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RUSSIA'S OIL AND GAS COMPANIES AT WAR WITH THEIR MINORITY
SHAREHOLDERS

By Sergei Kolchin

When they were still newly established, Russia's vertically integrated oil and gas companies welcomed the presence of minority shareholders in the capital of their daughter enterprises. It was considered a sign of the democracy and competitiveness of the newly established market environment. But, more recently, they have launched an offensive on their small-scale investors, and the intensity of this attack is steadily increasing.

Take, for example, recent moves by Lukoil to consolidate the capital of its joint venture subsidiaries (Noble Oil, AmKomi, Vatoil and others), or the conflicts between Yukos and TNK and their respective minority shareholders, which have resulted in the latter being forced out of these companies' daughter enterprises. Similar disputes have arisen in Sibneft, Slavneft and even the famous trading company Nafta-Moskva.

These minority shareholders may roughly be divided into three groups: first, the "untouchables," who are generally strategic partners of the oil and gas companies, such as Ruhrgaz in Gazprom or BP-Amoco in Sidanko, and who, despite having a relatively small stake in the total shareholder capital, nevertheless enjoy substantial privileges in the area of corporate decisionmaking; second, the "awkward" ones, who cannot be ignored and will not submit to the company's rules for the game, and with whom it is necessary to negotiate some deal on the redemption of their shares (these are mainly foreign investors such as Kenneth Dart); examples of such agreements have been seen at Lukoil, Yukos, Sibneft and other Russian national oil companies; third, the "domestic" shareholders, whose rights are inadequately protected either by Russian legislation or by the Federal Commission on Securities, although, in the event that there is a major oil and gas

corporation amongst these investors, they may be able to do a deal with the parent company. The struggle by Russia's oil and gas giants for influence over their daughter companies is currently targeted chiefly at this third group.

The tactics used are relatively well established. Either shares in the daughter enterprises are gradually pulled back in favor of the parent company, devaluing the former (this device is possible because of the parent company's domination of the subsidiary's management bodies), or the daughter company's capital is eroded by the issue of additional shares on terms deliberately unattractive to the minority investors.

The motives for ousting minority shareholders from the oil and gas subsidiaries are likewise relatively standard: The minorities tend to be out of tune with the corporations' policies on asset management and financial operations.

Russia's top-level oil companies are still seeking to achieve their strategic objectives by forcing minority shareholders out of their daughter enterprises. Now it is Rosneft following suit, having decided on a substantial new issue of shares in Purneftegaz, worth all of 8 billion rubles. The decision to issue 74.2 million Purneftegaz shares is due to be taken at a meeting of the company's shareholders scheduled for the end of March, but emotions have been running high on the matter since February. It is expected that this additional share issue will be by open subscription, but existing shareholders will be granted preferential rights in the purchase of new stocks. The price for other new investors will be substantially higher. Rosneft has already stated its desire to acquire 51 percent of the new stock and approval of this proposed deal is on the agenda for the March meeting. The minority shareholders find themselves at a disadvantage: Either they pay a relatively high price for shares in the company, over which they still have no control, or they decline to purchase any additional shares and reduce still further their role in Purneftegaz's share capital. This is not the first time that Rosneft has attacked its subsidiary's minority shareholders. A year ago an extraordinary meeting of Purneftegaz shareholders approved the sale to Rosneft of assets worth 2.2 billion rubles (about 20 percent of its stock) and, at the same time, the leasing of this property back to the daughter company. In August 2000, too, a similar transaction involving an even larger sum had been approved. As a result, Purneftegaz has effectively been turned into an operating company for Rosneft. The additional share issue currently on the table may be seen as the logical conclusion of the process of Rosneft's absorption of Purneftegaz.

Apart from Rosneft, which is still a state-owned oil company, and whose attempts to consolidate its subsidiary's share capital may be regarded as pre-sale preparations, almost all of Russia's current privatized oil and gas corporations have also clashed

with their minority shareholders. Yukos, for example, is in conflict with minority shareholders in the Angarsk Petrochemical Company over the still unresolved issue of Yukos' acquisition of the Eastern Oil Company (VNK), although Yukos has been trying to preempt the problem by reaching an agreement with the VNK subsidiary, which has become a target for minority shareholders from Samara. The Tyumen Oil Company (TNK) has also run into active opposition from its minority shareholders over its program for consolidating the capital of its subsidiary extraction enterprises. TNK converted their shares into holding stocks at a higher face value and any fractional shares presented subsequently were designated for redemption. The minority investors held that their shares were worth at least twice as much as they were being offered and refused to exchange them on TNK's terms. This was the line taken in particular by representatives of the Astian Group stake. Sibneft met similar opposition to its moves to consolidate the capital of its daughter enterprises.

Ultimately, conflicts between the oil and gas corporations and their minority shareholders can be resolved with some degree of compromise between the interests of the various parties. But the process of ousting of minority investors from the share capital of the corporations and their daughter structures continues unabated.

Seen in this light, Lukoil's decision to increase minority shareholder representation on the company's board of directors may seem somewhat paradoxical. But the paradox is only apparent, because the shareholders concerned are in fact of the first type listed above, namely Lukoil's major foreign partners, such as the successor to ARCO, BP-Amoco. But Lukoil is still having problems with its small shareholders, particularly on aspects of the company's management of a recently purchased Bulgarian oil refinery.

Gazprom has followed the example of the oil companies, too. Having found a foreign partner for the development of two gigantic off-shore deposits, the Prirazlomny and Shtokman fields, Gazprom decided to oust the minority shareholders from Rosshelf, the company designated to develop the fields. As a result, Rosshelf's board of directors, which is dominated by Gazprom, decided to call an extraordinary meeting of its shareholders, with the aim of securing approval for a new share issue (100 million shares at 100 rubles each). Gazprom means to purchase the new shares not with cash but by offsetting them against Rosshelf's debts, which amount to some US\$150 million. This will give Gazprom an advantage over the other shareholders. The minority shareholders are naturally unhappy with this, but Gazprom is in a stronger position on Rosshelf's board of directors. "We don't understand why a new share issue by Rosshelf is necessary," said a Lukoil representative. "If funds are needed to develop the new deposits, wouldn't it be simpler

for shareholders to contribute directly to the project?" But Gazprom, it seems, understands perfectly well why the additional share issue is needed--as a way of forcing the minority shareholders out. The way the share issue is being used to this end is nothing new for Russia. Some of Rosshelf's minority shareholders, such as Severstal, have already decided not to purchase any of the new stock. It is entirely possible, however, that mechanisms will be found for working out some sort of deal between Gazprom and some of its minority shareholders, especially Lukoil.

To sum up, Russia's oil and gas sector is consolidating its capital by suppressing its minority shareholders. The extent to which they can insist upon their rights varies, with the result that some are able to stand firm and even profit from the situation, while others lose out when they are forced to play the game by the rules imposed on them by the corporations.

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BACK TO THE USSR: RUSSIA HELPS MOLDOVA FOLLOW BELARUS' LEAD
By Taras Kuzio

In 2000 a constitutional crisis in Moldova pitted the executive branch against the legislature. It was resolved when the country became the first full parliamentary democracy in the Commonwealth of Independent States. Moldovan President Petru Lucinschi remained in his post until the newly elected parliament voted in Vladimir Voronin, leader of the Party of Moldovan Communists (PCM), to replace him.

In the February 2001 parliamentary elections, the PCM won two-thirds of the legislature's 101 seats. The PCM's control of the parliament and the culminated a decade-long slide away from the pro-Romanian nationalism that dominated Moldovan politics in the late Soviet and early post-Soviet period. In the early 1990s the nationalists in the Popular Front of Moldova were replaced by former high-ranking communists (now centrists) who had re-grouped in the Agrarian Democratic Party and, in 1994, won Moldova's first free election.

This pattern resembled the rise to power in the three Trans-Caucasian republics of nationalist movements, whose popularity also declined after a period of ethnic conflict and socioeconomic hardship and who were then replaced by former-communists-turned-centrists. Where Moldova differs is that the centrists there managed to cling to power only until the late 1990s. Moldova is the sole CIS state where centrists--who generally politically represent the oligarchs in

their respective countries--have lost their grip on the reins. This reflects the extent of the country's decline since 1992.

The PCM won its first electoral majority in 1998, but was thwarted from taking power by centrist parties that combined to form a majority. In 2001 the PCM was finally able to wrest power from the centrists and take control of both parliament and the presidency.

PCM RELAUNCHES THE SOVIET EXPERIMENT

Moldova's new communist-dominated leadership sought to quickly reintroduce elements of the Soviet past, emulating the only other CIS state that has followed similar policies, Belarus, which since 1995 has evolved into an authoritarian state. In Belarus, however, the Soviet economic system was not dismantled prior to Alyaksandr Lukashenka's rise to power in 1994, unlike in Moldova, which underwent a decade of de-sovietization.

Economic reform in Moldova has been suspended indefinitely, though the PCM still wants to cooperate with international financial institutions like the International Monetary Fund and the World Bank. Ion Filimon, a PCM member who heads the parliamentary commission for the Agricultural and Food Processing Industry, supports the re-collectivization of agriculture. In his view, there is no other way to improve agricultural productivity, which has drastically declined, because "land split up into tiny plots does not allow for the use of modern technologies and sophisticated machines." The Moldovan government's plans to renationalize industries have been condemned domestically and internationally. The World Bank expressed concern that the Communists intended to renationalize twenty-five privatized companies and subsidize loss-generating state farms.

But it is in the area of national identity in which the reintroduction of the Soviet experiment is most visible. This affects both domestic politics and Moldova's relations with Romania, which opposes the Soviet experiment, and Russia, which supports it.

The Soviet experiment is being reinforced in two areas, historiography and language. As in Belarus, the schools have seen a return to Soviet historiography, which reinforces the distinction between Romanians and Moldovans. Soviet historiography also ties Moldovans closer to Russia and the Eurasian geopolitical space. The study of the Moldovan language, culture and history has again become compulsory in the schools, which teach that Moldovans and Romanians are different.

On February 12, Education Minister Ilie Vancea, changed the "History of the Romanians" course in the schools and universities to the "History of the Moldovans." PCM

parliamentary leader Viktor Stepaniuc said "for twelve years, the Moldovan education system has prepared young people to become Romanian citizens. The time has come to prepare the younger generation to be Moldovan citizens."

Vancea had to eat his words on February 26, when he was unceremoniously sacked four days after the language ruling was overturned. His replacement, Communist deputy Gheorghe Sima, supported the back-tracking over the reintroduction of compulsory Russian and measures to remove Romanian history from the curriculum.

RUSSIFICATION AND SOVIET LANGUAGE POLICIES

Even before the PCM took control of Moldova in early 2001, the language question had become a contentious issue. In September 2000, the PCM accused the parliamentary chairman Dumitru Diacov of destabilizing Moldova by proposing to change the designation of the language in the constitution from Moldovan to Romanian. The PCM attacked this move because it undermined "the ethnic and linguistic singularity of the Moldovans" and their independence while promoting its "Romanization." Presumably, russifying Moldova--the policy of the PCM--does not harm Moldovan identity.

The PCM had always opposed attempts to change the designation of the state language from Moldovan to Romanian, even though the two languages are the same. They believe that to do so would destroy the Soviet experiment to create a separate nationality with a non-Romanian language (a nationality which in the Soviet era used Cyrillic).

A year after the PCM criticized Diacov, the party itself destabilized the country by going to the opposite extreme and relaunching the Russification of Moldova. Immediately after being elected president, Voronin called for the country to make Russian a second state language. This, however, has been undertaken through the back door. Voronin is no longer likely to go ahead with his initial plan to elevate Russian to a second state (official) language through a referendum, given that an opposition movement to these language policies has grown since January. The Constitutional Court ruled in late February that a draft law making Russian an official language is unlawful.

According to Voronin, 97-98 percent of Moldovans speak Russian and only 7-10 percent of Russians speak Moldovan. Therefore, he says, two state languages would ensure that "we will have a mutual duty to each other." In reality, the more dominant Russian will gradually squeeze out Moldovan, and thus a greater effort could be placed into expanding the Moldovan language. According to polls, 73.7 and 78.7 percent of Russians in the Transdniester and right-bank Moldova would support Moldovan as a required subject in schools. [1] Hostility to the Moldovan language is therefore often the result of elite manipulation.

A new law on national minorities adopted in the summer of 2001 defined the third of the population who are not Moldovans as "Russian-speakers" whose language needs should be upheld by making Russian an "official language." The law made Russian a de facto "official language," similar to the way in which other CIS states (Belarus, Kazakhstan, Kyrgyzstan) have made Russian a second state language by calling it an "official" and not "state" language, even though in reality there is little to distinguish the two concepts.

Since the adoption of the law on national minorities, parliamentary and government documents are published in both Moldovan and Russian. (Prior to 2001 only presidential documents were published in both languages). In January, Russian became compulsory in Moldovan schools from the second grade, as in Soviet times. During the 1990s, Russian had been an optional foreign language. Civil records and identity documents, written in Moldovan/Romanian since 1989, will now also be written in Russian.

Domestic opposition against these policies has gathered considerable momentum and galvanized a dormant nationalist movement. Since January 9, the Christian Democratic Peoples Party (PPCD), the newly formed Committee for the De-Russification of Moldovan Education and teachers have organized daily demonstrations in Chisinau and other towns. The crowds at these demonstrations have grown from 5,000 to upwards of 80,000-100,000. [2] On February 21, demonstrators broke into parliament and then marched on the television station. On February 27, 300 journalists at TeleRadio Moldova threatened to go on strike if there were not an end to enforced Russification and to the taboo on such words and phrases as "Romanian," "Romanian language," "Bessarabia" and "History of Romanians." They also demanded that the PPCD be allowed to give their views. In response, the authorities claimed that the demonstrations have been organized with funding provided by the "Transdniester mafia" to undermine the Moldovan state.

During these demonstrations, thirty Moldovan NGOs issued a joint statement entitled "Civil Society Says No" and the PPCD's National Assembly of Voters issued a proclamation. Both documents accused the Communists of, among other things, censorship, turning state media into propaganda tools, forced russification, marginalization of the Romanian language and abolition of university autonomy.[3] The assembly voted for "total civil disobedience towards the abusive actions and orders of the communist dictatorial regime led by Vladimir Voronin" and demanded early elections and the removal of Russian troops. A Great National Assembly is scheduled for March 31.

During a demonstration in February protesting the changes made in the teaching of history in the schools, demonstrators carried

placards that read "Better Dead than Red!" and "Don't Falsify History!" They also demanded the resignation of the government and early elections. For the first time, armored personnel carriers were brought on to the streets of Chisinau.

The second largest opposition party in parliament, the Braghis Alliance, also criticized compulsory Russian as "undermining the political and the moral equilibrium in society." The PCM should remember, the Braghis Alliance warned, that Moldova is "no longer a Soviet republic" and that it has its own language.

The PPCD has collected 150,000 signatures on a petition opposing compulsory Russian in Moldova's education system. According to PPCS leader Iurie Rosca, "the entire Bessarabian society has been alerted to this wave of Russification that the communist government has initiated." [4] Education Minister Ilie Vancea threatened to resign if mass protests continued and asked the government to "suspend or nullify" the new language policies because they are not accepted by the intelligentsia and large numbers of Moldovans. Worse still, society is being divided along ethnic lines and interethnic tension is growing in schools.

The protesters are demanding an end to compulsory Russian language and literature in the schools and the reintroduction of Romanian historiography, language and literature. Rosca argued that parents, not the government, should decide on the language of instruction in schools. Russian should only be compulsory in schools for the Russian minority, while in Moldovan schools Russian should have the status of an optional foreign language.

On January 22, the PPCD was "suspended" by the Ministry of Justice for one month because of its main role in organizing the protests. This "suspension" prohibited it from taking part in elections or organize demonstrations. The PPCD disputed the suspension, claiming that its parliamentary faction, not the party itself, had organized the meetings, something the constitutional permitted it to do as a way to meet with its constituents.

The day after the PPCD's suspension, the European People's Party, which unites Christian Democrats in the European parliament, warned that Moldova was becoming a "European pariah" and a "second Belarus." The Council of Europe criticized the suspension of the PPCD and the new chairman of the Council of Europe's Parliamentary Assembly echoed Moldova's anti-communist opposition when he said the suspension represented "a real threat to (Moldova's) democratic functioning." The European Commission also condemned the suspension. These condemnations helped in lifting the suspension on February 8.

On February 25, the Supreme Court ruled that the protests are unlawful and must cease until the organizers receive

authorization from the Chisinau mayor. Minister of Justice Ion Morei threatened to suspend the PPCD for a year if it ignored the decision. Interior Minister Vasile Draganel, head of a special forces unit, resigned after refusing to crack down on the protests.

ADMINISTRATIVE REFORM

Moldova's Soviet experiment has also returned the country to the Soviet territorial-administrative system by restoring rural rayons. The Council of Europe's Congress of Local and Regional Authorities complained that this re-sovietization was approved in a vote tainted by "procedural violations" and that it should have been notified before the law was changed. Early local elections are set for April 7, following the re-sovietization of Moldova's territorial-administrative system. Amendments to the electoral law mean that although single parties still only require 6 percent to get through the barrier, blocs with two and three parties will need 9 and 12 percent respectively. The holding of these early elections will further harm relations with the Council of Europe, which has threatened to suspend Moldova if it goes ahead with them.

The Constitutional Court, however, has ruled that the law on holding early local elections that was passed on February 5 is unconstitutional. The court heeded an appeal against the decision by the PPCD, which argued that it was unconstitutional to reduce the four-year mandate of officials elected in May 1999.

MOLDOVA AS THE CENTER OF A NEW GEOPOLITICAL CONFLICT

Moldova's national identity is divided three ways. Nationalists favor an orientation towards union with Romania and they have been the main organizers of the protest movement against compulsory Russian. Centrist former national communists favor independence and neutrality while the anti-Romanian PCM supports union with Russia and Belarus and full CIS integration.

Once the PCM took control of parliament and the executive branch, Moldova began adjusting its foreign orientation to match its domestic policies. This follows a pattern in the former Soviet Union, according to which as domestic policies move away from democratic and economic reforms and a revival of national identity, foreign policy is shifted from "returning to Europe" to an orientation towards Russia and Eurasia. Thus Moldova plans to downgrade its membership in the "dissident" GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) CIS regional group while strengthening ties with Russia and the CIS. The PPCD sees these recent changes in Moldova's foreign policy as returning Moldova to "subordination and submission" to Russia.

Russia is again supporting antireform forces in Moldova, as it

has done in Belarus since 1995. For Moscow, geopolitics outweighs reform in both cases. Ironically, Moscow's long covert support for the separatist Transdniester region of Moldova is preventing the full normalization of relations between Moldova and Russia. Nevertheless, the Moldovan and Russian presidents held eight meetings last year and Voronin believes that he and Vladimir Putin "have full understanding on all issues, both as presidents and as friends." [5]

Russia is gradually reasserting its influence in Moldova. Moscow no longer plans to remove its troops from Moldova, which it now hopes to convert into a forward military base. A Treaty of Friendship and Cooperation signed in November 2001 "strengthened the legal foundation for growing political, economic and cultural ties at all levels and in all areas, including cooperation on the inter-regional level."⁶ Russian investment in Moldova is proportionately the highest of any CIS member state. A Russian Cultural Center has been opened in Moldova's parliament. President and PCM leader Voronin admitted that he had "personally supervised the restoration of the villa where Pushkin once stayed". Russia has promised to supply additional textbooks for schools to help in the reintroduction of compulsory Russian. In addition, last year, for the first time, 160 Moldovan students began their studies free of charge at Russian higher educational institutions.

Russia is welcoming Moldova's plans to hold a referendum this year on joining the Russian-Belarusian union (Moldova already has observer status in the union). If the results of the referendum need to be legally implemented the PCM have a parliamentary majority and control the presidency. The Russian Foreign Ministry welcomed the decision to again make Russian compulsory in Moldovan schools, saying the move would contribute "to interethnic communication and the continued development of multilateral relations between Moldova and Russia."

Russia's support for the re-sovietization of Moldova was openly declared in a statement issued by the Russian Foreign Ministry on February 19. It accused the PPCD of being "radical nationalists" who had organized "anti-Russian actions" against the Russian Embassy which were leading to conflict in "multiethnic Moldova." The demonstrations were described as "national radical propaganda bashes."⁷ While denouncing Romania for interfering in Moldova's internal affairs, Russia sees its own support for Moldova's Communists in a different light, since it does not regard the CIS states as fully independent and reserves for itself the right to speak on their behalf and comment on their domestic affairs. Nine days after the Russian Foreign Ministry statement, the Russian State Duma called on the Moldovan authorities to "use the power of the law" and not give in to the protestors.

The most vocal external criticism of the re-sovietization of

Moldova has come from Romania. Romanian Foreign Minister Mircea Geoana has protested Moldova's return to "Stalin's theory about the existence of a Moldovan language and a Moldovan nation." Romania's official position remains that Moldovans in Moldova and Ukraine should be counted in censuses as Romanians. Any attempt to claim that Moldovans and Romanians are different is an "artificial distinction" and a "fiction" caused by "ideological intoxication" of the Soviet occupation, Geoana said.

The PCM disagrees with Romania and with its own nationalist opposition. Its position reflects standard Soviet nationality policy, whereby Moldovans were classified as a separate nation from Romanians. It has condemned the support that Romania's president and premier has voiced for the political parties and civic groups in Moldova protesting against the PCM's re-sovietization of Moldova. Romanian Premier Adrian Nastase replied by saying it was natural for Romania to be concerned about the welfare of its neighbor given that two-thirds of Moldova's population are "Romanians."

The Russian Foreign Ministry and State Duma statements were condemned by both the PPCD and Romanian Premier Adrian Nastase, who expressed his concern at the "resurrection of Soviet ideology" about an "alleged Moldovan language and people."

CONCLUSION

Moldova's ten-year slide from nationalism through post-communist centrism back to key aspects of communism is unique in the post-communist world. It remains to be seen what the results this return to the Soviet experiment will produce. Russia's support for Moldova's re-sovietization is similar to its policy toward Belarus. In both cases, geopolitics outweighs reform.

NOTES:

1. David D.Laitin, "Secessionist Rebellion in the Former Soviet Union", *Comparative Political Studies*, vol. 34, no. 8 (October 2001), p.852.
2. On February 20, over 30,000 people gathered (Basapress, February 20) and blocked traffic. By February 24 and 26 the size of the crowds had risen to 80,000 (Basapress, February 24) and 100,000 (Evenimentul Zilei, February 26).
3. Basapress, February 24, 2002.
4. Ziua, January 28, 2002.
5. Rossiyskaya Gazeta, December 5, 2001.
6. Interfax, November 28, 2001.

7. Rossiyskaya Gazeta, February 21, 2002.

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