks its own energy resources, it relies partly on nuclear power for its electricity and heating. "That is federal policy," Presidential Representative Georgii Poltavchenko told a meeting of the District Council on 9 November. The council, which includes the governors, legislative chairmen, and chief federal inspectors of the regions in the district, met to discuss the security and effective development of nuclear power in the district. Russian Atomic Energy Minister Aleksandr Rumyantsev headed the



federal delegation to the meeting. The authorities took unprecedented security measures before the meeting started.

Nuclear power is making a comeback in central Russia. By 1999, levels of production returned to their 1990 "pre-crisis" level, according to Deputy Presidential Representative Vasilii Kichedzhi. Nuclear power provides 29 percent of the electricity in the Center energy system (whose borders largely coincide with the Central Federal District). Nuclear power provides similar a amount of electricity in the Volga district and almost 40 percent in the Northwest. By comparison, these numbers are relatively small: nuclear power generates 75 percent of France's electricity, 43 percent of the European Union's, 35 percent of Japan's, but just 15 percent of Russia's.

Existing plans call for the development of central Russia's nuclear power plants, but the source of the extensive investments required for such construction remains unclear. The federal government does not have sufficient funds for this purpose. The regions are encouraging the construction of new plants on their territory because they bring new jobs, additional tax revenue, and federal funds to support the population's social needs. In Kursk, the local nuclear power station produces 24 percent of the region's gross product and fluctuations in the plant's work have an impact on the economy in general.

The council's meeting discussed three key issues: how to modernize the nuclear power plants, how to make them secure, and how to improve public attitudes toward nuclear energy. A major problem is storing and processing spent nuclear fuel and radioactive waste since a large share of these products is now stored at the nuclear plants themselves. A new storage station will not be built in Krasnoyarsk until 2005. Many participants were angry that Russia was able to store nuclear waste from Bulgaria and Hungary, but did not have room for its own. Gosatomnadzor Director Yurii Vishnevskii warned that currently not one nuclear power plant had adequate safeguards.

The main argument between the regional authorities and Minatom representatives was about the 30 kilometer special zone around each nuclear power plant and the required two percent payments for the social development of these zones. The argument ended without conclusion because the current law can be interpreted a number of ways and the only real solution is to adopt a new law. The regions are upset because they believe that the ministry is not contributing enough money into the fund. Minister Rumyantsev said that the ministry already is paying one percent and would seek a way to pay the rest of the money. The governors, nuclear power plant directors, and federal officials agreed that only a comprehensive solution that took into account economic, security, environmental, and social problems would work in the future.

Ultimately, the conference adopted a resolution which stated that in order to avoid a crisis in electricity supplies, it was necessary to modernize and extend the life of existing nuclear power plants, bring on line new reactors at the plants by 2010, increase the use of nuclear power to reduce the cost of electricity and heating, and implement measures to reduce the loss of energy during its production and use.

The regional governments are seeking federal funds to help realize this plan. Since both the federal and regional governments want to maintain state control over the plants they are not considering private investors. - Sergei Sarychev in Kursk

**SIBERIAN FSB DISCUSSES NUCLEAR SECURITY.** In the wake of the terrorist attacks on the United States, Siberian Federal Security Service (FSB) officials held a meeting in early November to discuss the level of security at nuclear sites in their region. Participants included FSB representatives from Novosibirsk, Tomsk, Irkutsk, and Krasnoyarsk. The officials discussed a wide variety of topics, ranging from fighting terrorism, to counter-intelligence activities, to issuing warnings about emergency situations at nuclear complexes. The last time the Siberian FSB members held such a meeting was seven years ago.

One of the sharpest discussions revolved around whether the Siberian Chemical Works, the world's largest complex of enterprises for processing nuclear fuel, located in Seversk (Tomsk Oblast), was vulnerable to an attack from the air. Sergei Nosov, the head of the FSB division connected to the local air defense branch, claimed that the plant was safe even though missile forces have not been based in Nelyubino (near Tomsk) for several years.

However, after the session, Seversk Mayor Nikolai Kuzmenko expressed doubts about the region's air defenses' ability to neutralize any air attack on the plant. Kuzmenko said that he was ready to sign any document that would bring the missile forces back to the Tomsk area. Tomsk Governor Viktor Kress backs the mayor in this request. One day after the attack on the US, Kress said that he would do everything possible to return the missile forces to Tomsk. - Translated from "Tomsk Yadernyi," a Tomsk-based newsletter with subscriptions available by request from sea@green.tsu.ru (to subscribe send your e-mail address, name and institutional affiliation)

## **GOVERNORS' ELECTIONS**

**REGIONAL FSB CHIEF TO CHALLENGE SMOLENSK GOVERNOR.** The head of the Smolensk FSB Viktor Maslov will challenge Smolensk Governor Aleksandr Prokhorov in gubernatorial election seven months from now, according to local observers. While Prokhorov has already announced his plans to seek another term, Maslov has yet to throw his hat into the ring.

Former Deputy Governor Yurii Balbyshkin described Maslov's candidacy in an interview with *Smolenskie novosti* (2 November). Balbyshkin left his post after being charged with abusing his office and participating in a contract killing (see *EWI Russian Regional Report*, 17 September). After a legal process lasting about one year, the court gave Balbyshkin a two-year suspended sentence.

Despite his fall from power, Balbyshkin is considered a well-connected and knowledgeable commentator on local politics. He believes that no other potential candidates besides Prokhorov and Balbyshkin have a realistic chance of winning.

As the incumbent, Prokhorov is in a strong position, but numerous criminal scandals in the region have spoiled his image. Maslov will likely have the backing of the presidential administration and is well respected in Smolensk. He will also have the support of the Communist Party, which is very influential in the region.

Balbyshkin believes that the support of the Communists will be crucial. In the previous elections, the Communists backed Prokhorov. State Duma member from Smolensk Anatolii

Lukyanov, once a close associate of USSR President Mikhail Gorbachev and now an influential member of the national Communist Party, will play a key role. He helped initiate the presidential administration's investigation of Prokhorov's office that led to the numerous scandals in the region.

Maslov began his campaign on 30 October, a day set aside for commemorating the victims of political repression, by visiting the mass grave at Katyn in Smolensk Oblast. There he made a speech that sounded like an effort at repentance by the security services for the numerous illegal acts committed during the 1930s. He promised to see the investigation of crimes committee in Smolensk through to the end. He plans to publish the full list of Soviet citizens illegally shot in the oblast. He said that such things should not happen again in Russia and a guarantee of preventing them was the on-going democratic processes taking place in all spheres of Russian political life. Federal Inspector for Smolensk Oblast Nikolai Rudak joined Maslov in his visit to the Katyn site. Local observers believe that Maslov's visit was a very effective way to begin his gubernatorial campaign. - Arsentii Ledovskoi in Smolensk

## **CIVIL FORUM**

### **BASHKORTOSTANI AUTHORITIES GUIDE WORK OF COMMITTEE**

**PREPARING FOR MOSCOW MEETING.** On 9 October the Bashkortostani organizers for the Civil Forum meeting to take place in Moscow 21-22 November held their first meeting. The participants included representatives of more than 60 organizations and officials from President Murtaza Rakhimov's administration and the republican government.

The organizations first held a founding conference in September under the aegis of Chief Federal Inspector for Bashkortostan Rustem Khamitov, without the support of the republican administration. Initially, Rakhimov planned to ignore the Civil Forum, but then decided that he would be better off leading efforts to organize the republic's participation. The representatives of the republic's social organizations and the republican administration refounded the republican organizing committee on 9 October and backed as its leader the Head of the Republican Department for Registering Civil Acts, Minister Rashida Sultanova, who also leads the officially - supported Union of Women of Bashkortostan. According to A. Goncharov, one of the initiators of the project, Bashkortostan's unofficial groups decided to join the committee and not fight with the republican authorities at Khamitov's advice.

On 26 October the 28 most active members of the group met to summarize the work of the committee's working groups dealing with legal and financial issues. The group on legal questions indicated that one of the most pressing problems for non-governmental groups in Bashkortostan was differences between republican and federal laws on issues regulating the activities of such groups. They called for bringing the republic's laws in line with federal norms. The financial group suggested that organizations that carry out important social programs should receive funds directly from the republican budget, avoiding the offices of all republican ministries.

The participants in the meeting supported a plan to encourage greater dialogue at the federal, regional, and local level to develop better laws regulating non-governmental organizations. However, the participants rejected a proposal from the authorities to set up a

single organization that would unite all other non-governmental organizations in the republic. Participants pointed out that such an organization would become too bureaucratic, especially if it had the ability to distribute funds or monitor how they are used. The participants argued that it would only complicate the work of social organizations. - Igor Rabinovich in Ufa

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## FISCAL FEDERALISM

**VORONEZH GOVERNOR DENOUNCES 2002 FEDERAL BUDGET.** Voronezh Governor Vladimir Kulakov continues to fight the federal authorities over the draft federal budget for 2002 (see *EWI Russian Regional Report*, 17 October). Kulakov is the only governor to sign a "special opinion" critical of the budget. In particular, he does not agree with the 48.7 percent figure that the government set as the tax potential index for his region. This index is set by the federal government to determine the tax each region should owe Moscow taking into account how each particular region differs from the Russian average. Specialists in the Voronezh Oblast finance department believe that the number is too high and that a more accurate number for their region would be 42.45 percent (*Bereg*, 9 November).

Kulakov's representative in the Federation Council, Boris Preobrazhenskii has argued this position, seeking to reduce the number and therefore the amount of money the region owes. Furthermore, he asserted that the draft budget in its current form violated federal legislation, particularly article 48 of the Budget Code ([www.budgetrf.ru](http://www.budgetrf.ru)), which

states that the regions should receive no less than 50 percent of the overall tax income collected in Russia (*Voronezhskoe obozrenie*, 9 November). At the end of 2000, the federal authorities passed a law suspending this clause of the Budget Code for 2001 and are likely to do the same at the end of 2001.

Preobrazhenskii and Kulakov are planning to work hard to defeat the budget. Preobrazhenskii said that he would vote against the draft budget when it reached the Federation Council. Kulakov is lobbying Moscow to support the region's program for social and economic development and is hoping to secure additional federal funds for the oblast budget. - Yuliya Fedorinova in Voronezh

**LEGISLATURE REWRITES SALES TAX LAW AFTER COURT REJECTS PREVIOUS ONE.** In the next few days, President Putin will sign a new chapter of the Tax Code defining Russia's sales tax. Both houses of the federal legislature have already passed it. The tax will require a 5 percent sales tax on most goods and services sold and all the money collected will go into regional budgets. At the president's wishes, the tax will expire on 1 January 2004, depriving the regions of a key source of income.

Russia first introduced a sales tax in 1998, allowing regions to set taxes on most goods and services (excluding essential goods) at any level up to 5 percent. By the end of 1998, 14 regions had introduced the new tax. By the end of 1999, all but 14 regions had introduced it. About two-thirds of the regions decided to charge the full 5 percent allowed under federal law, while others charged lower rates.

At the beginning of 2001, the Constitutional Court ruled that the tax legislation adopted in 1998 was unconstitutional because it violated Russia's unified economic space, property rights, and the freedom of economic activity. In making this ruling, the court sided with business people who had filed more than 20 cases against the law. In particular, the court rejected aspects of the federal framework law on the sales tax that allowed regional authorities to add to the list of federally-defined goods that cannot be taxed. Additionally, individual entrepreneurs charged that the law was unfair because it forced them to pay sales taxes on purchases when enterprises making similar purchases did not have to pay such taxes.

In rejecting the law, the Constitutional Court found in favor of the business people on almost every point. However, the justices ruled that the state could still charge a sales tax, but that it would have to apply to all goods across all regions, excluding those goods specifically exempted by the federal government. Rather than simply overturning the law and thereby throwing regional finances into disarray, the court gave the federal executive and legislative branches one year to adopt new legislation. Putin's state of the union address finally spurred the government and legislature to action in writing a new law when he expressed the desire to abolish the sales tax by 1 January 2004.

After considerable discussion, the legislature adopted a version of the sales tax law that treats individual business people and enterprises equally. During the discussion, the legislators had considered reducing the federally-mandated size of the tax from 5 to 4 percent. However, the government intervened, pointing out that such a drop would cost regional budgets 12 billion rubles. Deputy Finance Minister Mikhail Motorin argued that the regions would need this money to pay federally-mandated higher salaries to employees receiving their salaries from the regional budget. This argument won the day.

Additionally, the new law deprives the regions of the right to add additional goods and services to the federal list of goods and services that are not taxed.

The sales tax will last until 1 January 2004, after which it will be abolished as the president has demanded. However, it is not clear if it will even last that long. Business people may again file a protest with the Constitutional Court, alleging that the law violates constitutional guarantees on the unity of Russia's economic space.

Another problem is that the "new" sales tax is not likely to go into effect soon. Regions must adopt a new sales tax law one month before it goes into effect. However, the federal law will not be implemented until 1 January 2002. Depending on how one interprets this law, the regions may not be able to impose a sales tax until 1 March 2002 or even 1 January 2003. - Svetlana Mikhailova in Moscow

**FACING FINANCIAL CRUNCH, BASHKORTOSTAN SEEKS FOREIGN INVESTMENT.** At a session of the Bashkortostani parliament in early November, the republic's Minister for the Economy and Anti-Monopoly Policy Valentin Vlasov gave a pessimistic prognosis for Bashkortostan's social and economic development in 2002. With the collapsing world price for oil, he predicted a reduction in the output of the chemical and petrochemical industries, including less oil to be processed in the republic. Ferrous and non-ferrous metallurgy firms also face low international prices. Additionally, agricultural output is expected to fall.

According to Vlasov, Bashkortostan's industries did not use last year's relatively favorable conditions to refurbish their plants and increase production. Therefore they are unable to meet current demand, leading to a sharp increase in imported goods now. Moreover, the republic's tax base has shrunk because as of 1 July 2000 Bashkortostan has been paying taxes to the federal budget according to norms set by federal law. Beginning on 1 January 2002, the enterprise profit tax will drop from 35 to 24 percent. According to the Tax Code, this tax is one of the main sources for the republican budget. At the same time, as of 2002, the federal government has cancelled the republic's ability to provide profit tax breaks. The republic's government has handed out these perks liberally to free oil refineries from federal taxes. These refineries provide most of the income making up the republic's budget.

Ufa's financial relations with Moscow remain complex. As Finance Minister Aleksei Kudrin explained on 13 November to a meeting of the pro-presidential group of senators in the Federatsiya faction, the federal government will send 20 billion rubles to Tatarstan and Bashkortostan in 2002 to finance federal programs. Kudrin said that these republics pay taxes according to federal laws, but that it is necessary to finance them from the federal budget for an unspecified "transition period." In effect, this statement means that something like the bilateral power-sharing agreement between Bashkortostan and Russia that existed from 1995 to 1999 continues to function. Under the agreement, Bashkortostan had the right to pay for all federal programs in the republic on its own without transferring the money to the federal budget. Similar clauses for Tatarstan and Bashkortostan have been included in the 2002 federal budget.

However, regions that do not receive such privileges have denounced these special budget lines for Bashkortostan and Tatarstan and the federal government may agree to delete them to assure the budget's passage. Losing such transfers would cost Bashkortostan 30 percent of its income. Thus, in his budget message to the republican

parliament, President Murtaza Rakhimov called for an industrial policy that provided state aid only to those enterprises which regularly pay their taxes and attract investment on their own.

Additionally, at the end of November, the Bashkortostani government is planning to enter the international capital market, working with British banks to float loans of 1 billion rubles to be repaid in one year. Moody's ranks Bashkortostan B3 with a stable outlook and Standard and Poor's give it a B, with a positive outlook. - Igor Rabinovich in Ufa

## **BUSINESS AND POLITICS**

**INVESTMENT RISK AND ELECTORAL OUTCOMES.** On 5 November *Ekspert* published its yearly analysis of regional risk rankings. According to *Ekspert*, the level of regional risk is not only important for investors but also for voters.

Since the last ratings were published, elections took place in 68 regions--41 incumbents were reelected and 27 new governors were elected. Although *Ekspert* sees investment risk as the key factor influencing the outcome of gubernatorial elections, an examination of the cases mentioned in the article reveals that political factors play the determining role in many instances. A more systematic analysis of the link between the level of investment risk and the outcome of gubernatorial and legislative elections is needed to fully establish the weight of economic factors in regional electoral contests.

*Ekspert* states that incumbents lost in regions facing increased investment risk in recent years, such as the Komi-Permyatskii Autonomous Okrug, the Republic of Marii El, Orenburg Oblast, and Kursk Oblast. However, recent scholarship on the role of economic issues in Russian voting preferences shows that while Russians increasingly are becoming "economic voters," events specific to each region often determine electoral outcomes (See *EWI Russian Regional Report*, 29 August). In the Kursk case, for example, the oblast court prohibited incumbent Aleksandr Rutskoi from running due to complaints of campaign irregularities and other abuses (See *EWI Russian Regional Report*, 23 October, 2000).

*Ekspert* further notes that incumbents were reelected in some regions where investment risk increased, for example Tula oblast and Bryansk Oblast. Political factors, not economic issues led to these outcomes in many cases. In Tula, for example, after the principal challengers to the incumbent withdrew in the second round, the election commission replaced them with the third-place finisher, who ultimately lost (See *EWI Russian Regional Report*, 25 April).

In Kostroma Oblast, Kirov Oblast, the Republic of Udmurtiya, Chita Oblast, Vologda Oblast, Astrakhan Oblast, and the Agin-Buryat Autonomous Okrug--regions that saw a decline in investment risk, incumbents were reelected by a margin of greater than 10 percent. In Kirov Oblast, however, incumbent Vladimir Sergeenkov was reelected as a result of a deal he struck with Moscow to move up the gubernatorial elections, thereby giving opponents less time to organize (See *EWI Russian Regional Report*, 26 January). Agin-Buryat Autonomous Okrug Governor Bair Zhamasuev was easily reelected, winning 90 percent of the vote in 29 October 2000 elections, largely due to his close ties to Iosif Kobzon, the popular singer who represents the region in the State Duma (*EWI Russian Regional Report*, 1 November, 2000). - Elizabeth Wishnick

## NATURAL MONOPOLIES AND THE REGIONS

**KALMYKIYA FACES SEVERE ENERGY CRISIS.** Since 1 November, Russia's electricity monopoly Unified Energy System (EES) has cut electricity supplies to Kalmykiya to 50 percent of the required amount (*Izvestiya Kalmykii*, 13 November). The monopoly acted after many electricity consumers not only failed to reduce their debts, but failed to even stop them from further increases. As of 1 July, the total debt of consumers in the republic reached 596 million rubles, a sum equivalent to 23 months worth of electricity supplies to the region. This summer, Kalmykiya was one of the monopoly's largest debtors. By 1 November its debt grew further to 616 million rubles (*Izvestiya Kalmykii*, 14 November).

There are 300 firms among the main debtors. The republic's municipal services sector is the largest, owing 230 million rubles (including 20 million rubles in debt added this year). The agricultural sector is in second place, with 200 million rubles in debt. Other major debtors include rich enterprises such as Kalmneft, the local oil company, and federal offices, including the local branch of the Federal Security Service and the border guard service office in Lagan, among others.

Kalmykiya's lack of its own electricity sources makes the situation more difficult. It must purchase all of its electricity from beyond its borders through EES. In the spring, the company already made clear that it would not accept the republic's growing debts. At that time EES fired Kalmenergo head Ivan Tibeiko, removed Kalmenergo from the control of Yuzhenergo, and transferred it to the control of Middle Volga Interregional Energy Management Company. The republic also made a number of administrative changes.

Nevertheless, the debt problem remains unsolved. Enterprises, organizations, and residents are not paying for their electricity in full or on time. Now locals are beginning to ask how they will survive the winter and whether the region will face the kind of blackouts that often plague Primorskii Krai.

Kalmykiya President Kirsan Ilyumzhinov met with EES head Anatolii Chubais in Moscow on 6 November, but they did not come to an agreement. EES wants to the republic to pay for its current energy consumption and pay off its debts within two years. The republic simply does not have the resources to make these payments. As a way of fighting back, it has asked the republican procurator and the republican branch of the federal anti-monopoly ministry to investigate whether EES has violated federal law. By turning off half of the republic's power, the utility has cut power to customers who pay their bills on time and have no debts. However, the main question remains: Will Kalmykiya have an energy crisis this winter? - Vladimir Volgin in Elista

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## INTERNATIONAL TERRORISM

**COOPERATIVE ISLAMIC LEADER HELPS RUSSIAN AUTHORITIES  
MONITOR TERRORISM.** God's law will punish terrorism, Mufti Talgat Tadzhuiddin,

the head of the Central Spiritual Department of Russia's Muslims (TsDUM) announced in Ufa on the eve of the Muslim holy month of Ramadan. The TsDUM, whose membership includes the majority of Russia's Muslims has been fighting extremism since the beginning of the 1990s, and Tadzhuiddin said that he plans to continue the battle (see the interview with Tadzhuiddin published in *EWI Russian Regional Report*, 2 May 2001 and also 24 October). He called the activity of international terrorist groups a crime against Islam regardless of whether they carry out their terrorist acts in America or Chechnya.

Tadzhuiddin is the only Islamic spiritual leader in Russia to support the federal authorities' anti-terrorist activities in an open and straightforward manner. While the other Muslim leaders have disassociated themselves from the use of violence, they have only issued tepid condemnations of terrorism. Thus, Mufti Nurmukhammad-khazrat Nigmatullin of the Muslim Spiritual Department of Bashkortostan announced after the terrorist attacks in New York and Washington that the battle with terrorism was a job for the security agencies while spiritual leaders should serve higher authorities. Tadzhuiddin's decision to declare terrorists the "enemies of Islam" and his appeals to the Russian authorities to eradicate "Islamic" terrorism stand out against the background of the other Muslim spiritual leaders' greater patience with terrorist acts committed in the name of Islam.

In this way, Tadzhuiddin is seeking to regain the influence over Muslim hearts and minds that he lost a decade ago. At the beginning of the 1990s, the spiritual department of several Muslim regions, including Tatarstan and Bashkortostan (where Tadzhuiddin is based) left TsDUM and became independent. The ambitious leaders of the new spiritual departments refused to recognize Tadzhuiddin as an authority. Under Yeltsin, Tadzhuiddin's main rival, Chairman of the Council of Muftis in Russia Ravil Gainutdin, began to win considerable influence. Using extensive foreign financial support, especially from Saudi Arabia and Egypt, Gainutdin declared himself the chief Muslim of European Russia, set up an office in Moscow, and won the backing of important figures in Yeltsin's immediate entourage. Under these conditions, Tadzhuiddin had no alternative but to launch a heated campaign against the extensive influence that foreign Islamic centers wield in Russia. These centers spread the Wahhabi version of Islam, which is new to Russia.

When Putin came to office, the federal authorities and Tadzhuiddin had a common enemy: Wahhabism, which the Russian elite considered to be synonymous with fanatical Islamic extremism. In the past several months, the federal authorities and media have given more attention to Tadzhuiddin than he has received in the last decade. Several months before September 11, at a conference in July 2001 under the aegis of the Russian legislature and Presidential Administration, Tadzhuiddin warned about the threat of "Islamic" terrorism. After the tragic events in the USA, the material from the conference was sent to Putin and he offered Tadzhuiddin the job of preparing an international forum in Moscow called "Islam against Terror," with the participation of representatives from the Middle East, Central Asia, and Afghanistan.

The federal authorities are now ready to support Tadzhuiddin in his efforts to win back his former influence in exchange for his help in monitoring the situation in Russia's Islamic regions and on its borders. The authorities are also willing to help Tadzhuiddin gain control of the financial aid to Russian Muslims provided from abroad. As Tadzhuiddin has pointed out, in the past this money has gone to organize centers to train

Wahhabi fighters. If all the financial flows are concentrated in the hands of one leader, in this case Tadzhuiddin, it will be easier for the Russian authorities to monitor developments in the sphere of "Islamic" terrorism. - Igor Rabinovich in Ufa

## **CIVIL FORUM: A DELEGATE'S VIEW**

*Last week Andrei Suslov, one of the RRR's Perm correspondents, attended the Kremlin's Civil Forum as a delegate from Memorial. Here is a report of his impressions.*

**CIVIL FORUM ACHIEVES MAIN GOAL.** On 21-22 November, 5,000 individuals participated in the Civil Forum, a meeting initiated by the Kremlin to promote dialogue between the authorities and Russia's non-governmental organizations. About 4,000 of the participants were leaders of non-governmental organizations. Other participants included public officials, journalists, and various experts. Overall, 3,500 participants came from the regions.

The Forum achieved its basic goal of launching a constructive dialogue between civil society and the authorities. Russia's highest officials agreed to work with civil society to address problems that concern everyone. President Putin told the participants that the authorities did not seek to give orders to civil society, but planned to work with it as an equal partner. Prime Minister Mikhail Kasyanov said that the authorities were trying to create conditions so that the "horizontal" strength of society would complement the "vertical" of official power established during the last two years.

The work of the Forum demonstrated an obvious truth: Russian civil society exists and is reasonably active. Of the 350,000 officially registered non-commercial organizations, 70,000 are actually in operation, according to Justice Ministry data. About 2.5 million employees and volunteers are involved in their work and 20 million Russian citizens use their services.

Under pressure from representatives of the various groups, the presidential administration had to modify its initial proposals for the Forum, which it envisaged as a way to demonstrate society's unity with the president. There were no empty toasts in the Kremlin's Palace of Congresses. Instead, the main work of the forum took place in 70 thematic round tables and negotiations between representatives of social organizations and relevant ministers and agency heads in 33 "negotiation squares." According to the participants in some of the discussions, the conversations were often heated, but in most cases the two sides agreed to further dialogue, the establishment of mechanisms to link federal agencies with interested social groups, and public evaluations of state actions. The results of the forum provide hope for the future development of mutually beneficial state-society relations. Now much depends on how actively and effectively civil society uses the new opportunities.

The Russian media did a poor job of covering the Forum, however. The majority of the media simply ignored the event or discussed it in short news bites that made the proceedings all but unrecognizable: it seemed that 5,000 delegates came to express their loyalty to Putin and eat free food. The media suggested that the authorities had managed to subordinate civil society to themselves and deceive everyone. One got the feeling that the media decided that it was the only institution that has the right to speak to the authorities in the name of society.

Ultimately, "all important conditions laid down by the organizing committee were observed," according to Lyudmila Alekseeva, the chairwoman of the Moscow Helsinki Group and a member of the forum's organizing committee. She noted that the forum did not adopt any resolutions and that it did not elect any sort of body that was supposed to represent civil society. She described the forum as a "working meeting, a place to discuss concrete problems and seek paths to their solution." However, as she noted, only time will tell if this dialogue is successful. - Andrei Suslov at the Kremlin's Palace of Congresses

## **CENTER-PERIPHERY RELATIONS**

**SIBERIAN GOVERNORS IGNORE FEDERAL DISTRICT MEETING.** The low attendance of governors at the recent joint meeting in Tomsk of the council of the Siberian Federal District and the Siberian Agreement Interregional Association on energy issues was symptomatic of the governors' waning interest in the activities of the federal districts. Presidential Representative to the Siberian Federal District Leonid Drachevskii created the council more than a year ago and its membership includes the 16 governors in the federal district. Initially all governors attended the council's meetings, but now their interest has dropped significantly.

Only six regional executives, including Tomsk Governor Viktor Kress, came to Tomsk. Among those not attending were the leaders of Kemerovo, Chita, and Krasnoyarsk. Except for Tyva's Sherig-oola Oorzhak, none of the leaders of the national republics came. Kemerovo Governor Aman Tuleev's absence was particularly noteworthy since he has long been interested in energy issues. The session discussed the future of Siberian energy supplies, even though the heads of the main coal producing regions (Kemerovo, Chita, and Krasnoyarsk) were not there. - Maksim Shandarov in Novosibirsk

## **NATURAL MONOPOLIES AND THE REGIONS**

**GAZPROM DEFEATS MIDDLEMEN IN KURSK.** On 20 November, Gazprom won a decisive victory over intermediary natural gas distributors in Kursk Oblast. The key question was who should collect the population's payments for natural gas consumption.

The two main competitors were Kurskregiongaz and Kurskgaz and the battle has been underway since 1997. That year the federal government decided to separate distribution companies from Gazprom. In Kursk, as in many other regions, Gazprom set up a subsidiary called Kurskregiongaz, which nominally owns all of the natural gas in the region. However, instead of being paid for the gas it supplied, Kurskregiongaz mostly collected debts. The main problem was that there were too many middlemen between the pipeline and the final customer.

The main middleman was Kurskgaz, which owns the network of low-pressure gas pipelines that ship the natural gas to enterprises and residences. The company also owns the equipment necessary for repairing the gas lines.

Four years ago, Kurskregiongaz and Kurskgaz signed an agreement, but Kurskgaz did not meet its conditions. According to the deal, Kurskgaz would get 10 percent of the money that Kurskregiongaz collected as payment for its gas. In other words, the owner of

the gas would pay the distribution company to deliver the gas. However, Kurskgaz did not like these conditions because they limited opportunities to make larger profits and made the company heavily dependent on Kurskregiongaz. So Kurskgaz decided to collect payments for the gas directly from the population even though a court ordered them to stop engaging in this illegal practice.

Today, Kurskregiongaz is owed 300 million rubles for its gas. The oblast authorities believe that the population is responsible for 60 million rubles of this debt and that Kurskgaz has taken the other 240 million rubles and does not want to pay it back.

The conflict between the two companies has gone on for years as both sides tried to collect natural gas payments directly from the population. Customers were confused about whom they were supposed to pay, but generally favored Kurskgaz because it was the most immediate provider. Kurskgaz employees often traveled door-to-door through rural parts of the oblast to collect payments directly from customers and issue receipts.

Finally the struggle between the two gas companies became so extreme that Governor Aleksandr Mikhailov set up a commission chaired by Deputy Oblast Prime Minister Vladimir Trunov that ruled in favor of Kurskregiongaz. But Kurskgaz ignored the decision of the commission and a subsequent ruling by the arbitration court. In response, Gazprom started to buy up Kurskregiongaz's stock and quickly gained a majority stake. On 20 November, at an extraordinary meeting of Kurskgaz's board, Gazprom was able to remove Kurskgaz General Director Anatolii Ryapolov and replace him with Viktor Lysyi, once the deputy general director of Kurskregionongaz. Thus, Kurskgaz lost the battle and its leadership was dismissed. However, the struggle is unlikely to end there as Ryapolov has already declared that his removal was illegal. - Sergei Sarychev in Kursk

## **FISCAL FEDERALISM**

**IRKUTSK FACES MAJOR PROBLEMS IN ADOPTING 2002 BUDGET.** The Irkutsk legislature adopted the region's 2002 budget in the first of three readings on 28 November, by a vote of 27 to 9, with 3 abstentions. The legislature's Union of Rightist Forces (SPS) protested the decision because its members believe that the region will not have enough money to meet its obligations. However, Vice Governor Andrei Burenin warned that if the legislature failed to adopt the budget in its final form by the end of the year, then the oblast could not pay its employees.

On 1 December, salaries of employees paid from the oblast budget will rise by a factor of 1.89, costing Irkutsk Oblast an anticipated 3.6 billion additional rubles next year. This figure represents a large percentage of the oblast's overall budget. In 2002, the oblast expects to collect 19 billion rubles in taxes for all levels of government (federal, regional, and local), with the oblast's income being 10.4 billion rubles, including 2.1 billion rubles in financial aid from the federal government. Despite the large costs associated with the higher salaries, the federal government is only planning to give the region an additional 390 million rubles (11 percent of what is needed). Burenin said that the federal measure means that Irkutsk will have to forego a planned 20 percent raise for civil servants.

State Duma member Yurii Ten pointed out that the oblast's income has been greatly diminished from what it should be. He noted that in 2002 regional income is

expected to grow 10 percent over income in 2001, at the same time that income sent to the federal budget will grow 60 percent.

Another federal act with budgetary consequences for the regions is the amended law on veterans, which has passed both the State Duma and Federation Council and is awaiting the president's signature. It provides new benefits to "labor veterans," women who have worked 35 years and men who have worked 40 years. It is expected to help 7.5 million individuals at a cost of 7.5 billion rubles nationally (1,000 rubles each). Since there are no funds in the federal budget to pay for this measure, Federation Council member Valentin Mezhevich (representing Irkutsk's legislature) believes that the regions will have to pay for it.

Irkutsk is taking some measures to increase its income. For example, it is raising the tax on water use by a factor of 26. The tax should bring in 728 million rubles in 2002, or about 5 percent of the region's income. The only firm affected is Irkutskenergo, where the cost of generating electricity will increase slightly. In the past, proceeds from the water tax were split 50:50 between the federal and regional governments. Beginning in 2002, all proceeds will go to the regions. - Teleinform in Irkutsk

**CHELYABINSK GOVERNOR COMPLAINS ABOUT GREATER DEMANDS ON BUDGET.** In his 19 November meeting with President Putin, Chelyabinsk Governor Petr Sumin stressed that Chelyabinsk Oblast does not have sufficient funds to pay for the nearly doubling of civil servant salaries required by federal law effective 1 December. Of the additional 3.8 billion rubles needed to cover these costs, Chelyabinsk Oblast authorities believe that they can raise 1 billion, half from new income and half by cutting other costs. The other nearly 3 billion rubles the oblast hopes to receive from the federal government.

The regional authorities believe that they will in fact receive this money from the federal government, thereby turning what was once a donor region into a net recipient of federal subsidies. At a time when a larger share of tax revenues are going to Moscow, local observers believe that such an outcome is inevitable. Simple arithmetic suggests that the region is better off living on subsidies.

During the last three quarters, overall tax receipts in Chelyabinsk rose 16 percent, compared to the same time last year. However, the income of the oblast's consolidated budget rose only 0.3 percent, while the increase to the federal budget was 31 percent. Thus, tax-payer rubles accumulate in the center and then are distributed among the regions. From the Chelyabinsk point of view, this system creates a disincentive for regions to aspire to donor status. Thus, it is easier to be like all the rest, receive your share, and not complain.

Sumin claims that the situation would be much improved if the regions could keep 15 percent of the value-added tax (VAT), as they were able to do from the second quarter of 1999 through the end of 2000. Now all income from the VAT goes to the federal government. (From 1994 through the first quarter of 1999, the regions kept 25 percent of the VAT). Despite the governors' complaints, however, the federal government does not want restore the regions' share of the VAT.

The result is that the only way to get things done now is to agree one-on-one with the president. Thus Sumin has not ruled out running for a third term. And perhaps that



decision will serve the oblast's interests if personal relations are going to be so important in Russia's evolving federal system. - Igor Stepanov in Chelyabinsk

## **POLITICAL PARTIES**

**KURSK ACTIVISTS PROTEST YEDINSTVO'S CENTRALIZATION.** On 21 November 265 delegates attended the founding congress of the new party bringing together the Yedinstvo, Otechestvo, and Vsyá Rossiya parties. One of the requirements for the new party to register is that its regional chapters hold founding congresses.

The new party's procedures (*ustav*) caused the greatest controversy at the Kursk meeting. The text of the procedures arrived in Kursk from Moscow the day of the congress so neither the local party leaders nor the delegates had much of a chance to review it carefully. None of the leaders expected to receive the text that actually came. The new party's procedures deprive rank-and-file members of almost all power. Local branches of the party are also essentially powerless. Instead the procedures hand all power to the party's Central Executive Committee, which will have the power to appoint the heads of local branches of the party as well as other key figures. The committee will even accept new members and exclude them from the party's ranks. Where the old Communist Party of the Soviet Union had a policy of democratic centralism, the new one simply has centralism.

Because of their opposition to what they viewed as an attempt by the central party leaders to grab power, the delegates at the Kursk meeting initially refused to adopt the procedures. Finally, in a compromise decision, they agreed to do so, but only with the provision that the procedures be amended later. Such amendments have to be added quickly because on 1 December the new party will hold its national founding congress in Moscow and formally adopt the procedures.

Why the rush to adopt the new procedures? Most likely because the federal party leadership will benefit from the rules as they are now written. The regional party leaders are effectively hostages as a result: either they adopt the procedures in the region and receive the support of Moscow or the procedures will be adopted at the federal level anyway and any regional party branches that opposed them will have trouble securing a position of power within the party in the future since the central party leadership will make all the decisions. - Sergei Sarychev in Kursk

## **PROSPECTS FOR THE FAR EAST**

**A FAR EAST NO LONGER DEPENDENT ON RUSSIA.** As the strands of Putin's administrative hierarchy become better defined, so do the positions toward Moscow of regional bureaucrats, politicians, and scholars. Such feelings were clear in speeches made at an international conference held 27-28 November examining the perspectives of the Russian Far East and Siberia to 2010. Of course, in contrast to five or six years ago, nobody talked about the need to establish the so-called Far Eastern Republic. This idea died since it is politically harmful and physically impossible to achieve. However, many were ready to throw darts at Moscow.

Khabarovsk Krai Governor Viktor Ishaev opened the conference by pointing out that "there are more specialists here from the Asia Pacific region than the Hero City of

Moscow." Akademik Valerii Kuleshov of the Novosibirsk branch of the Russian Academy of Sciences, said that "We are with the Far Easterners. We have no one to collaborate with in scientific plans. Moscow is far away." Japan's Consul General in Khabarovsk Yunichi Kusumoto used diplomatic language but made the same point in noting that "It is necessary that the Russian Far East not fall behind new movements in the world."

Russia's decade long crisis has hit the Far East hardest of all. During the years of "radical reform," Russia lost 2 percent of its population, while the Far East lost 11 percent. The people leaving often were the most highly trained part of the population. Local observers claim that the banking system facilitates the occupation of the Far East by branches of Moscow banks that "suck up already scarce resources and send them to the central regions of Russia." One of the main offenders is Sberbank, "which should have been broken up long ago." High transportation costs prevent today's Far Eastern students from studying in Moscow and St. Petersburg, as their parents did. Others pointed out that one of the main problems in the Far East is the persistent poverty and the federal government's failure to invest in developing the region.

In laying out his concept for the development of the Russian Far East, Ishaev stressed the specific history of the region. For the last 100 years, it gave Russia military, political, and economic influence on the Pacific rim and control over important strategic natural resources. The transition to a market-based economy meant that these special features were ignored and the peripheral regional economy lost out in the new "open competition." Now, however, Ishaev claimed that the illusion that the market will take care of everything has been destroyed. The market by itself, Ishaev argued, cannot do what needs to be done and therefore must be "supported and corrected by a state policy of social and economic development."

Ishaev's team sees four potential paths for the development of the Far East:

1. Significant federal support for the region in an initial stage while building the prerequisites for growth on the basis of local resources and through a complete restructuring of the local economy.
2. The traditional resource specialization of the region.
3. "The China card" characterized by the integration of the Russian Far East into the Asian Pacific region with extensive Chinese participation in the Russian economy.
4. Regional development emphasizing a larger role for the regional authorities and more integration with neighboring countries.

Ishaev believes that the fourth option is the best for the region. In particular, he envisions more and improved state guidance at the regional level with an emphasis on greater integration with the countries of the Asian Pacific region. Ishaev clearly hopes to balance China's prominent position in the area with ties to other countries. In answering a question from Zhao Lizhi, the Director of the Siberian Research Institute (based in Harbin, China), Ishaev said that China is "our most important partner" with whom the region does the most trade. However, he stressed that while "economic cooperation with the countries of the Asia Pacific region is a priority, our inclusion in international

cooperation can be implemented without tying it to a concrete country." - Yuri Rozhkov in Khabarovsk

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## FEDERATION COUNCIL



**WITH NEW SPEAKER, PUTIN TIGHTENS GRIP ON UPPER CHAMBER.** On 5 December, the Federation Council elected Sergei Mironov, President Putin's choice, as its new chairman and formally the third-ranking official in the Russian political hierarchy. The vote was 150-2, with four abstentions, and Mironov was the only candidate on the ballot. Upon coming to power at the beginning of 2000, Putin set out to weaken the Federation Council by removing the governors and regional legislative chairmen who formed its membership. By placing his own person at the top of the upper chamber, Putin has strengthened his already tight grip on the Russian legislature. Earlier, the Kremlin set up the pro-presidential *Federatsiya* faction within the upper chamber to ensure that key initiatives will receive the necessary votes. Putin's transformation of the Federation Council will be complete when the last governor leaves the body by the president's 1 January 2002 deadline.

Mironov replaces Yegor Stroev as the Federation Council speaker. Stroev opposed Putin's efforts to weaken the upper chamber, but could not hold his ground against the popular president. He recently won reelection as Orel governor and will likely disappear from national politics to focus on the region. Stroev was relieved that he no longer had to serve as Putin's puppet in the Federation Council, according to *Moskovskii komsomolets* (5 December). Putin said that he had offered Stroev the possibility of retaining the speakership, but Stroev chose to serve a third term as Orel governor instead (*Komsomolskaya Pravda*, 6 December). Shortly after Mironov's election took place, Putin unexpectedly showed up in the chamber to congratulate the winner and thank the departing chairman.

Mironov did not make any programmatic statement in winning the post. However, upon election he repeated earlier calls for electing the Federation Council members directly by popular vote, two from each of Russia's 89 regions. According to Mironov's plan, the governor and regional legislature would nominate a list of candidates from which the population could pick, so the voting would not be open to all who desired to be candidates (*Rossiiskaya gazeta*, 1 December). Currently the governor and speaker of each region appoint their representatives and can remove them with some restrictions that are not considered onerous. So far 108 members of the 178-member body have been appointed. By the end of the month, the 70 remaining governors and speakers will name their replacements. Mironov expects the current rules for forming the upper chamber to remain in effect for a few years until the constitution can be amended. So far Putin has shied away from changing the constitution, so Mironov's proposal, if acted on, would be a dramatic departure for the president.

Mironov knows Putin well from St. Petersburg, where he served as the deputy speaker of the city's Legislative Assembly. In June 2001, the Kremlin played an active role in making sure that the city legislators elected Mironov as their representative to the Federation Council (see *EWI Russian Regional Report*, 24 October). Mironov meets Federatsiya leader Valerii Goreglyad's definition of the person required for the job: "contemporary," "democratic in his nature," with legislative experience, and the confidence of the president (polit.ru, 28 November). In St. Petersburg, Mironov had the reputation of a moderate democrat who led the opposition to Governor Vladimir Yakovlev, a long-time Putin foe. Mironov was an active legislator known for his role in establishing the infamous system by which the St. Petersburg legislature set aside 2 percent of the city's revenue as a discretionary fund for the members (see *EWI Russian Regional Report*, 30 April 1997) That law was apparently Mironov's first collaborative effort

with Putin, who in the mid - 1990s served as Mayor Anatolii Sobchak's deputy with responsibilities for relations with the city legislature (*Kommersant Vlast*, 6 December). In 2000, Mironov helped organize Putin's campaign effort in St. Petersburg.

Thanks to Putin's reforms of the Federation Council, representatives of business are largely replacing the governors and speakers in the upper chamber, *Nezavisimaya gazeta* reported on 27 November. Thirty four percent of the 91 new members named by the end of November represent business. Other well-represented groups include various regional legislators (23 percent) and former federal officials (19 percent).

The dominance of businesspeople means that the upper chamber will largely serve as a base for regional lobbyists. Thus Mordoviya sent a representative of the Yukos oil company to the Federation Council, hoping to further develop its lucrative relations with this company (see related article in this issue). Samara's representatives come from Siberian Aluminum and Ukrainian Aluminum. The regional authorities clearly hope that their new senators will work as effective representatives, using their prestigious posts and extensive connections to bring more state and private sector money to their respective regions.

The new upper house will likely be much more compliant than in the past and consistently support Kremlin initiatives. Battles between the upper chamber and the president over whether to remove an anti-Kremlin crusader like former Prosecutor General Yurii Skuratov are a thing of the past. (This time around the Kremlin even managed to block Skuratov's attempt to serve as a senator from Buryatiya.) Now the business of the upper chamber will be business. - Robert Orttung

### **MORDOVIYA HANDS SEATS TO YUKOS, PRESIDENTIAL**

**ADMINISTRATION.** Mordoviya appointed former Deputy Presidential Representative in the Volga Federal District German Petrov and Yukos Oil Company Deputy Board of Directors Chairman Leonid Nevzlin as its representatives to the Federation Council. Neither candidate has much of a relationship with the republic beyond business ties.

President Nikolai Merkushkin made clear that he believed that the republic would benefit financially from his choice of Nevzlin as his representative. Upon announcing his decision to nominate Nevzlin, Merkushkin said, "During the last 2-3 years the republic and Yukos have enjoyed good business relations and Mordoviya receives significant sums from the company. I think that Leonid Nevzlin's presence in the Federation Council will give the republic better leverage in setting budget priorities and participating in federal investment projects." The republican legislature supported Nevzlin's candidacy unanimously despite some grumbling that he had not previously visited the republic.

There was less debate about Petrov's candidacy. As an assistant to Sergei Kirienko, the former prime minister who is now presidential representative to the Volga Federal District, Petrov had been in charge of economic issues and had fought for the Volga's interests in the capital. In this capacity, he had visited the republic many times and was well known to the legislators. Nevertheless, in a secret ballot, two legislators voted against him and one abstained. Mordoviya is the first region to nominate a representative of the federal district to the Federation Council.

Under criticism that he had essentially sold the Federation Council seats to the highest bidders, Merkushkin has defended his choice in the local media. "Nevzlin and Yukos can reliably protect the republic's interests in the Federation Council," Merkushkin said. The president noted that he and his colleagues had "long wanted someone from Yukos to represent the republic in the Federation Council. ... For three years, our republic has worked relatively fruitfully with Yukos, resolving many industrial and social problems. Today it is important to us to have even closer ties with the company and the federal authorities." Merkushkin argued that "Nevzlin can help in this because he has considerable work experience and a certain authority in Russia political and business circles."

On Petrov, Merkushkin openly admitted that his candidacy was a compromise between the republic's leadership and the staff of the presidential representative in Volga Federal District. "We saw Mordoviya Deputy Finance Minister Yevgenii Bushmin as the stronger candidate. We conducted negotiations on his candidacy with members of the presidential administration, including both Chief of Staff Aleksandr Voloshin and his deputy Vladislav Surkov. However, Bushmin ended up becoming the senator from Nizhnii Novgorod Oblast, an outcome that Merkushkin claimed he helped facilitate. Petrov's appointment was the result of difficult negotiations with the staff of the presidential representative to the Volga Federal District. "The Volga Federal District took responsibility for making sure that Petrov was Mordoviya's senator," Merkushkin said. Thus, Nevzlin's appointment was the result of economic considerations and Petrov's was purely political.

Local observers have pointed out that the Volga Federal District has considerably more power than the republican government. Even before Kirienko was appointed the presidential representative to the region, Merkushkin had unwisely said that of all the Russian governments Mordoviya had worked with in the 1990s, Kirienko's was the worst. Since becoming presidential representative in May 2000, Kirienko has had relatively cool relations with the Mordovian authorities. Thus, Petrov's appointment seems to be an attempt by republican officials to win the federal district's good graces.

In a short press conference, Nevzlin said that "At the moment I cannot say what I can do for Mordoviya, but I think that the republic has enough potential to put me to good use." Nevzlin is also the head of the Russian Jewish Congress and plans to play an active role on issues relating to nationalities' policy. - Igor Telin in Saransk

## **CENTER-PERIPHERY RELATIONS**

**TATARSTAN ANTICIPATING NEW LEADERS FROM LOCAL TO PRESIDENTIAL LEVEL.** Tatarstan is rife with rumors that the republic's once powerful president will soon have to leave office. Much of the system he set up to rule the republic is now under attack.

Several recent decisions by the Tatarstan Supreme Court and the Russian Supreme Court have determined that the electoral districts used for the 1999 republican legislative elections violated federal legislation because the differences in the number of voters in each district went beyond federally-set limits. Additionally, the elections violated the division of power between the executive and legislative branches of government because they allowed

mayors to hold a seat in the republican legislature. Soon the Russian Constitutional Court is expected to rule on a several clauses in Tatarstan's constitution. The existing system is designed to strengthen Shaimiev's power base. Many local observers believe that Moscow now is taking revenge on Tatarstan for the weakness it showed during the early 1990s and is trying to take back more power and privileges than it gave up then.

Currently, local observers in Tatarstan expect that the federal authorities will require the republic to hold direct, popular mayoral elections for the first time in March 2002. Currently, the republican president appoints the mayors. Most also believe that the republican legislature will not serve until the end of its five term in December 2004 and expect it to be disbanded in 2002.

Many are also expecting the departure of President Mintimer Shaimiev himself. Highly-placed bureaucrats have not denied reports that Putin offered Shaimiev his backing if Shaimiev sought the position of Federation Council chairman following the departure of Yegor StroeV. That option was ruled out on 5 December when Sergei Mironov became speaker. However, Shaimiev understands that leaving the republic would make him dependent on the federal authorities, who would be in a position to remove him from an appointed federal post at any time. Exiting Kazan would also leave Shaimiev open to investigations seeking evidence of corruption during his more than ten years in power or attempts to take the wealth he has accumulated. Whatever form his departure takes, local observers believe that it is simply a question of months. - Midkhat Faroukshin in Kazan

**PROCURATOR QUESTIONS LEGITIMACY OF TVER ELECTIONS.** The Russian Procurator General last week charged that reports on vote tallies in six precincts during the second round of the January 2000 Tver gubernatorial elections were falsified. He ordered the Tver procurator to organize a further investigation of these precincts. The decision was the result of several legal appeals made by the losing candidate, Communist Vladimir Bayunov (*Veche Tveri*, 29 November). Thus, it is possible that Tver will face new gubernatorial elections within a year.

Communist State Duma faction leader Gennadii Zyuganov received the procurator's report on 9 November (*Veche Tveri*, 1 December). However, officials accused of committing a crime in the incident were declared not criminally liable in the general amnesty issued in honor of the 55th anniversary of the Soviet Union's victory in World War II in May 2000.

According to investigators, election officials signed voting tabulation sheets that had not been filled in. Now Tver Procurator Aleksandr Anikin must reopen the case and determine if any precinct or oblast level electoral commission members acted illegally. Oblast Electoral Commission Chairman Mikhail Titov said that the investigation is not about falsifying voting returns, but forging the signatures of election officials. The procurator general asserts that such forgery did indeed take place.

Even if the investigation proves that falsifications occurred, it would not lead immediately to new elections. Aggrieved voters would have to file suit declaring the elections illegitimate and the case would probably be appealed to the Russian Supreme Court for a decision. Nevertheless, the procurator's activities are clearly a bad sign for Tver Governor Vladimir Platov since the procurator likely would not have taken such steps without the approval of the

presidential administration. Platov now has to wonder if the Kremlin no longer supports him and what he did to lose this support. - Boris Goubman in Tver

## **BUSINESS AND POLITICS**

**INCREASINGLY VISIBLE CONFLICT BETWEEN KRASNOYARSK'S LEBED AND TAIMYR'S KHLOPONIN.** Krasnoyarsk Krai is one of Russia's more complicated regions since it has two autonomous okrugs on its territory, Taimyr and Evenkiya. These okrugs are simultaneously two of Russia's 89 regions and constituent parts of Krasnoyarsk. Relations in Krasnoyarsk are complicated by the fact that up to 70 percent of the krai's income derives from the giant and extremely profitable Norilsk Nickel plant, which is located in the far northern region of Taimyr.

Taimyr Governor Aleksandr Khloponin visited Krasnoyarsk at the end of November. He is usually loyal to Lebed and the krai leadership in political affairs. However, on this visit, he met with the leader of the Krasnoyarsk opposition, Aleksandr Uss, the chairman of the krai legislature. He made clear that he is unhappy about the dependence of the krai budget on northern money. During his visit with Uss, Khloponin even criticized Lebed on this account.

This topic was apparently part of a dispute between Khloponin and Lebed. One small piece of evidence of the deteriorating relations between Khloponin and Lebed is that at the end of this visit Lebed did not accompany Khloponin to the airport for his return flight.

Shortly after Khloponin's departure, the krai administration announced that it was trying to reduce the region's dependence on revenue from Norilsk Nickel. According to Lebed, income from Norilsk Nickel dropped from 70 percent of the krai's total revenue to 67 percent over the last year. He claimed that the driving force in this change was the expansion of gold mining and machine building.

The Kremlin is playing a large role in ramping up the level of conflict among the regional elite. Putin clearly does not like Lebed and has sought to build up ties with the local Krasnoyarsk elite to build opposition to the governor, who came to the region as an outsider. This strategy was especially apparent after a visit by Uss and Krasnoyarsk Mayor Petr Pimashkov to the Kremlin, leaving Lebed out. Lebed's allies in the krai administration are particularly worried that the federal authorities will replace the leadership of the Krasnoyarsk State Television and Radio Company just before the next gubernatorial elections. The Kremlin's signals are working to weaken Lebed's power in the region, as both Lebed's "independent friends" (Pimashkov and Khloponin) and his enemies (Uss, Zybov) have noted. - Pavel Avramov in Krasnoyarsk

## **FISCAL FEDERALISM**

**KURSK RAISES SMALL BUSINESS TAX TO PAY SALARIES.** On 29 November, the Kursk Oblast Duma voted to raise taxes on small businesses in order to secure the funds required to pay the salaries of public sector employees. Deputy Governor for finances Eduard Mosolov told the regional legislators that the oblast needed to raise more income to cover the higher public sector salaries that Moscow ordered effective 1 December (see *EWI Russian*

*Regional Report*, 28 November). He made clear that Moscow did not provide sufficient funding to pay for the higher salaries for doctors, teachers, and librarians that it had ordered. By a vote of 29-7, the deputies approved the measure, which will nearly triple the cost of a small business operating license and change the way taxes are calculated to increase the oblast's income. For some types of business, licenses will now cost as much as 28,000 rubles a year.

Unfortunately, while these measures will increase tax receipts in the short term, they will have a long-term depressive effect on the Kursk economy. While a significant percent of Muscovites are employed in the small business sector, in Kursk fewer than one percent of the population work in this sphere. In 2002, the 400 small businesses working in the region are expected to produce an additional 94 million rubles. Over time, however, the higher taxes are likely to bankrupt many of these businesses, thereby reducing the tax income the oblast can collect.

The legislators had a difficult choice deciding whether to support the public sector workers or small business. In voting to increase taxes, however, they realized that ultimately they would not really help the public sector workers because inevitably the business owners will have to raise prices to cover the new taxes, passing on the costs to the consumer. - Sergei Sarychev in Kursk

### **ULYANOVSK CITY DUMA AGGRESSIVELY SEEKS MORE FUNDS FROM**

**OBLAST.** In events that have produced a local sensation, the Ulyanovsk City Duma approved the first reading of its 2002 budget before the oblast budget had been set. Thus, the Ulyanovsk budget process now works "from the bottom up" in the sense that it is driven by the demands of municipalities.

Governor Vladimir Shamanov declared his support for the principle of bottom-up management in his annual state of the oblast address. However, the city legislators took the initiative in realizing this idea by adopting the main parameters of the city budget before the completion of the oblast budget.

In 2002 the city plans to spend about 3,000 rubles on each of its residents, more than double 2001 expenditures. Thus the overall budget is 2 billion rubles with a 6 percent deficit. This figure includes public sector salaries, expenses for medicines, food for schools and hospitals, reconstruction projects in the city, and 700 million rubles for heating.

The city can only pay for such outlays if the oblast gives it a much greater share of the region's overall tax income, increasing city income by 700 million rubles. The city hopes that the oblast legislature will approve its figures, counting on the fact that half of the members of the oblast legislature were elected from Ulyanovsk city districts. Since Ulyanovsk collects four billion rubles in taxes, the city officials believe it is fair that they should be able to spend two billion rubles. Under former Governor Yuri Goryachev, the city was never able to win such concessions from the oblast, which concentrated resources at the regional level. Former Oblast Legislative Assembly Speaker Sergei Ryabukhin then characterized the city's requests as "budgetary extremism." - Sergei Gogin in Ulyanovsk

### **FOREIGN RELATIONS**

**KALMYKIYA PRESIDENT WINS FEDERAL APPROVAL FOR POSTPONED DALAI LAMA VISIT.** Following repeated requests from Kalmykiya President Kirsan Ilyumzhinov, President Putin agreed in principle to a visit by the Dalai Lama to Russia. Putin ordered the Foreign Ministry to work out the dates and program of the visit, and it will likely take place in the first half of 2002 (*Ekonomika i zhizn*, 30 November).

Earlier the federal authorities had blocked the Dalai Lama from visiting Russia. This summer, the authorities refused to grant the Dalai Lama a visa for a planned visit to Russia's three Buddhist republics (Kalmykiya, Buryatiya, and Tyva) and Mongolia (see *EWI Russian Regional Report*, 26 September). The Foreign Ministry was worried that the Dalai Lama's campaign for Tibetan independence would upset Russia's relations with China. However, Russian Buddhists felt that such actions by the federal authorities violated their constitutional rights and set up the All Russian Coordinating Council of Buddhist Organization on Inviting the Dalai Lama to Russia in 2002. The council sent a letter to the federal leadership pointing out that the Dalai Lama had not been able to visit the republic for the last nine years even though he sought to come for purely religious reasons.

Emergencies Minister Sergei Shoigu (a native of Tyva) and State Duma Member Iosif Kobzon (representing the Agin Buryatiya Autonomous Okrug) joined others in lobbying for the visit, according to the vice president of the United Buddhists of Kalmykiya and a member of the council. But the main advocate was Kalmykiya President Ilyumzhinov. In this battle, Ilyumzhinov represented not only Kalmykiya, but also Buryatiya and Tyva. Under pressure from the Foreign Ministry, Buryatiya and Tyva withdrew their signatures from the summer invitation to the Dalai Lama, but Kalmykiya's president refused to do so.

At a 7 September meeting between Putin and regional executives in the Southern Federal District, Ilyumzhinov asked Putin to resolve the stand-off. Putin then asked the Foreign Ministry to review the case, but it again opposed the action. The Russian diplomats see the Dalai Lama as a political figure whose visit Beijing might interpret as a violation of the 16 July Sino-Russia cooperation treaty. In that agreement, Russia pledged to respect China's territorial integrity. However, Ilyumzhinov and Russia's other Buddhists continued to see the problem as one of violating their rights. Ilyumzhinov asked on republican television "Why should we ask the Chinese whom we should pray to?"

On 22 November, Ilyuzhinov again met with Putin within the context of the Federation Council Committee on International Affairs and repeated his request for a visit from the Dalai Lama. This time Putin agreed and ordered Foreign Minister Igor Ivanov, who was present then, to work out the dates. Deputy Foreign Minister Aleksandr Losyakov then invited visit supporters to a meeting saying that the ministry would allow the visit (*Vechernyaya Elista*, 28 November).

The local press pointed out that the visit will stimulate additional interest in Buddhism in Kalmykiya. However, it also noted that the Dalai Lama's arrival will bolster Ilyumzhinov's image. He is seeking a third term in October 2002 elections. - Vladimir Volgin in *Elista*

## **MEDIA ISSUES**

**COURT RESTORES OPPOSITION EDITOR IN BASHKORTOSTAN, BUT HE QUILTS UNDER PRESSURE.** On 9 November a Ufa city court restored *Molodezhnaya gazeta* Editor-in-Chief Viktor Savelev to his job at the state-owned newspaper. The Bashkortostani Press Ministry had fired him in April 2000. The court also ordered the ministry to pay Savelev approximately 100,000 rubles in compensation.

Savelev and most local journalists charge that he was fired for political reasons. According to Press Minister Zufar Timerbulatov, formerly an ideology secretary of the regional branch of the Communist Party of the Soviet Union, the paper "did not adequately reflect processes taking place in the republic." Savelev asserts that the authorities tried to control the newspaper through repressive measures.

Initially, the authorities called Savelev in for a "friendly warning," advising him not to take on more than he could handle. This incident occurred shortly after he sanctioned the publication of information about how high-level republican officials were buying expensive housing with state money. However, after this discussion, the paper continued to criticize the authorities, including in such sensitive areas as the provision of privileges to indigenous ethnic groups. After these publications, the authorities decided to remove Savelev from his post.

Vice Prime Minister of Bashkortostan Khalyaf Ishmuratov, who handles the media, summoned Savelev to his office and asked him to resign voluntarily. When Savelev refused, the ministry cancelled his contract as the result of a restructuring at his newspaper. However, in doing so, the ministry violated Savelev's labor rights.

On the basis of these violations, Savelev took the ministry to court and in July 2000 won a judgment in his favor restoring him to his job. However, the next day he was fired again. This time the ministry accused Savelev of distributing illegal information and violating the conditions of his employment. It also blamed him for financial improprieties based on an audit conducted two years earlier. Additionally, the ministry accused Savelev of damaging the paper's finances in a dispute with a journalist he had fired in 1999. The journalist sued the paper, winning a 60,000 ruble award, but Savelev later was able to reduce this award to 550 rubles.

Savelev said that the court's decision to allow him to return to his job on 9 November was the first time that the republican authorities faced a situation in which the court acted according to the law rather than political dictates. He said that press ministry officials had several times told him that the courts would do as they were told.

Despite his legal victory, Savelev ultimately resigned his newly restored position because the ministry continued to exert pressure on him and he did not believe it was possible to continue working in these conditions. - Igor Rabinovich in Ufa

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## **REGIONAL LEGISLATIVE ELECTIONS**

**IN CONTRAST TO KHABAROVSK, PRIMORSKII KRAI ELECTIONS FAIL.** On 9 December, Far Eastern voters were supposed to elect new regional legislatures. While the elections succeeded in Khabarovsk, not enough voters participated in Primorskii Krai for the elections to be valid. Khabarovsk Krai elected 23 of the 25 members to its legislature (in one district there was only one candidate so the elections were postponed; in the other "against all" won more votes than any other candidate, so the elections will be repeated). In Khabarovsk, where the law does not require a minimum turnout, 32 percent of the voters participated.

The situation was completely different in Primorskii Krai, where the law requires a 25 percent turnout. Districts in the krai's three largest cities, Vladivostok, Nakhodka, and Ussuriisk, did not elect a single candidate due to low turnout. Rural voters elected 18 legislators, far short of the 26 needed for a quorum of two-thirds in the 39-member body.

As a result, the current members of the krai Legislative Assembly will likely remain in office until new elections can be held and at least 26 legislators are elected. The existing law does not define the status of the 18 newly elected deputies, according to Primorskii Krai Electoral Commission Chairman Sergei Knyazev. There is no mechanism to solve these legal problems, Knyazev said, so the incumbent legislators have to decide how to proceed and they most likely will not want to give up any of their power until the new legislature is fully elected. Some observers believe that the new deputies can participate in the legislative sessions, but without voting rights.

The federal authorities are blaming the krai's low voter turnout and subsequent new set of problems on the krai and local authorities. "They did not even do the minimum that was required. The candidates could not meet with voters. Six to ten district electoral commissions were crammed into one small room with one telephone. The local and krai authorities sat out the elections."

In the past such elections were personalized as part of the long-running battle between former Governor Yevgenii Nazdratenko and former Vladivostok Mayor Viktor Cherepkov. This time around the "criminal element" was more visible. The office of the presidential representative in the Far East complained that about 50 of the candidates had obvious criminal ties. One of the candidates was the victim of a knife attack; another was beaten unconscious.

The repeat elections must be held no later than six months from now, but no earlier than within four months. Each district can set its own election date, so the 21 new elections will likely not be held on the same day. - Oleg Zhunusov in Vladivostok

## **TITOV OPPONENTS MAKE GAINS IN SAMARA LEGISLATIVE ELECTIONS**

by Lars Banzhaf, Robert Bosch Foundation, Lecturer of German language and literature at Samara State University, Faculty of Philology

On 9 December Samara Oblast voters elected a new legislature handing Samara Governor Konstantin Titov's leftist opponents, grouped around Samara Mayor and regional Duma member Georgii Limanskii, much greater representation than they had in the past. Candidates opposed to the mayor won at least 7 of the body's 25 seats. Compared with the old Duma,

where Limanskii had only two supporters, the leftists now control almost one third of the legislature. Voter turnout was 31.93 percent.

[To date, only 22 winners have been determined: voter turnout was only about 25 percent, right at the legally required level, in Promyshlennyi District. However, if the results are deemed valid, Natalya Bobrova, a Limanskii ally, will win re-election with over 60 percent of the vote. In two districts the elections were postponed since only one candidate remained on the ballot].

The leftists were especially successful in the 10 polling districts of Samara City, where they won 6 seats. These results were surprising, as little known candidates defeated familiar incumbents, whose re-election was widely expected. The old Duma's deputy speaker, Lyudmila Durova, and the well-known doctor Vladimir Seredavin went down to defeat.

Disappointment with the incumbents does not explain all the results though. In 3 of these 10 districts, the incumbents did not seek reelection. But here the left's candidates defeated opponents strongly backed by other parties. Yevgenii Plochov, supported by Yedinstvo and the LDPR lost to Nikolai Skobeev (a member of the Samara City Duma) and Sergei Semchenko, deputy director of Volgapromgaz lost to Nikolai Mustakin, a Communist university lecturer. Vyacheslav Brysgalov, head of the Volzhskii Raion administration defeated Rafail Sainullin, who had strong support from Yukos, and Yuriy Sevostyanov, the former leader of Yedinstvo. Bucking this trend, Dmitrii Sivirkin, the former leader of Otechestvo and the new leader of the regional branch of Yedinstvo-Otechestvo, gained a seat.

The polling in the remaining 15 districts brought no surprising results. In Togliatti the outcome of the elections has been obvious for weeks. The winning candidates all had the backing of the giant carmaker AvtoVaz, Yedinstvo, and the authorities. The same can be said for almost all the rural districts. Here mayors and representatives of the oil and gas industry dominated. In addition to Samara's Limanskii, the mayors of Togliatti (Nikolai Utkin), Zhigulevsk (Sergei Balachonov), Sysran (Vasilii Yanin) and Novokuibyshevsk (Aleksandr Nefedov) won seats in the new Duma. Furthermore, the general director of Samararegiongaz, Andrei Kislov, the deputy general director of Volgapromgaz, Oleg Dyachenko, and head of "Samaraneftegaz", Pavel Anisimov, were elected. Only Communist Oleg Savitskii, a former State Duma member, could win an additional mandate for the leftists.

In 2 of the 25 districts (Chapaievskii and Kinelskii), the elections were postponed, because several candidates dropped out, leaving only one candidate on the ballot. Titov was apparently able to nullify one threat in Chapaievsk, where the former chairman of the regional Soviet and Titov's main opponent during the 2000 gubernatorial election, Viktor Tarchov, ran. When Leon Kovalskii, Tarchov's main opponent and the former speaker of the regional legislature, was delegated to the Federation Council on 3 December, he immediately withdrew his candidacy. The remaining candidates, Gennadii Archipov and Sergei Nikitin, also dropped out two days later, forcing the elections to be postponed. Titov's administration obviously played a role in undermining the elections as Tarchov is an ally of Limanskii and was likely to be elected as the speaker of the new legislature. Ultimately, Tarchov may join the legislature following repeat elections and could then play a decisive role in organising the opposition to the governor.



The main question now is how relations between the governor and legislature will develop. Limanskii started his election campaign openly opposing the governor's budget for 2002 (see *EWI Russian Regional Report*, 31 October). Ultimately, however, the budget was accepted. A few weeks later, Titov's administration announced that it was going to take control of the city's finances (*EWI Russian Regional Report*, 14 November). Even though Limanskii does not have the necessary votes to amend the 2002 budget (such a decision requires two-thirds of the legislature), Titov will have to compromise with the new Duma. Therefore it is not clear if the regional administration will proceed with its plans to take control of Samara's finances or whether it will try to find a compromise to secure future cooperation with the Duma. Limanskii and his allies are now in a strong position since they will be able to prevent the regional legislature from acting by preventing it from mustering a quorum (*Samarskoe Obozrenie*, 10 December).

Detailed election results can be found at: <http://www.election.samara.ru>

Information about previous elections in Samara can be found at: <http://www.panorama.ru>

**NOVOSIBIRSK GOVERNOR HAPPY WITH COMMUNISTS' POOR SHOWING.** The Communist Party of the Russian Federation (KPRF) and the Agrarian Party allies won only 18 of the 49 seats in the 9 December Novosibirsk regional legislative elections, cheering Governor Viktor Tolokonskii. In the previous legislature, the leftists comprised an unrelenting opposition to the governor. Accordingly, the governor and the local media he controls waged an aggressive campaign to discredit the Communists. Thus, on the eve of the elections, consultants close to the administration tried to register Viktor Anpilov's Stalinist Bloc. However, the courts removed the bloc from the ballot, citing legal violations during the registration process.

Despite this minor setback, the anti-Communist campaign did produce results. Most importantly, key local Communist Party leaders lost their election bids. Among those going down to defeat were: Chairman of the oblast legislature's Committee on Legislation and KPRF Obkom First Secretary Viktor Kuznetsov and Deputy Speaker Vladimir Karpov. They lost in the traditionally left-leaning Berdsk, a working-class suburb of Novosibirsk. Local enterprise directors loyal to the oblast authorities will take their places.

Overall 12 Communists and 6 Agrarians won giving them by far the largest faction. The Union of Right-Wing Forces and Yedinstvo each elected one member. Nevertheless, most local observers believe that the governor will have no trouble putting together a coalition of loyal legislators. Many of the new legislators are enterprise directors who generally seek good relations with the region's executive branch. Tolokonskii has already backed the reelection of Speaker Viktor Leonov, who has been obedient to Tolokonskii even though he had just as loyally served former Governor Vitalii Mukha earlier.

Despite his general success in the elections, the governor also faced some disappointments. Tolokonskii's candidate lost in Linevo, populated largely by workers at the Novosibirsk Electrode Factory. After his election as governor, Tolokonskii did everything he could to transfer the factory from the Siberian Ural Aluminum (SUAL) company to Energoprom, which allegedly financed his campaign. The governor has continued to back Energoprom's interests even though the factory, one of Novosibirsk's largest exporters, has done badly under its new owners. When former General Director

Sergei Kokhanovskii's registration was canceled on insignificant charges, the majority of the district's voters marked their ballot "against all," forcing a new election. Tolokonskii said that the voters had been deceived into supporting Kokhanovskii and made clear that he would do everything possible to ensure that he did not win.

Among the other losers were two former governors (Ivan Indinok and Mukha) and the former head of Presidential Representative Leonid Drachevskii's Financial and Economic Department, who is now the head of the Siberian branch of the Center for Strategic Initiatives, Vasilii Kiselev. Kiselev is considered close to SUAL. - Maksim Shandarov in Novosibirsk

## **IDENTITY POLITICS**

*On 7 November, the RRR published an article examining the politics of identity on the eve of the 2002 census in Bashkortostan. This week we look at similar issues in Tatarstan.*

### **KAZAN: MOSCOW SEEKS TO REDUCE THE NUMBER OF TATARS IN 2002 CENSUS.**

The State Duma has approved a bill on the national census to be conducted in 2002. While no one denies the need for the census, many fear how it will be carried out in practice. As usual, the devil is in the details.

The law can only take effect on the basis of a number of directives, which do not have to be included in the law and therefore have escaped Duma scrutiny. Tatarstan State Duma member Fandasu Safiullinu with great difficulty was able to obtain from Goskomstat a 20-page document that lists the nationalities and languages to be used in identifying people during the census. On this list there is no single Tatar nation as there had been in the past. The Russian authorities have instead divided the Tatar nation into a number of groups: Tatars in general, Tatar-Kryasheni, Tatar-Mishari, Nagaibaki, Astrakhan Tatars, Crimean Tatars, and Siberian Tatars. All are listed as independent nations. After the census, officially there will not be a unified Tatar people and the Tatars will not be Russia's second largest nationality.

However, this issue has more than symbolic importance. Some Moscow politicians and ideologists support the idea that the republics should continue to exist only for those groups that make up a majority within their borders. In the 1989 census, Tatars made up 48.5 percent of Tatarstan's population, while Russians made up 43.3 percent. Artificially reducing the number of Tatars could reduce their number below 1989 levels. Then some could ask, should Tatarstan continue to exist as a republic or should it be turned into something like the Kazan Guberniya? The Tatarstani legislature has adopted an appeal to the State Duma protesting this method of conducting the census. The legislature is also preparing an appeal to the Tatar people. Local activists charge the Russian authorities with creating a new problem where none had existed before. - Midkhat Faroukshin in Kazan

## **CENTER-PERIPHERY RELATIONS**

### **BASHKORTOSTANI LEGAL SITUATION IS WORSE THAN BEFORE CAMPAIGN TO**

**BRING LAWS INTO LINE.** At the end of 2001, it appears that the federal government's plan to bring Bashkortostan's legislation into line with federal norms has failed completely. After 18 months of work, 72 percent of Bashkortostan's laws violate federal norms, more than at the beginning of the

campaign. These figures became public at a recent meeting of Justice Ministry officials from the Volga Federal District in Izhevsk. An analysis of Bashkortostan's legislation at the beginning of December conducted by the republican branch of the Justice Ministry confirmed these findings. The Justice Ministry specialists found more than 350 regional legal acts that violated federal norms. However, Presidential Representative to the Volga Federal District Sergei Kirienko had already reported to Putin that the process of bringing Bashkortostan's laws into line was nearly complete. Now, it seems that such claims were greatly exaggerated.

According to Chief Federal Inspector for Bashkortostan Rustem Khamitov, the reason for the problems with the legislation is that the republican authorities stopped acting on the procurator's protests. In 2001, the Bashkortostani authorities only responded to 49 of the procurator's 119 protests. Since the republican authorities continue to consider Bashkortostan a sovereign republic and refuse to recognize the ruling of the Russian Constitutional Court to the contrary, it is hard to imagine how the result could be different. The Justice Ministry points out that the republican authorities continue to adopt legislation that violates federal norms. This situation has made campaign to bring legislation into line pointless.

Bashkortostan President Murtaza Rakhimov has repeatedly said that the process of harmonizing laws should also result in changing some of the federal laws. However, the actions of the procurator have instead sought to force the republic to bring its laws in line with existing federal laws. Moreover, the State Duma has set aside regional proposals to amend federal laws. - Igor Rabinovich in Ufa

**FINANCE MINISTRY THREATENS TO BANKRUPT SEVEN REGIONS.** On 4 December Deputy Finance Minister Bella Zlatkis announced that the Finance Ministry was prepared to impose external management over seven regions. This measure is in line with article 112 of the Budget Code, which gives the federal government the right to bankrupt regions with budget deficits exceeding 15 percent of income or with accumulated debts greater than annual income and no way to pay off its debts. However, the ministry will not be able to act on its threats as current Russian legislation does not allow it to take over regional budgets. In fact, a federal take over of a regional budget would be unprecedented. Nevertheless, the federal government is sending a clear signal to spendthrift regions.

Zlatkis' statement attracted considerable controversy because she refused to name the seven regions that she was targeting, saying it would further worsen their situation. The result was that different newspapers came up with a variety of lists of which regions were in trouble. Apparently, the regions teetering on the edge include Adygeya, Altai, Buryatiya, Kamchatka, Koryak Autonomous Okrug, Kabardino-Balkariya, Orel, Sakha, Sakhalin, Tomsk, and Evenkiya.

Usually simply issuing a threat of imposing external management is sufficient to convince the debtor to pay up. Thus Guta-Bank resolved its problems with Moscow Oblast by filing a court case seeking to place the oblast's budget under Finance Ministry control. However, recently the use of such procedures has become a technique for exerting political influence as well as solving financial problems. Thus, Samara Governor Konstantin Titov has threatened to impose external management on the city of Samara and the BaltONEKSIMfinans company is using the presidential election campaign in Sakha to draw attention its claim that the republican administration has not paid off 20 million rubles worth of debt. Observers believe that the company's campaign is seeking to discredit Sakha President Mikhail Nikolaev.

Mostly likely the Finance Ministry issued such threatening statements in order to force the regions to pay more attention to their financial health. However, one cannot ignore the general trend of using bankruptcy threats as a tool of political battle between companies or different levels of government. - Svetlana Mikhailova in Moscow

## **FEDERATION COUNCIL**

### **NEW SPEAKER SEEKS TO LIMIT POWER OF UPPER CHAMBER'S ONLY FACTION.**

Since his election as Federation Council Speaker on 5 December, Sergei Mironov is seeking to limit the influence of the Federatsiya faction, a group of more than 60 new senators, who, like Mironov, support the Kremlin in the upper chamber. With the governors and regional speakers leaving the Federation Council by the end of the year and new members replacing them, the Federation Council will soon have new deputy speakers and committee chairmen. As the only effectively organized group in the Federation Council, the Federatsiya faction is actively seeking to influence all personnel issues, putting its own people in place.

On 5 December the group was ready to propose amendments to the upper chamber's rules to increase the number of deputy speakers and committees, and create a new position for a first deputy speaker. Federatsiya advocates limiting the power of the speaker in favor of his deputies and the upper chamber's council. The faction would like to appoint its leader Valerii Goreglyad as the new first deputy speaker. Currently the council is a powerless consultative body, but the new senators would like to transfer important powers to it, such as the ability to set the Federation Council's agenda.

Mironov's first moves suggest strongly that he does not agree with Federatsiya's approach. He informed the senators that they face the "difficult issue of personnel issues" and proposed setting up a committee to pick the new deputy speakers and committee chairmen. This committee will have two representatives from each of Russia's seven federal districts, one each from the executive and legislative branches. The chamber will discuss personnel issues and its new regulations at a 26 December meeting. Mironov indicated that he will make significant changes to the Federation Council's staff.

Taken together, these events suggest that Putin is not happy with the ambitious behavior of his Federatsiya allies and prefers to maintain his own oversight of the situation. This way he will not become dependent in the long-term on people who obviously are not part of his team. - Pavel Isaev in Moscow

## **CORRUPTION**

### **SMOLENSK GOVERNOR DENOUNCES FSB ATTEMPT TO RALLY PUBLIC AGAINST**

**CORRUPTION.** The federal law enforcement agencies working in Smolensk Oblast have launched an initiative to create a social movement to fight corruption at the regional level. Representatives of the Federal Security Service (FSB) and police, city and oblast officials, and prominent Smolensk citizens will lead the effort. Ostensibly, the organization will be created "from below" and will not be subordinate to the law enforcement agencies. The purpose of the organization will be to rally public opinion against corruption and crime in general and generate pressure that will help the officials address these problems.

However, Governor Aleksandr Prokhorov denounced the idea in a 23 November *Smolenskie novosti* article. He said that the national and regional press write about corruption within the oblast administration too frequently. He demanded that his critics name one example of a bureaucrat caught

taking a bribe or abusing his office. To date, the law enforcement agencies have not been able to make any of their cases stick. The case against Former Deputy Governor Yurii Balbyshkin recently ended with a two-year suspended sentence.

Prokhorov said that the people setting up the new social organization were supposed to fight corruption as part of their job. He charged that their need to set up the new movement only reflected their inability to carry out their assigned tasks. Prokhorov suggested that the new movement would not have the tools its needed to fight against corruption and dismissed the initiative as "nothing but a PR exercise."

In the same issue of *Smolenskie novosti*, the well-known local businessman Viktor Derenkovskii said that the various scandals in the region were the product of an on-going battle to control the region's financial resources. He charged that the oblast authorities were defending the interests of well-connected pressure groups rather than the goals of the population as a whole. - Arsentii Ledovskoi in Smolensk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**ULYANOVSK LEGISLATURE GIVES GOVERNOR A "D" ON ECONOMIC PERFORMANCE.** For the first time in its history, the Ulyanovsk Oblast Legislative Assembly declared that the oblast's economic performance during the first nine months of the year was unsatisfactory. As a result, the body gave recently elected Governor Vladimir Shamanov's performance a D.

The immediate cause of the criticism was a report indicating that industrial production for the first nine months was only 96.8 percent of the previous year's level. Output fell in a range of sectors, including industry, energy, construction, and food processing. The population's real income dropped 7 percent, principally because the cost for housing and municipal services has gone up.

Deputy Governor Dmitrii Gudz said that he strongly disagrees with such an evaluation. He said that although the population's buying power has dropped, individuals' savings in Sberbank have more than doubled. Additionally, social support makes up more than 63 percent of the oblast budget's planned expenditures, more than at any time in the past.

Gudz argued that production dropped over the last year because Ulyanovsk had to go through the same processes that other regions passed through during the last decade. In this way, Gudz blamed the oblast's current problems on former Governor Yurii Goryachev who artificially held down prices during the 1990s through subsidies from the oblast budget while the region made "a soft entry into the market."

These arguments did not convince the deputies. According to legislator Sergei Moroz, the purpose of the evaluation was not to insult the governor but to present an accurate picture of what is happening to the population. "We are trying to draw the administration's attention to the fact that the population has begun to live worse."

Deputy Governor Sergei Ilinskii pointed out that under the previous governor the legislators were extremely obedient and would never consider taking such an action. "Now they feel like people: no one is telling them what to do as happened earlier," he told Russian Radio in Ulyanovsk. "There is no reason why we cannot also point out that their work is unacceptable." - Sergei Gogin in Ulyanovsk

## **SPECIAL RESEARCH REPORT**

### **THE CONSTITUTIONAL COURTS OF RUSSIA'S REGIONS: AN OVERVIEW**

By Alexei Trochev, University of Toronto (atrochev@chass.utoronto.ca)

At the beginning of the 1990s, many Russian republics established regional constitutional courts to defend their sovereignty. Over time, however, these courts, now in both republics and regions, have become instruments for ensuring that regional laws are in line with federal norms.

Currently, 50 regional constitutions and charters make provisions for regional constitutional courts. So far, only nineteen regions have taken the second step and adopted laws making it possible to establish these courts. (1) To date, regional constitutional courts only operate in a dozen Russian regions: the republics of Adygeya, Bashkortostan, Buriatiya, Dagestan, Kabardino-Balkariya, Kareliya, Komi, Mari El, Sakha, Tatarstan, Sverdlovsk Oblast, and the city of Saint Petersburg. Of these, three are located in the North Caucasus, two in Siberia, and five operate in traditionally Muslim areas. One-third of these courts are in major urban centers.

These regional courts are new judicial institutions, which began functioning in the early 1990s. During the past decade, these courts issued 260 decisions (the Russian Constitutional Court issued 159 decisions during the same period.) Russia's regional constitutional courts have status and powers similar to those of the federal Constitutional Court. Their main job is to determine whether regional and local laws and decrees comply with the regional constitutions (charters). Their rulings are binding and cannot be appealed. Although the regional constitutional judiciary is not formally subordinated to the Russian Constitutional Court, there are various organizational links between them.

The following article lays out the process of creating the courts at the regional level and the federal reaction to them. It then examines who the judges are, who brings cases to the courts, and what kinds of decisions have been issued.

#### **Creating Regional Constitutional Courts In Russia**

So far 16 of Russia's 21 republics have adopted legislation making it possible to establish regional constitutional courts. To date, ten of these are operational and the court in North Ossetiya is likely to begin operations in 2002. Why did Russia's republics create their own constitutional courts faster than the rest of the regions?

One clue may be in their "higher" autonomous status relative to the other units of the Russian Federation. In the late 1980s-early 1990s these republics were at the front of the "sovereignty parade," declaring their autonomy from both the USSR and the RSFSR. Their higher status also meant that the republics had the authority to pass their own laws while other Russian regions did not have such power. The republican law-making boom in the early 1990s also meant a constant supply of work for the constitutional review bodies. In 1990-93, the republics established either committees of constitutional supervision (2) or constitutional courts

(3) to protect their constitutions and their newly gained "statehood" from encroachment by Soviet or Russian authorities.

The establishment of federal constitutional review strongly influenced the processes of creating the regional constitutional review bodies. At the federal level, the work began with the establishment of the USSR Constitutional Supervision Committee in 1989. Soon thereafter in 1990, several regions (Komi, North Ossetiya, and Tatarstan) created their own Committees of Constitutional Supervision. Once the Russian Parliament made clear that it would replace the Constitutional Supervision Committee with a Russian Constitutional Court in 1991, several republics within Russia (Dagestan and Sakha) chose to set up constitutional courts using the model of the Russian Constitutional Court. These courts were empowered to protect the constitutional foundations of these republics, to determine the constitutionality of federal laws and of the treaties between the republics and other "subjects of international law." Their creators saw these courts as important elements of a modern, sovereign, law-based state with the separation of powers and its own judicial system.

In this state-building process, the Russian regions had to look abroad for institutional solutions. In making the case for establishing the courts, these regions used the examples of the US, where states have their own judicial systems, and Germany, where *Länder* have their own constitutional courts.

In 1992-93, several other republics (Bashkortostan, Kabardino-Balkariya, Mordoviya, Tatarstan, and Tuva) adopted their own constitutions and established constitutional courts, but it took a long time to elect the justices. Thus, in Kabardino-Balkariya, the court issued its first decision in July 1994. Bashkortostan's Constitutional Court made its debut in October 1997. Tatarstan's Constitutional Court began operating in June 2000. But, as of November 2001, the Constitutional Court of Tyva had not been formed.

Like the Russian Constitutional Court, many of the regional constitutional courts faced problems in their early years. In Mordoviya, the legislature created the court in April 1993 and quickly appointed its members. Legislators then skillfully used this court to abolish the position of the republican president and vice-president and eliminated the court itself in February 1994. There, the Mordoviy political elites were emulating President Boris Yeltsin who suspended the activity of the Russian Constitutional Court in October 1993 in his fight against the Russian Supreme Soviet. Before 1995, there were also proposals to abolish constitutional courts in Dagestan and Kabardino-Balkariya.

After the adoption of the 1994 Law "On the Constitutional Court of the Russian Federation," several Russian republics either adopted laws creating their own constitutional courts (Adygeya, Buriatiya, Kareliya, Komi and Mari El) or amended their existing laws (Dagestan and Tyva) (4). The establishment of courts in Tatarstan, Sverdlovsk Oblast and St. Petersburg was more protracted and politicized. While the Sverdlovsk Oblast Charter Court appeared during a serious confrontation between the regional elites and federal authorities, the Tatarstan and St. Petersburg courts were created after intense regional political struggles (5). Tatarstan's president vetoed the draft law on the Court once, while the St. Petersburg Governor blocked the creation of the Charter Court three times.

## **Federal Response**

The federal attitude towards the regional constitutional judiciary has been mixed and contradictory. Before 1997, the executive and the legislative branches of the Russian government did not back the creation of these courts. Only the Russian Constitutional Court supported its regional "clones" and pushed for the adoption of a federal law about them. The 1996 federal law on the judicial system delineated the powers of these courts and banned their dissolution.

Since then, however, federal legislation has ignored the regional constitutional courts. Moreover, the Russian Supreme Court continues to sponsor bills, which would drastically narrow the jurisdiction of regional constitutional/charter courts. Thus in 1998 the State Duma considered a bill authorizing regular courts to check the constitutionality of regional laws. Something similar happened in 2000, when the Supreme Court introduced draft legislation on administrative courts, authorizing them to hear individual complaints against violations of regional charters and constitutions. In both cases, the Federation Council, the upper chamber of the Russian legislature, vetoed the bills, not because the regional heads liked their constitutional courts, but because they disliked additional federal controls over their policies.

The presidential administration supports the regional constitutional courts. In December 1999, the Presidential Representative to the Russian Constitutional Court presented a model draft law on regional constitutional/charter courts to assist regional legislatures in drafting laws defining constitutional/charter courts. On 25 December 2000, President Vladimir Putin met with his seven representatives to the federal districts and called for the inclusion of regional constitutional/charter courts in the process of bringing regional laws in line with federal standards. He charged his representatives with the task of raising the professionalism of these courts, strengthening them, and making them truly independent.

However, Putin's current efforts to bring regional laws into conformity with federal laws require the amendment of regional constitutions and charters, thereby creating havoc for the regional constitutional judiciary. Moreover, the procuracy and the courts are putting pressure on the regions to change the laws setting up the constitutional/charter courts.

## **The Judges**

Most of the regional courts have five justices, except Tatarstan's, which has six, Sakha and St. Petersburg with 7, and Adygeya with nine justices, three of whom work full-time. Following the federal model of judicial recruitment, in ten regions the governor nominates members of the regional constitutional/charter courts, who are then approved by the legislature. In Adygeia, the three branches of government appoint three Justices each (in the case of the judicial branch, regular federal courts and the Adygeya Arbitration Court propose their candidates to the Adygeya Supreme Court which makes the final selection). In St. Petersburg, small groups of regional legislators, the Council of the Judges, and the governor nominate candidates, and the St. Petersburg Legislative Assembly appoints them for a 5-year term. In other courts, the Justices serve 10-12 years or until the retirement age of 65-70. Their average



age is about 52. Their salaries and benefits are similar to those of the top regional leaders or top regional judges.

In April 1999, there were 10 vacancies in 6 regional constitutional courts. By the end of 2001, there were 8 vacancies in 5 of them. Out of 61 working constitutional/ charter court justices, 21 are women, including the chair of the Kareliya Constitutional Court. One-fifth of the justices came to the bench from academia, another fifth came from the law-enforcement agencies, one quarter from the regular courts, and one quarter previously worked for the government. Thus, very few of the regional constitutional court judges had their own private law practice. However, the majority of them hold teaching positions at the local law schools to earn extra income even though only a quarter of the judges hold post-graduate law degrees.

Like their colleagues in the American state supreme courts, the majority of these Russian judges are native to their regions. Another similarity with their American counterparts is that these regional courts have much lower dissent rates than the top federal courts. Only Constitutional Court justices in Kareliya, Komi and Sakha issued dissenting opinions, adding up to a total of eight. This opposition is small compared to the 105 dissenting and 6 concurrent opinions that Russian Constitutional Court Justices issued in the past decade.

### **The Litigants**

By the middle of 2001, the dozen regional constitutional/charter courts in existence had issued 260 decisions (*postanovleniya*). The most prolific were the Sverdlovsk Oblast Charter Court with 11 decisions annually, and the Sakha and Kareliya Constitutional Courts, with an average of 8-9 judgments per year.

About a third of these decisions (80) were issued at the request of the regional legislators. Another third (76) of the regional constitutional court decisions were delivered as a result of complaints by individuals charging that various laws had violated their constitutional rights. The final third came from procurators, governors, regional parliaments, local governments, and courts.

During 1999-mid-2001, the regional constitutional judiciary upheld 47 percent of the challenges brought by individuals, NGOs and business corporations. These courts tend to agree with almost all suits brought by the procurators. The procurators' success is likely to continue in the future as federal efforts to bring regional law-making into conformity with federal laws continue. The data from the 1999-mid-2001 period show that the courts sided with the governors in 90 percent of the suits initiated by the governors.

Despite the governors' high success rate and the large number of decisions against local governments (which often are in conflict with the governor), the courts do not favor regional executives. An examination of all 260 decisions shows that the courts seemed to have treated the governor and regional legislature equally since they struck down equal proportions of executive and legislative acts.

### **The Court Decisions**

One quarter of the judgments dealt with regional fiscal policies, including regional and local tax and fee collection, fines, and other mechanisms regional and local governments use to generate revenue. Regional constitutional courts were most consistent in striking down regional laws that increased the federal tax and duty rates, declaring such hikes an unconstitutional interference into federal jurisdiction. These courts also consistently invalidated local laws establishing new taxes.

The examination of regional constitutional jurisprudence on tax issues highlights the inconsistencies in regional taxation. Regional constitutional/charter courts also contribute to this problem by balancing between the economic interests of regional elites and federal policies seeking a unified market. Eventually, this judicial behavior may strengthen the diversity of legal and economic regimes in Russian regions.

One quarter of the cases before the regional courts concern the principle of the separation of powers. There were two main issues in this area: parliamentary control over the executive and the status of public officials. The regional constitutional courts ruled that regional constitutions gave regional legislatures weak and limited oversight functions. Thus, they found that regional parliaments do not have the right to create a separate oversight agency. Additionally, the courts interpreted the "separation of powers" principle as prohibiting the legislative branch from requiring reports from the executive branch.

The regional constitutional judiciary also often had to deal with the question of the status of public officials: can regional ministers and local executives serve as members of regional parliaments? Although since 1995, federal laws clearly have prohibited the combination of elected office and a civil service position, many governors have encouraged their subordinates in the regional executive branch to serve simultaneously as legislators in order to "pack" the legislatures and control their policy-making. While the regional constitutional courts have recognized that such practices are unconstitutional and inconsistent with federal law, they have used various techniques to avoid conflicts with the regional executive by suggesting how the governor can achieve his goals through different means.

Closely connected to this issue was the constitutionality of the electoral process. For example, many judgments dealt with whether officials should be elected or appointed to local government. Difficult constitutional challenges came from the attempts by regional legislatures and governors to extend the time limits of their offices. Governors also frequently attempted to shorten their terms in office by running dummy campaigns calling for early gubernatorial elections to secure their re-election. While abolishing these loopholes to prevent politicians from playing such political games, the courts at the same time provided advice to the regional authorities on how to maneuver around their decisions. For example, the Sakha Constitutional Court suggested changing the electoral law and the Dagestan Constitutional Court advised amending the Constitution. The most surprising decisions in this area came from the young St. Petersburg Charter Court. In March 2001, the Court interpreted the St. Petersburg Charter in such a way that there would be two parallel legislatures serving April-December 2002. Responding to this interpretation, the legislature amended the charter. These amendments then triggered new challenges that the court had to address. In June 2001, after five sessions, the Charter Court announced that the next legislative elections would be held in April 2003. This decision

contradicted the court's March ruling but it did not overturn it, meaning that St. Petersburg could have no legislature during the period January-April 2003.

In the area of constitutional rights, Russia's regional constitutional courts focused primarily on labor and social issues. Most often these cases came up before the Bashkortostan, Kareliya and Komi Constitutional Courts. The courts have always backed the right of regional legislatures to provide bonuses to local pensioners. Additionally, the courts always upheld regional laws on workers' compensation benefits because they provided higher compensation than the federal labor law. Thus, the record shows that regional constitutional review bodies tend to favor individual claims and to uphold stronger labor protection guarantees.

## **Conclusion**

Regional constitutional courts are evolving from defenders of independent statehood into an instrument for federal control over regional policies. Overall, before 1995, regional constitutional courts tended to ignore federal laws and maintained regional supremacy. Since 1995, courts have been increasingly citing federal legislation. In 2000, two thirds of the regional charter/constitutional court decisions evaluated the compliance of regional policies with federal laws. The regional constitutional courts increasingly refer to the rulings of the Russian Constitutional Court.

This shift worries regional authorities, who do not want to pay for an additional tool of federal oversight over their policies. Increasingly the regional constitutional courts are checking the conformity of regional and local acts with federal laws rather than regional constitutions. However, this type of oversight is the prerogative of the federal judiciary (namely, the regular and arbitration courts). As a result, the regional constitutional courts are beginning to function as another branch of the federal judiciary, albeit one that is paid for by regional budgets.

However, in the context of Putin's "dictatorship of law," the regional elites may find it convenient to have their own courts legitimizing their policy choices. In the US, the advisory opinions of the state supreme courts play a similar role.

Since the courts enhance their legitimacy, political elites may have greater incentive to settle their conflicts in the judicial arena and to agree to obey court decisions. In Kareliya, Sakha and Sverdlovsk Oblast, politicians and individuals use regional constitutional review more often than in the rest of the Russian regions. It remains to be seen, however, whether this active use of the courts will contribute to the development of a strong and independent constitutional judiciary in the Russian regions.

## **Endnotes**

(1) Republics: Adygeya, Bashkortostan, Buriatiya, Dagestan, Kabardino-Balkariya, Kareliya, Komi, Mari El, North Ossetiya-Alaniya, Sakha, and Tyva; Krai: Krasnoiarsk; Oblasts: Irkutsk, Kaliningrad, Kurgan and Sverdlovsk; Autonomous Okrug: Khanty-Mansiysk; and the City of Saint Petersburg. Tiumen Oblast suspended its law on the charter court in January 2001.

(2) Komi, North Ossetiya-Alaniya and Tatarstan in 1990. See Nikolai Vedernikov, "Organy Konstitutsionnogo Kontrolya v Rossiiskoi Federatsii," in *Sudebnaya Sistema Rossii*, Moskva: Delo, 2000, pp.86-87

(3) Dagestan in 1991, Chechnya, Kabardino-Balkariya and Sakha in 1992.

(4) The Adygeya Constitutional Court rendered its first decision in January 1998. The Buriatiya, Kareliya and Komi Constitutional Courts issued their first decisions in the first half of 1995. In Mari El, the court issued its first decision only in June 2000.

(5) The Sverdlovsk court issued its first decision in July 1998. Tatarstan's court issued its first decision in May 2001. St. Petersburg's court heard its first case in November 2000.

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RRR Editors

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## **2001: YEAR IN REVIEW**

### **PUTIN'S MAIN ACCOMPLISHMENT IS CENTRALIZATION**

by Robert Ortung

Almost two years after President Vladimir Putin took office, many Russians and western observers have more questions than answers about his policies on relations with the regions. While Putin is obviously seeking to strengthen the power of the central state and reassert control over Russia's often tyrannical governors, there is little understanding of where Putin's policies are going and what his ultimate plan is.

Nevertheless, the broad outlines of Putin's tactics are clear. In almost every area, he has chosen to address the problems of a weak state and governors operating beyond their authority by reconcentrating power in the Kremlin. He has given less priority to alternatives that would strengthen local governments or improve public oversight of state agencies.

Overall, Putin's main reforms of the country's federal system have yet to produce tangible results. The overhaul of the presidential administration represents the most visible change, since it effectively redraws Russia's political map, but its impact on the ground is less apparent. The consequences of the Federation Council reform and the new federal power (in some instances) to fire governors and disband regional legislatures are mixed. The reforms have not always strengthened Putin's hand in the regions. In fact, in some cases, Putin's reforms have unexpectedly opened up wider spaces of freedom for some activists. Putin's fiscal reforms, centralizing control over the country's tax revenue, have had the most immediate impact since they limit the regions' access to money.

#### **Seven Federal Districts**

In May 2000 Putin issued a federal decree that radically restructured the presidential administration, abolishing the more than 80 presidential representatives to Russia's 89 regions and replacing them with seven representatives who would be responsible for greatly expanded federal districts. Putin complained that the presidential representatives under Yeltsin had come under the influence of Russia's governors. The new presidential representatives, therefore, would stand above the governors and be in a position to operate independently of them. In picking his representatives, Putin seemed to stress loyalty, choosing military and security officers for five of the seven slots.

The purpose of this reform was to reassert federal control over functions that it had lost to the regions during the Yeltsin era. During the late 1990s, the governors gained inordinate control over Russia's financial and natural wealth resources, the country's law enforcement agencies, and the regional media. In many cases the governors exerted complete control over the territories they ruled, simultaneously disregarding federal law and repressing regional demands for more accountable government. The typical governor controlled his fiefdom through strong-arm rule to prevent any encroachments on his power.

Nearly two years after Putin launched his reform of the presidential administration, the main accomplishment was that it has palpably changed the atmospherics of center-periphery relations in Russia. The seven presidential representatives are now a visible part of the Russian political landscape and frequently appear in the media.

Although it was not their intention, Putin's reforms have created the conditions for greater freedom in some regions. In many places the governor worked closely with the regional legislature, local business community, and media to create a monolithic system in which there was very little room for dissenting opinions. By establishing an alternative center of power in the presidential representatives, Putin's reform opened up a wider space for protest than had existed before.

Putin sought to establish strong federal control to replace the strong gubernatorial control prevalent in the late 1990s. However, in practice, he weakened the governors without establishing an equally powerful replacement. Independent-minded politicians, businessmen, and journalists now can maneuver between the federal and regional authorities to pursue their own goals, especially in the six important regions outside Moscow where the presidential representatives are based. Such freedom did not exist when the governors controlled the situation single-handedly.

Despite this unexpected positive benefit, however, many of the presidential representative's supposed accomplishments are in fact overstatements. They often say that they have prevented the disintegration of Russia. This is not accurate because Russia was not really disintegrating in 1999. The representatives also claim that they have brought the vast majority of Russian regional laws into line with federal norms, boasting that the proportion of laws that do not comply with federal norms now is as low as 2 percent. In fact, this change is less significant than such statistics would lead one to believe. Many of the laws that violated federal legislation were declaratory and had little effect on the way things actually worked. Changing such laws was largely symbolic. Moreover, in important places like Bashkortostan, there are apparently more laws that violate federal norms now than when Putin launched his campaign to bring regional laws into line.

The seven presidential representatives are having considerable difficulty exerting control over the regions. Most importantly, they have not carved out a niche in the Russian political system. As a result, they are in constant conflict with the government ministries they are supposed to coordinate and often kept at arms' length by the governors they monitor. Several of the military and security officials Putin chose as his representatives are unsuited for the jobs they face. Perhaps most ironic for an institution whose declared purpose is to tie the country together, there seems to be little coordination among the seven presidential representatives on key issues. Finally, the presidential administration has not been able to exert much influence on gubernatorial elections and even had to enter into a costly compromise with Tatarstan President Mintimer Shaimiev to let entrenched regional leaders serve a third term.

### **Firing Governors and Disbanding Regional Legislatures**

A second major innovation that Putin introduced in 2000 was giving Russia's federal authorities the theoretical ability to fire governors who violated the law and disband regional legislatures

that adopted unconstitutional laws and then refused to amend them after court warnings. At the time this law was adopted, most commentators argued that it was too complicated to be implemented effectively. Its goal was to force the current regional elite to behave in a way the Kremlin found acceptable or replace them.

By the end of 2001, Putin had secured the removal of two governors, Primorskii Krai's Yevgenii Nazdratenko and Sakha President Mikhail Nikolaev. (Former Kursk Governor Aleksandr Rutskoii was barred from standing for reelection because of violations he committed in the campaign.) In both cases, Putin did not resort to the law, but personal persuasion.

In the case of Sakha, Putin met with Nikolaev in Moscow on 10 December to secure his agreement to withdraw from the 23 December presidential election if Deputy Procurator General Vasilii Kolmogorov also gave up his bid and the Kremlin supported Alrosa head Vyacheslav Shtyrov's candidacy. Shtyrov is a Nikolaev ally.

In Primorskii Krai, Putin telephoned Nazdratenko and secured the governor's "resignation." Putin apparently threatened Nazdratenko with potentially damaging revelations that might have led to a criminal conviction and enticed him to leave by appointing him as head of the State Fisheries Committee. Fishing is one of the most lucrative industries in the Far East and Nazdratenko's appointment gives him significant control over the industry and its substantial revenue.

As a method for replacing the regional elite with figures closer to the Kremlin's liking, this new law has had rather mixed results. While Nazdratenko has been "kicked upstairs," the local voters ignored Presidential Representative Konstantin Pulikovskii's exhortations to vote for his deputy as governor. However, with the election of Sergei Darkin, a young businessman with no political experience, the Kremlin has achieved part of its goal in that the new governor is proving to be open to Kremlin guidance in a way that Nazdratenko never was. However, the Kremlin suffered a black eye in the event because of Pulikovskii's poor campaign skills and because many local observers linked Darkin to organized crime groups in the region. Furthermore, the krai's failure to elect a regional legislature in December, due to low voter turnout, portends continued political chaos in the year ahead.

In seeking the adoption of the law, Putin may have hoped that it would serve as a weapon that he would never have to use in that it would encourage the governors to behave appropriately in order to avoid the possibility that the president would seek to remove them. This more subtle impact of the law is much harder to measure since it is difficult to assess the relative influences on the governor's behavior.

Although it received much less attention in 2000, the federal law allowing for the disbanding of badly behaved regional legislatures seems to be having a much greater impact than the legislation aimed at the governors. The federal government is wielding the threat of disbandment against legislatures much more often than when it threatens to fire governors. In September 2001, for example, the federal government coerced the Komi legislature to renounce the republic's right to sovereignty and forced the Kursk legislature to adopt, on paper at least, a system of local government that substantially increased local powers over current conditions. Federal officials have also threatened regional legislatures in Sverdlovsk Oblast and in several Siberian regions. While the federal government has yet to disband any legislatures, the

threat of doing so seems to be working well enough. Naturally, the question remains as to whether legislation adopted by the regional legislatures will actually be implemented.

### **Reforming the Federation Council**

Putin's purpose in reforming the Federation Council was to reduce the power of the governors to influence federal policies. Putin feared that the governors, in pressing their personal or regional interests, were preventing the country from pursuing its national interests. Again, the impact of the reform is mixed as it reduced the governors' overall clout at the national level, but also provided them with new lobbying opportunities that did not exist in the past.

The reform of the Federation Council will not fully take effect until 1 January 2002, when all of the old members must hand over their seats. Since 1996 Russia's governors and regional legislative chairmen have automatically been members of the council. Under the system Putin established, the governors and regional legislatures must appoint their own representatives to the upper chamber of the federal legislature. The governor appoints his representative to the Federation Council 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.

Critics of the new method for choosing Federation Council members have complained that the new body lacks legitimacy. Some propose letting the residents of each region elect two members to the upper house directly, as happened in December 1993 for the body that sat until January 1996, when the governors and regional speakers entered the Federation Council. Others, including the new Federation Council speaker, suggest limited elections, in which Russia's voters chose from candidates nominated by the governors and regional legislatures. Such elections would require changes in the Russian constitution, which stipulates that the upper chamber should be "formed," a formulation that seems to rule out elections. To date, Putin has avoided any constitutional changes and made clear that he is not interested in doing this.

The president seems to have strengthened his grip on power through this reform in several ways. First, on 5 December, he was able to remove Federation Council Chairman Yegor Stroev, who had opposed many Kremlin attempts to restrict the powers of the regions. Stroev's replacement, Sergei Mironov, is a Putin ally who will work much more closely with the president. Second, Mironov's election reflects the fact that the new members of the upper chamber are much more supportive of the Kremlin than past members were. The governors do not have a free hand in appointing their representatives to the Federation Council because the Presidential Administration puts extensive pressure on them to appoint "appropriate" representatives who are more likely to back the Kremlin's initiatives. The stronger governors are in a better position to resist this pressure, but weak governors, usually dependent on federal subsidies, naturally have to take Kremlin views into account to avoid losing access to federal funds. Third, in March, the Kremlin was able to set up its own faction within the Federation Council, *Federatsiya*, and seeks to use it to organize upper chamber votes in its favor. Until Putin's reform, there were no organized factions in the upper chamber.

Despite Putin's gains, the reform of the Federation Council was not a total loss for the governors because they have apparently gained additional lobbying powers. Many of the new

representatives for the regions are political insiders based in Moscow who have little connection with the regions that appointed them to the legislature's upper house. Taking advantage of such representatives may improve the regions' ability to secure access to federal funds. Additionally, many of the new senators represent some of Russia's largest companies. The main goal of these corporate senators will be to use their new position to secure federal resources to help their companies and regions.

### **Centralizing Control over Russia's Finances**

Putin's rise to power has brought a significant change in the way Russia's tax revenues are divided between the center and regions, shifting a much greater share of the country's resources from regional governments to the federal level. Since the federal government now has more direct control over these monetary resources, it has more leverage over all regions, those that are relatively wealthy and those are dependent on federal subsidies.

Most importantly, at the start of 2001, the federal government began collecting all of the value-added tax (VAT), taking from the regions the 15 percent that they received previously. Although the regions were awarded the revenues from other taxes in compensation, governors complained that this was insufficient and that these taxes were harder to collect than the VAT, causing their income to shrink. The impact of the tax reforms was to shift 11 percent of Russia's tax revenue from the regions to the federal government, according to an EastWest Institute study that applied the 2001 tax rules to 1999 data.

According to article 48 of the Russian Budget Code, the regions should receive at least 50 percent of Russia's overall tax revenue. The regions received 60 percent in 1997; 64 percent in 1998; and 58 percent in 1999. In 2001, the regions will receive less than 50 percent. The federal government was able to circumvent the 50 percent requirement because it adopted a law on 27 December 2000 that canceled the Budget Code's 50:50 provision for 2001. In 2002, the regions are expected to receive an even smaller share than they received in 2001. If this prediction turns out to be accurate, the government will either have to pass another law temporarily canceling the 50:50 requirement in the Budget Code or amend the code permanently.

The Russian regions have not felt some of this pain yet because Russia's economy recorded strong growth in 2000 and 2001. While the regions are getting a smaller share of the tax revenue, they are often receiving more money in absolute terms than they did the previous year. However, many regions are predicting severe problems in 2002 if Russia's growth stalls and are planning for major budget deficits.

### **Conclusions**

This brief analysis focused exclusively on the state without laying out important trends in Russian society and local government. Studies of society suggest that Russian citizens are increasingly seeking a more responsive government, both at local and higher levels. If such studies are accurate, as anecdotal evidence from the regions suggests, then the trends within the Russian state and those within society are working at cross-purposes. Within the state, Putin is trying to

centralize power as a way to deal with gubernatorial abuses. The president has not given high priority to alternative solutions for dealing with the governors, such as developing local government institutions or encouraging greater public oversight of state functions. However, across Russia, citizens have been pushing for a greater say in how they are governed. If these trends continue, Putin's attempts at centralizing power within Russia's federal system will be increasingly out of step with what Russian citizens are demanding. The consequence will be that Putin will either have to adjust his policies or take steps to quash social demands.

## **REGIONAL ELECTIONS**

**TORLOPOV UNSEATS SPIRIDONOV IN KOMI ELECTION.** On 16 December, Komi parliament Speaker Vladimir Torlopov won election as the republic's highest executive, unseating long-time incumbent Yurii Spiridonov, by a margin of approximately 40-35 percent, with a turnout of 35 percent. Most observers thought that Spiridonov would keep his seat and the electoral commission did not make an announcement about his loss until the afternoon of 17 December. Yabloko leader Grigorii Yavlinskii, who backed Torlopov, was the only national party leader to campaign in the republic; Yedinstvo and Otechestvo backed Spiridonov.

An ethnic Komi, Torlopov did best in the southern part of the republic, where Komis make up the majority of the population, while Spiridonov, an ethnic Russian, did better in the north, where Russians predominate. However, in contrast to the elections of 1994 and 1997, ethnicity did not play a major role in the election. Despite several provocative incidents, Torlopov renounced any nationalist strivings and the Congress of the Komi People and the republican electoral commission worked to ensure a peaceful election.

Torlopov presented himself as a candidate with impeccable connections in Moscow and criticized Spiridonov for spoiling the republic's relations with the federal government. For example, in one of his last campaign interviews, Torlopov charged that "every day that Spiridonov is in power costs the republic millions of rubles." He blamed Spiridonov for reducing the flow of federal budget transfers to Komi, for the republic's exclusion from the federal aid program for the Far North, and for the absence of a federal development program for the region. He described Putin as a pragmatist who did not want to send federal money in to a "black hole," arguing that there was enough "material for several criminal cases" in the way money for winter supplies delivered to the far north was handled (*Tribuna*, 14 December). Torlopov was the only Komi politician Putin invited to celebrate Constitution Day 12 December in Moscow. The president also included him in a recent presidential delegation to Brussels.

The election results will change the environment for big businesses working in the region. Nevertheless, LUKoil, the most important company in the region, did not actively intervene in the campaign. Mostly likely, it was not very happy with Spiridonov, but will not necessarily be better or worse off with Torlopov. Spiridonov had worked to prevent LUKoil from securing a complete monopoly position in the region's oil sector and supported alternative companies like Severnaya neft, which repaid this support by actively backing the incumbent. Spiridonov had given Severnaya neft an unprecedented 3-year, 100 million ruble tax investment credit (see *EWI Russian Regional Report*, 7 November). That company may now have more difficulty working with the republican authorities. Another casualty may be the giant Severstal steelmaker's aid to



the coal company Vorkutaugol, which was sponsored by Spiridonov and Vologda Governor Vyacheslav Pozgalev (*Delovoi Peterburg*, 18 December).

Why did Spiridonov lose after ruling the region for 12 years? Although the economic and social situation in Komi is much better than in many other regions, Spiridonov could not point to any particular successes. Moreover, in a region that could potentially be one of the richest in Russia, 30 percent of the population is living on the verge of poverty. A growing protest vote was already apparent in the 1997 elections, but the authorities did not properly analyze this trend. Additionally, Spiridonov waged an inappropriate campaign that relied heavily on negative campaigning and employed an army of Moscow PR consultants whose advice proved worthless. With the enormous advantages of incumbency, Spiridonov should have been able to perform better.

Torlopov will undoubtedly change the region's economic and social policies. During a visit with rural voters, Torlopov said that a redistribution of property was possible, but that this "would not affect ordinary people, since only managers would be shot" (*Respublika*, 4 December). Following this statement, the Komi Union of Industrialists and Entrepreneurs filed a protest with the Russian procurator general.

Torlopov said that one of his first steps as the republic's new leader would be to set up an accounting chamber to impose better oversight over the distribution of budgetary funds. Spiridonov long blocked the establishment of such an institution. Torlopov has also stressed the need to change the republic's system of management to reduce the concentration of power in the hands of one person (*Molodezh severa*, 13 December).

Many problems await Torlopov. He has promised to raise the salaries of public sector workers and reduce the region's debts, but the parliament has yet to begin its consideration of next year's budget. Like any new leader, he must also work to establish his political authority in the region. - Yurii Shabaev in Syktyvkar

**YEDINSTVO LOSES AGAIN IN SIBERIA.** Following the 16 December gubernatorial elections in Altai Republic, State Duma Deputy and Agrarian Party leader Mikhail Lapshin leads the incumbent governor Semen Zubakin, whom he will face in a runoff, by a vote of approximately 23 to 15 percent. The pro-Kremlin Yedinstvo party candidate came in sixth place in the race. Turnout was about 63 percent.

Three candidates fell just short of Zubakin's second place total, including Communist Party of the Russia Federation (KPRF) candidate Viktor Romashkin. If the Communists had backed Lapshin and dropped their candidate, Lapshin's lead would have been even stronger. However, the Communists scorned Lapshin because of his poor personal relations with Communist leader Gennadii Zyuganov. Lapshin also does not get along with Nikolai Kharitonov, the leader of the agro-industrial group in the State Duma. During the campaign, the Communists sent a team of campaign advisors from Moscow to the region to support their candidate, effectively working against Lapshin.

The poor performance of the pro-Kremlin Yedinstvo's candidate, Altai Minister of Internal Affairs Aleksandr Berdnikov, who won only about 10 percent of the votes for sixth place, caused a sensation. In the last days of the campaign, Berdnikov advertised himself as having the support of Presidential Representative to the Siberian Federal District Leonid

Drachevskii and even President Putin. One of Yedinstvo's leaders, Sportsman Aleksandr Karelin, personally stumped for the minister-general at numerous campaign stops. Altai Krai Governor Aleksandr Surikov also backed Berdnikov.

This was the second time that Yedinstvo has lost an important election in Siberia. At the end of October, Tyva Minister of Internal Affairs Sergei Mongush lost a by-election for a vacant State Duma seat, again despite the backing of Yedinstvo. In both Tyva and Altai, Yedinstvo nominated law enforcement agents who turned out to be hopeless candidates. In Altai, the police are unable to deal with the illegal alcohol trade in the rural parts of the republic. In fact, many believe that policemen protect the moon shine producers for a slice of their profits.

Another problem for the party was that four of the candidates in the race were Yedinstvo members, undoubtedly causing some confusion among voters. Many local observers believe that if the pro-Kremlin party had backed a different candidate, such as former republican Prime Minister Vladimir Petrov, it would have done much better. - Maksim Shandarov in Novosibirsk

**GOVERNOR'S GROUP WINS TVER LEGISLATIVE ELECTIONS.** According to preliminary results, Tver Governor Vladimir Platov's allies won a decisive victory in the region's legislative elections on 16 December. In the past, the governor had a stormy relationship with the legislature. Platov relied heavily on the resources of his office and the Yedinstvo party to secure victory. Six of the 11 candidates the party backed won seats. Beyond the party members, Vice Governor Yurii Krasnov declared that half of the new legislators would support Yedinstvo (*Tverskaya zhizn*, 18 December). As a result the new speaker of the parliament is expected to be an ally of the governor.

Among the winners are 9 mayors, several of whom are on the governor's team. The legislature's current chairman, Vyacheslav Mironov, another gubernatorial ally, also won. Mironov may be reelected to the chairmanship, but such an outcome is not assured.

Although opposition leaders Sergei Potapov and Aleksandr Gribov won seats, they will clearly have difficulty forming much of a coalition. The election was a setback for the Communists, who failed to elect more than three of their representatives to the legislature. The Union of Rightwing Forces' candidates did not win any seats, and Yabloko could not even find any candidates to run on its ticket.

The election of so many mayors to the oblast legislature may cause problems for the legislature if the federal government adopts a law forbidding mayors from serving in regional legislatures. For the time being, the voters have strengthened their governor and weakened his opponents. - Boris Goubman in Tver

## **FISCAL FEDERALISM**

**KARELIYA ADOPTS FEDERAL TREASURY SYSTEM AT REPUBLICAN, LOCAL LEVEL.** Karelyia's Finance Ministry is working to include the republic in the federal treasury system in order to remove any chance that republican budget funds will be spent in ways that were not intended. The first republican agencies to switch over will be the Culture

Ministry, the Internal Affairs Ministry, and the Committee on Emergency Situations. The new system will go into effect 1 January 2002.

The federal government established its treasury system, under the aegis of the Finance Ministry, in almost every region in 1998. The imposition of this system has dramatically increased the ministry's ability to track the flow of money the federal government spends.

The switch to spending all republican money through the treasury could lead to 600 million rubles in savings by increasing the amount of time the money stays in government accounts. These savings will quickly cover the costs associated with the new system.

Adopting the treasury at the republican level is only the beginning. In 2003 Kareliya plans to switch all local governments (both urban and rural) over to the new system. Discussions are already under way about the transfers of the republican capital, Petrozavodsk, and an outlying region.

At a recently held meeting to discuss the issue, Petrozavodsk Deputy Mayor Valerii Yalov expressed concern that if the city had to spend money through the federal treasury, it might not have quick access to its funds or the ability to move funds expeditiously to take care of pressing matters. However, Yalov was alone in his objections. Acting Petrozavodsk Mayor Vyacheslav Kashin said that if working through the federal treasury system was carried out free of charge and provided good oversight of how the funds were spent, then he was in favor. Legislative Assembly member Aleksandr Chazhengin said implementing the treasury system was not a repressive measure and that it was time to move forward.

The head of the federal treasury in Kareliya, Anatolii Maksimov, said he was surprised by any city opposition to the move. He said that the city would still control its budget and could simply amend the budget to send money where it needed to go in emergency situations. Thus, he argued that using the treasury would still give the city leaders flexibility in how they spend their money while preventing illegal expenditures of funds not approved by the budget. Kareliyan Finance Minister Aleksandr Kolesov praised the treasury system for strengthening financial discipline and denied that it impinged on the authority of local governments. - Boris Matveev in Petrozavodsk

## **NUCLEAR POWER**

**KURSK NUCLEAR PLANT ENDS YEAR OF TROUBLES.** The Kursk Nuclear Power Plant marked the 25th anniversary of its first reactor on 19 December on the heels of a series of crimes. The plant makes more than half the electricity consumed in the Central-Black Earth economic zone and is one of the largest tax payers for the oblast. It is also among the regional factories that owe the most.

The plant is best known, however, for its association with several recent crimes. Hit men tried to assassinate Director Yurii Slepokon while he was resting at his dacha. They missed their target and remain at large.

The plant's first deputy director, Vladimir Boev, and Equipment Department Head Mikhail Golovin, were arrested along with Moscow Businessman Lev Alborov. The case is still under investigation and will not reach the courts until spring. Investigators allege that these three

men caused the power plant significant financial losses. Two deals cited as evidence reportedly cost more than 60 million rubles.

Finally, the plant's former commercial director, Boris Khokhlov, who later served as oblast prime minister under former Governor Aleksandr Rutskoï, was convicted of abuses in November.

Another major problem for the plant is that only two of its four reactors are currently operating. The two reactors off-line are both old "Chernobyl-style" reactors that are now being modernized. When the old reactors will come on line is a key concern for plant managers. Already \$200 million have been invested in the reconstruction process for just one of the reactors. The plant is expected to come back on line in March 2002 and the government hopes that it will generate power for an additional 7-8 years.

Despite a Russian desire to press ahead, the European Bank for Reconstruction and Development is working to prevent the two Chernobyl-style reactors from being used again. Director Slepokon told a press conference on 13 December that President Putin and Atomic Energy Minister Aleksandr Rumyantsev do not want to bow to the pressure from Europe. Slepokon argued that the nuclear plant was much cleaner than plants burning fuel oil, coal, or natural gas.

A fifth reactor is currently under construction and is 70 percent complete. Finishing it would ensure adequate energy supplies for European Russia. On 13 December, plant officials also announced plans to construct a sixth reactor, with planning work already well under way.

The continued construction of the plant is extremely important for Kursk Oblast since it produces up to a third of the oblast's regional product. Additionally, if the reactors are built, Kursk residents will pay 19 kopecks per kilowatt hour in contrast to the 40 kopecks they pay today to buy electricity from the federal wholesale market. - Sergei Sarychev in Kursk

## **PATTERNS OF REGIONAL DEVELOPMENT**

**NORTHERN OKRUGS STRENGTHENING POLITICAL INFLUENCE IN TYUMEN.** Under former Tyumen Oblast Governor Leonid Roketskii, the resource-rich Yamal-Nenets and Khanty-Mansii autonomous okrugs sought to secede from Tyumen Oblast. Now they are trying to take control of it. The winner of the battle will control substantial financial flows.

In Russia's complicated federal system, the two okrugs are simultaneously independent regions and included as constituent parts of Tyumen Oblast. The two okrugs make up the northern part of the oblast and hold about two thirds of Russia's oil and 90 percent of its natural gas. The southern part of the oblast is a relatively poor agricultural region. The two okrugs must share tax revenues generated from their extraction of oil and natural gas with the southern part of the oblast, a feature of life they detest.

This situation began to change in February 2001, when Sergei Sobyenin defeated Roketskii as governor with strong support from the northern okrugs. Since then, the northern okrugs have been investing heavily in the southern part of Tyumen Oblast. Effectively, the okrugs, and especially Khanty-Mansi, are buying up the largest tax-paying enterprises in the

south. Over time these purchases will give the northern okrugs control of the political processes in the region, particularly local elections and elections to the Oblast Duma.

Sobyanin is the former speaker of the Khanty-Mansii legislature. Shortly after he was elected, he signed an agreement with the okrugs on a joint social and economic policy. The okrugs agreed to invest 15 billion rubles in the southern part of Tyumen over five years.

Tyumen enterprises seeking investment were advised to send proposals to the oblast's department of investment and support for entrepreneurs. The department has received over 300 proposals, according to Director Sergei Putman. However, numerous enterprises later withdrew their proposals because the northern investors required large stakes in the companies in exchange for the investment. These companies preferred to maintain their independence.

By November 2001, about \$30 million had flowed from the northern okrugs into the Tyumen Oblast economy. In one high profile project, the Khanty Mansi administration bought a 51 percent share in the Borov poultry farm for \$3 million. Earlier the okrug administration had purchased a nearby feed factory. Now the two factories will be linked, making up one of the largest such enterprises in Russia. Additionally, Tyumen Oblast sold the Khanty-Mansii administration a pharmaceutical factory that it had started to build with oblast money. Construction came to a halt when the administration did not have the additional \$10 million required to complete the structure and now Khanty-Mansii will provide this capital. Putman said that the oblast happily transferred a 100 percent share in the firm to the okrug. The okrug is also investing in Tyumen's liquor industry and is providing loans for the agricultural sector. - Yelena Arbatskaya in Tyumen

## **FOREIGN TIES**

**SCHOLARS EXPLORE KALININGRAD'S FUTURE IN AN EXPANDING EU.** The European Union's eastward expansion poses new challenges for relations with Russia. In particular, once Poland and Lithuania join, Kaliningrad Oblast will become a Russian "island" within the EU. In *Are Borders Barriers? EU Enlargement and the Russian Region of Kaliningrad* (Kauhavi, Finland: Ulkopoliittinen instituutti & Institut für Europäische Politik, 2001), two long essays by Lyndelle D. Fairlie of San Diego State University and Alexander Sergounin of Novgorod Linguistic University examine Kaliningrad's role in European security and its implications for Russia.

According to Fairlie, in addressing Kaliningrad's unique situation, the EU is attempting to balance the need for security without creating new dividing lines in Europe (p. 14). Although some analysts have compared the exclave's future position within the EU to the current situation along the Finno-Russian border, Fairlie points to a number of differences.

Above all, Kaliningrad residents will face the additional burden of obtaining visas for Lithuania and Latvia in order to travel to Russia proper, not just for overseas travel as is the case on the Finno-Russian border--a real problem since many Kaliningrad residents lack international passports. The difficult relations between Russia and its Baltic neighbors may complicate matters further (p. 65). Fairlie concludes that Kaliningrad's outsider status may hurt its relations with its Baltic neighbors and create a new barrier between Russia and the EU (p. 112).

Kaliningrad's status has proved controversial in Russia as well, according to Aleksander Sergounin. He highlights the considerable skepticism remaining in Russian policy circles about the West's intentions with respect to Kaliningrad. Some Russian observers see the prospect of Kaliningrad's isolation within the EU as evidence that the West hopes to bring about the disintegration of Russia. Others fear that Germany will try to place the exclave within its sphere of influence. Nevertheless, Sergounin notes that there are voices in Russia calling for Kaliningrad to become a gateway for greater Russian integration in an expanding EU, especially in Northern Europe (pp. 142-5).

The uncertainties about Kaliningrad's future status have compounded its pervasive economic problems. The special economic zone for the oblast for 1998-2005, announced with great fanfare in late 1997, failed to bring about any marked improvement in economic conditions in Kaliningrad. An attempt to abolish the SEZ in January 2001 by withdrawing its customs privileges led to 20-30 percent price hikes and protests. The customs privileges were ultimately reinstated, although the future of the SEZ itself remains unclear (p. 168).

The November 2000 election of Admiral Vladimir Yegorov as governor of Kaliningrad, replacing the corrupt Leonid Gorbenko, provided some reason for optimism. Yegorov has called the oblast a 'laboratory for working out new forms of co-operation between Russia and the European Union' (p. 175). In March 2001, the Russian cabinet adopted the "Concept of Federal Social-Economic Policy towards Kaliningrad Oblast." As Sergounin notes, the concept is more declaratory than substantive, but at least provides a vision of Kaliningrad as a bridge from Russia to Europe. The concept advocates the conclusion of a special agreement between Russia and the EU about the exclave, which would provide for a visa-free regime for Kaliningrad residents traveling to Poland and Lithuania and for transit passengers from Russia proper, and a simplified visa process for Polish and Lithuanian citizens (and all EU citizens once these countries join) visiting Kaliningrad (p. 176). Nevertheless, as Fairlee points out, the Russian government also has said that should Poland and Lithuania impose visa requirements on Kaliningrad residents, Russia would take reciprocal action (p. 75).

Sergounin believes that there is an understanding in both Russia and EU that something needs to be done in order to prevent a new division of Europe. In his view, the Kaliningrad case has shown the increasing importance of sub-regionalism in European security (p. 181). The EU already has taken some initial steps in this direction. A new joint group to work out an economic partnership with Russia was established in May 2001. On 5 December European Commissioner for External Relations Christ Patten met with Russian Foreign Minister Ivanov to discuss Russian-EU dialogue on a variety of issues, including Kaliningrad (*Baltic News Service*, 5 December). - Elizabeth Wishnick

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