

# THE GEORGIAN CHRONICLE

## MONTHLY BULLETIN

Major events and trends in politics, economy and social life

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**The state power has prevented a political hunger-strike launched by the faction 'Abkhazia' from developing into large scale unrest. The Security Minister was accused of serving Russian intelligence. The CIS summit has approved Georgian proposals on Abkhaz conflict settlement. Alarmist trends have appeared in the national economy.**

### STATE POWER

**POLITICAL HUNGER STRIKE.** Continued frustrations over the still unresolved Abkhaz conflict reemerged in the form of a hunger-strike by eleven members of the parliamentary faction 'Abkhazia'. The strikers began their protest on March 2 in the former parliament building in Tbilisi. The action was formally mandated and directed by a coordinating council of exiled political organizations from Abkhazia, and Tskhinvali, though some sources regarded it as government-initiated. The hunger-strikers, led by the faction chair MP, Germane Patsatsia, gained widespread support from Georgia-based refugees in their demand for assertive measures towards the immediate withdrawal of Russian troops from break-away regions. The declared goal of the hunger-strike was to attract greater international attention to the Abkhaz issue, as well as to gather increasing support at a domestic level.

Almost all Georgian political organizations as well as President Shevardnadze, though to a different degree, supported this action. Simultaneously, two extra-parliamentary opposition parties, The Union of Traditionalists and 'Khartia-91' collected the constitutionally required 30,000 signatures under the legislative proposal on withdrawal of Russian peacekeepers from Abkhazia, and formally submitted it to the parliament. The Security Minister Shota Kviraya encouraged the hunger-strikers by making a statement on the possibility of successfully regaining Abkhazia through Security Ministry forces. As authorities remained hesitant to meet the hunger-strikers' demands within the required 10 days, the already tense situation around the strike started to fuel. The most radical participants of the action threatened the authorities by organizing mass protest rallies of refugees.

The development of events prompted suspicion that subversive forces could use both militant calls, and socially suppressed refugees as explosive material for inciting unrest and large-scale instability. At the March 20 parliamentary session, the leader of the National-Democratic Party (NDP), and its parliamentary faction Irina Sarishvili-Chanturia qualified the hunger-strike as a destabilizing scenario staged by the Security Ministry. She publicly claimed to have evidence exposing Security Minister Shota Kviraya as a Russian counterintelligence (FSB) agent striving to involve the country in a wittingly doomed military venture. She however, refused to publicize the compromising material or to pass it to the parliament's defense/security committee when requested to do so, and instead submitted the documents to the parliamentary ad hoc commission (under MP, Mikheil Osadze) which investigates office abuses within the Interior Ministry. Mrs. Sarishvili-Chanturia also assessed as "provocational" a legislative proposal of two parties leading, in her opinion, to a resumption of hostilities, and thus playing into the hands of Russian special services. Two days later, Zourab Zhvania -- Chairman of Parliament told the session that "large-scale destabilization has been planning", in Georgia, and even threatened to identify the initiators.

Though Shota Kviraya denied all charges he refrained from bringing libel action against Mrs. Sarishvili-Chanturia. As the situation progressed, the hunger-strikers vehemently denied having any plans for the widespread eruption of civil unrest. According to some experts Mrs. Sarishvili-Chanturia aired the attitude of Shevardnadze's supporters who are trying to purge Georgian security bodies of pro-Russian figures -- as Mr. Kviraya is likely regarded for his background. But, by unanimous assessment, notwithstanding the outcome of Sarishvili-Kviraya's clash, her public statement succeeded in somewhat delaying the possible tailspin of the hunger strike into destabilizing action. At the same time, the mutual accusations of serving foreign intelligence erupted as usual during the crisis appear to be a chronic disease of Georgian political elite, in the absence of law on lustration in particular.

The hunger-strikers presented a draft resolution concerning regional conflict resolution for parliament's consideration. The resolution demanded an immediate halt to Russian-launched peacekeeping operations in Abkhazia and Tskhinvali, and called for the immediate and unconditional withdrawal of all Russian troops. The departing troops, they stated,

would then be replaced by Georgian units. The resolution also called for the phasing out of the Russia-Georgia treaty on friendship and cooperation until it is ratified by the Russian State Duma. On March 19, Mr. Zhvania held back-door talks with the hunger-strikers. These talks led to an agreement to create an inter-factional conciliatory group which would work out the final text of the resolution.

The debate surrounding the text evidently revealed the struggle of political interests between those aiming to make the document more aggressive, and those striving not to embarrass Moscow on the eve of the CIS summit. As a result, on March 20 the parliament adopted a political statement underlining the inefficacy of Russian-held peacekeeping operation, but not calling for their immediate removal. According to the statement a working group will be created for elaboration of the state policy on conflict resolution, and preserving of country's sovereignty and territorial integrity for the near future. The statement designated April 3 as a special parliamentary session devoted to the Abkhaz issue. In another statement the parliament called for the cessation of the hunger strike undertaken by the faction 'Abkhazia'.

On March 21, a rally of refugees in the center of Tbilisi gathered an estimated 10,000 participants. Though the gist of the parliament's statement was not fully supported, the coordinating council asked hunger-strikers to end their strike. Mr. Patsatsia stated in a news-conference that the faction had decided to return to parliament in order to work for materialization of their demands. Only MP, Boris Kakubava continued to strike independently. He threatened to organize mass actions of civil disobedience if an April 3 session failed to promote a resolution of the Abkhaz conflict.

The gains made by the Georgian delegation during the CIS summit in Moscow found a negative response at home with domestic opposition. The "Popular" faction submitted to parliament a draft concept on further political development in Georgia. This document appeared to lay the groundwork for the anticipated parliamentary debate.

**ECONOMIC POLICY.** On March 2, the president issued a decree outlining specific target goals concerning the national economy for the nearest future. They include state-launched measures for development of small business, the improvement of the budget revenue, the switching of all state-funded agencies to funding through the treasury, a reduction of the number of strategic industrial units with state-owned controlling stakes, the accelerated liquidation of license-deprived commercial banks, the abolition of non-registered enterprises and business activity, and the urgent elaboration of the new bill "On Statistics". The decree outlines measures to provide alternative energy sources from other countries while the Enguri hydropower station is under repair.

The alarming trends appearing in the fulfillment of the state budget for January-February was the leading topic of a government meeting on March 12. According to the Minister of Economy Vladimir Papava the failure of "power" ministries to promptly repay their debts to the enterprises combined with the corruption of state bodies reminiscent of "rackets" have put some economic units on the verge of bankruptcy. Mr. Shevardnadze who assessed the tax collection situation as close to an "emergency", nevertheless announced that beginning in July the salaries in state-funded bodies will raise by 25- 30%. The meeting committed the government to provide for the collection of energy debts even though by only 70%.

In a March 26 meeting of the government it was announced that only 87.2% of the expected 1996 state budget revenue had been fulfilled. The state budget took in 293,5mln laries (\$229,2mln.) instead of the target 366,8mln(\$287mln.). The failure to take in 100% was reportedly due to tax-evasion both by individuals and economic entities, the stagnation of industry, a worsening foreign trade balance, and the extremely high customs duties on some imported goods. According to the Finance Minister David Yakobidze the invalid taxation policy has already led to the bankruptcy of 80 small and medium enterprises this year. Mr. Shevardnadze put the improvement of the country's fiscal policy on par with vital state security issues, and without affecting the government's current authorities, decided to entrust the National Security Council with more power to assert needed control in this sphere. He also called for an urgent improvement of statistics and accounting. Mr. Shevardnadze named as the "nation's enemies" the forces both delaying the attraction of foreign investments to Georgia, and the forces using the foreign investments a source of illegal profit. According to Mr. Shevardnadze the only threat Georgia currently faces is a "social explosion", and pledged that the government would do its utmost to prevent it.

Information concerning the possible rise of retail bread prices was rapidly spread by media and provoked a wave of negative public attitudes. The prices were expected to increase because authorities increased the VAT rate for imported cereals from 10% to 20%, and imposed heavy tax duties on small private bakeries. According to the experts, this would result in an estimated 30% increase in retail prices. However, at a March 17 session of the National Security Council Mr. Shevardnadze stated that the price of bread must not be raised due to the severe social conditions of the population, and ordered the regulation of taxation on imported cereals.

The parliamentary debate over the bill "On Value Added Tax" (March 4-7) was marked by the lobbying of tax privileges for the importers of oil, pharmaceutical supplies, and cereals. The bill exempted from VAT --Georgian transit fees, reimport operations, and publication and distribution of press materials. The bill -- in line with IMF recommendations --

enlarges the list of economic and business-like activities subject to VAT payment. The bill also systemizes the rule of VAT calculation, and imposes the VAT -duty on non-resident physical and legal entities operating in Georgia. The bill which was approved by the second reading is expected to be put in effect no earlier than June 1, 1997 - the IMF fixed deadline to have the new tax code completely approved.

The parliament has approved three more chapters of the yet unapproved Civil Code, and has started committee hearings of the draft bills "On Citizens' Political Organizations", "On Private Arbitrations", and "On Refugees".

**CORRUPTION.** The struggle against corruption remained actual and judging by all indications reflected an ongoing power-clash.

On March 7, at a session of the National Security Council, Eduard Shevardnadze urgently pointed out the need for the elaboration of legislative framework for the struggle against corruption, and called upon the council for closer cooperation with the parliament's anti-corruption commission. Mr. Shevardnadze called for a special investigation into the misappropriation of a \$50mln credit from Turkey and into financial abuses in the sphere of foreign investment. Mr. Shevardnadze underscored signs of the politicization of the criminal world, and claimed to have evidence of persons using stolen foreign capital to serving their own political goals. The session outlined measures designed to aid against the increased smuggling of forged foreign currency into Georgia.

At a March 10 meeting of the Security Ministry Board, Minister Shota Kviraya did not exclude the use of special listening devices to help expose corrupted officials. He criticized the current law banning law-enforcement bodies from obtaining information from banks concerning the commercial activities of suspected legal entities, as impeding the receipt of operative information. Mr. Kviraya pointed to the personnel, credit policies, legislative lobbies, and the biased conduction of tenders as the heaviest sources of corruption. He also demanded a strict definition and outline of the functions of law-enforcement bodies

The Custom Department reputation was shaken by the arrest of security General Yuri Keshelava, the head of Poti sea-port's custom's service, on charges of involvement in large scale illegal cigarette import operation from Bulgaria. According to some sources Mr. Keshelava's arrest may lead officials to his alleged influential government backers. Other sources regard Mr. Keshelava's "sinking" as the work of competitors, as the illegal cigarette business appeared to be one of the most lucrative in Georgia.

Responding to charges of corruption delivered last month by MP, Irina Sarishvili-Chanturia against Interior and Security Ministries, the Control Chamber denied having any evidence confirming the charges. Nevertheless, the Control Chamber claimed to be prepared to investigate all evidence presented in association with the case.

On March 16, the Minister of Communications Fridon Injia announced a system whereby telephone users would be ordered to pay for phone conversation time exceeding 300 minutes. The announced charge was 1 tetri (0,7cent) per minute for each minute exceeding the allotted 300 per month. The population was not notified of this change in a prompt and timely fashion. According to experts, because of the lack of oversight inherent in this charging system, the potential for invalid charges could easily allow profit from extra charges. The parliament regarded the order as one which would provoke social discontent. Mr. Shevardnadze assessed Mr. Injia's action as a "grave political mistake", and canceled it.

**STATE-BUILDING.** The parliament passed the bill submitted by the Ministry of Justice "On Structure and Operating Regulations of the Executive Power" by the second reading. The bill divides executive power into governmental and institutional bodies, specifies the range of duties administered by the leaders of these bodies, and regulates their law-making work. The bill makes the leaders of autonomous republics a part of Georgia's executive power, while they continue to operate within the bounds of both Georgian, and local constitutions. The parliament strongly opposed one aspect of the bill – the reestablishment of the Ministry for Industry and despite the IMF's negative attitude, postponed the approval of this point.

At a March 17 session of the National Security Council Mr. Shevardnadze stressed the need for the urgent adoption of the law "On State Border" (the adoption of this law is strongly opposed by Moscow). He claimed that this would clearly define and outline the exact mandates of Georgian based Russian border units (see "**Foreign Relations**"), and strongly reprimanded the Border Department and its head Valeri Chkheidze for passivity. The session also specified measures for the development of a Georgian Institute for Cosmic Studies and its military uses.

The state medical insurance system began operation on March 1. The state-funded expenses for medical services have been increased to 18 laries (\$13.9) per capita as compared to 65 tetrils (50cents) three years ago. According to a decree issued by the Tax Service, henceforth all permanent residents of Georgia must present a mandatory declaration of incomes to tax agencies. Failure to present this income declaration could result in legal prosecution.

**MILITARY NEWS.** Colonel Otar Chkhartishvili, 47, took command of the Georgian Navy on March 10. Until recently he has served as Deputy Chief of Staff of a rocket cruisers group in Russia's Northern Fleet. The Georgian Navy has been bolstered by the acquisition of a patrolling ship gotten from the Ukraine as a part of the former Soviet Black Sea Fleet.

During exercises held on March 17-18, Georgian air combat units mastered the task of destroying of air targets by anti-aircraft guns under terms of alert.

According to knowledgeable sources, the obscured withdrawal of Russian units from Georgian territory was observed throughout March. A battalion of paratroopers based in Gudauta (Abkhazia) departed for native Samara. A portion of heavy armored vehicles stationed in Russia military bases in Vasiani, Alekseevka, and Akhalkalaki continued to depart for Rostov – where in the near future, the Tbilisi based military intelligence body (GRU) of the Grouping of Russian Troops in Transcaucasus (GRTT) is to be moved. The GRTT staff of chief officers has reportedly reduced from 300 to 60. GRTT's commander-in-chief Lt.General Fiodor Reut is rumored to be involved in a recent Russia to Armenia arms-smuggling operation and faces dismissal. The Commander in Chief of Russia's Transbaikal military district, General Vladimer Andreev, is said to be his most probable successor.

**REGIONAL POLICY.** The Parliament's Committee for Regional Policy and Self-Government has rejected a draft bill on local self-government submitted by the Ministry of Justice. Political parties preparing for regional elections scheduled this fall were long awaiting the signing into law and implementation of this bill. According to legislators the main shortcomings of the draft were that it granted excessive powers to president-appointed local executives allowing them to control many spheres within the elected self-government bodies. Another ground for rejection of the draft was its poor definition of the functions of the regional administrative powers.

According knowledgeable sources, the situation in Javakheti, a region of Georgia bordering Armenia and densely populated by ethnic Armenians, remains tense. A pro-Armenian marginal organization "Javakh" operating in the region has intensified propagation of the idea of a plebiscite for either unifying the region with Armenia, or obtaining the status of a federated subject within Georgia. According to the newspaper "7 Dge" (7 Days) an estimated 80 Armenian tanks have mobilized on the Georgian-Armenian border. Officials remained tight-lipped on the situation in Javakheti. On March 19-20, the Security Minister Shota Kviraya visited the region and met with local security officials. Mr. Kviraya reprimanded these local security officials for poorly supplying him with operative information on the Javakhetian situation.

## SOCIETY

The Court has sentenced Kukuri Tchkoidze 44, to the death for the premeditated murder of three persons in 1994. This is the second death penalty sentence this year, despite the moratorium on capital punishment introduced by parliament in December last year.

The Court found Taniel Abuashvili, Georgia's former chief military commissioner, not guilty and released him from custody. Mr. Abuashvili was arrested in June last year on charges of office abuse, illegal arms-keeping, and complicity in the assassination of one of his subordinates by hiding the crime. Mr. Abuashvili maintained that he was a victim of a plot.

On March 4, Vakhtang Alania 43, the chair of Vake-district court was found shot dead in his private apartment. According to one unofficial version he committed suicide on the grounds of financial litigation for an unpaid debt of \$5000.

The competition between two major cigarette import companies, "Eliz" and "Omega", has turned into a mafia-style clash. On March 14, a group of armed security and police officers recruited by "Eliz" employees captured cars owned by "Omega" which were driving to the Tbilisi airport and stole an estimated \$750,000. The police have detained the assailants, and confiscated the stolen money. The president of "Eliz" Tamaz Elizbarashvili was also arrested. According to some sources, the incident was the reflection of the clash within the powerful domestic "cigarette mafia". (see "**Corruption**").

The Supreme Court has reversed its previous decision and is allowing the resumption of broadcasting for sought after independent TV-company 'Roustavi-2'. Last year, the Ministry of Communications illegally suspended the company's broadcasting license based on appeals made by influential competitors of "Roustavi -2" who were striving to taking control of the company. Officials of the US Embassy in Tbilisi regarded the suspension as a restriction of human rights and a restriction of the freedom of media.

The well-known Russian human rights defender Sergei Kovaliov visited Tbilisi from March 8-11. He unsuccessfully tried to convince Eduard Shevardnadze to grant amnesty to political opponents of the regime. Mr. Kovaliov discussed issues of human rights with the heads of local law-enforcement bodies and local human rights groups. He spoke of the presence of an estimated 17 political prisoners in Georgia and called for respect for their rights. However, Mikhael Libal, the head of OSCE mission in Georgia said in a news-conference (March 26), that those persons could hardly be regarded as political prisoners.

Participants of the conference "Orthodoxy and Georgian Statehood" held on March 27 in Tbilisi State University were divided over the issue of whether to grant Orthodoxy a special legal status, or to declare it as the state religion. The participants unanimously condemned the reportedly large-scale penetration of other confessions and religious sects into the country. The final resolution, however, called for granting Orthodoxy only legal status. On March 24, the Patriarchy of Orthodox Church formally came out against any form of alternative military service in Georgia, an idea which was proposed by the parliament's defense/security committee. The Patriarchy predicted that in Georgia, sects which ban or forbid military service could shield youths who are striving to evade the draft.

The sixth anniversary of the March 31, 1991 referendum for Georgia's independence initiated by the then president Zviad Gamsakhurdia (ousted the same year as a result of coup) was marked by a demonstration of his estimated 1000 followers.

At their regular March 17 meeting, the VIP's of domestic business accused the government of being the puppet of the IMF in its policy to make Georgia a place of realization of overproduction from industrially advanced countries at the expense of suppressing national enterprises through a burdensome taxation policy.

The first ever "Who is Who" book has appeared in Georgia. It contains information on 500 distinguished political and public figures throughout the country.

A poll commissioned by the non-governmental agency "Dia" placed Eduard Shevardnadze at the top of the list of most trusted Georgian politicians. The poll was conducted in Tbilisi, from March 10-15, and received over 500 responses. President Eduard Shevardnadze was well ahead of the other politicians with 38.8% of the response. The NDP leader Irina Sarishvili-Chanturia won 14.2%, and the Chairman of Parliament Zourab Zhvania - 12%. The poll showed Mikheil Saakashvili, the chairman of parliament's Constitutional and Legal Committee favored at fourth place with 8.6%; MP, Vakhtang Rcheulishvili was fifth with 7.6%; next was Akaki Asatiani, the leader of the Union of Traditionalists, with 5.4%. Ghia Baramidze, the leader of CUG parliamentary faction won 4%; Mamuka Giorgadze, the leader of parliament's "Popular" faction also won 4%; MP, Shalva Natelashvili, the leader of parliamentary faction "Elector" won 3.6%, and Nodar Natadze, the leader of United Republican party was favored by 3%. Of those polled, 36.6% were undecided.

## CONFLICT ZONES

**ABKHAZIA.** The Abkhaz separatists' leader Vladislav Ardzinba opposed the decision made by the Abkhaz self-proclaimed parliament to cease all talks with Georgia, and to reject Russia as the mediator in conflict resolution. The decision of the self-proclaimed parliament is a reaction to recent terrorist acts (allegedly initiated by Georgia) and to Moscow's hesitance to lift the economic sanctions on Sukhumi. In a televised interview Mr. Ardzinba stated that he considered Russia to be the only possible mediator, and warned Tbilisi that a resumption of hostilities would lead to another military defeat of Georgia. Meanwhile, unofficial Georgian-Abkhaz consultations in Moscow on the draft declaration "On the ways of settlement of Georgian-Abkhaz conflict and strengthening of trust" appeared to be fruitless as they failed to approximate the attitudes toward Abkhazia's political status and the return of refugees. According to updated information from the Ministry for Refugees and Accommodation, in March the number of Georgia-accommodated refugees totaled 286,621.

Terrorist acts and mine wars continue to fuel the volatile Abkhazia-Georgia situation. On March 7, unidentified assailants gunned down two Abkhaz militia men in the village of Chuburkhinji located within the 12km.safety zone surrounding the Gali district which is patrolled by Russian (formally CIS) peacekeeping troops. The Abkhaz security chief Astamur Tarba charged Georgian intelligence service. On March 23, an accidental mine explosion during the mining of the road near Tkvarcheli killed two men. Russian peacekeepers at the accident site claim they confiscated terrorist equipment, and I.D. cards confirming Georgian citizenship of the. Georgian officials asserted that the deceased persons were inhabitants of an Abkhaz village -- Okumi.

Vladislav Ardzinba has addressed Eduard Shevardnadze with a public letter. He called on him to intact measures to curb the acts of violence in Abkhazia. Mr. Ardzinba threatened a full disruption of the negotiation process, and an annulment of all previously achieved agreements if such measures were not taken. He forecasted the resumption of the Georgian-Abkhaz war.

Based on secret information Revaz Adamia, the chair of parliament's defense/security committee publicly charged Russia with committing Abkhazia-based "peacekeepers" to hold active intelligence operations far inside Georgia. Adamia also exposed the Russian party in unilaterally relieving border regime at the Russia-guarded Abkhaz plot of Russian-Georgian border.

On the threshold of the CIS summit in Moscow, the Abkhaz parliament appealed to the parliaments and governments of CIS member countries. The appeal underlined the fact that Abkhazia could no longer stay within Georgian state because of the "historical roots of conflict". The Abkhaz leadership reacted sharply to the decisions of CIS summit on conflict resolution (see "**Foreign Relations**"). Shortly after the summit, the parliament's chairman Socrat Jinjolia told "Interfax" that Abkhazia will never allow the realization of those decisions. An estimated 2000 Abkhaz participated in a rally held in front of Sukhumi University, demanding that the government cease peace talks, and remove Russian mediators. The Abkhaz armed forces were placed on alert.

Judging by all indications, the OSCE is expected to emerge as an active player in the resolution of an Abkhaz -Georgian conflict. At a March 6 session of OSCE permanent council in Vienna, the head of OSCE mission to Georgia, Mikhael Libal, called for a more active participation of OSCE in the peace talks, while still remaining in accordance with the UN. Some observers interpreted in his speech the insinuation that the UN team in Georgia does not use its mandate to full range.

The settlement of conflict in Abkhazia was one of the main topics of closed-door talks between Voitsekh Lamentovich, the vice-president of OSCE parliamentary assembly, and Georgian and Abkhaz leading officials from March 15-22. On March 25, a delegation from the Council of Europe's parliamentary assembly led by Jackue Satlinger negotiated with Georgian and Abkhaz officials about the mechanisms for conflict resolution. The delegation found evidence of ethnic cleansing in Abkhazia. Mr. Satlinger assessed the situation in the region as an "observed war". In Tbilisi the parliament's chairman Zourab Zhvania called for more a active involvement of European political bodies in the conflict settlement. He told the delegation that Abkhazia will receive wide autonomy, and in the parliament's upper chamber (to be established after restoration of territorial integrity) an Abkhaz deputation will be granted the right of veto on all Abkhazia-related issues. Mr. Zhvania's proposals, however, met a cool respond in Sukhumi.

**TSKHINVALI (former South Ossetia).** Russia-mediated Georgian-Ossetian talks under the auspices of OSCE held March 4-5 in Moscow resulted in a joint statement and signing of the memorandum "On Providing of Security". According to Russian mediator, Deputy Foreign Minister Boris Pastukhov, the parties have elaborated a "mutually acceptable formula". According to the statement, a group of experts will make a legal assessment of the events which took place in the region from 1989 to 1992, and will work over the region's political status. The memorandum implies the recognition of Georgia's territorial integrity by "South Ossetia", and grants this region special status for national self-

determination. It also pledges to the parties the promotion of economic rehabilitation in the region and the repatriation of refugees. Peacekeeping troops will remain in the region until full resolution of the conflict. All peace arrangements are to be monitored by OSCE. The next negotiatory session is scheduled for July.

The influential ultra-nationalist South Ossetian organization "Adamon Nikhas" qualified the memorandum as the betrayal of the national idea of unification with North Ossetia. Ludvig Chibirov, the "president" of self-proclaimed "Republic South Ossetia" told local media that the talks will show whether the region would remain a part of Georgia. He also charged Tbilisi with failure to give relevant economic assistance to the region.

Many political parties in Tskhinvali consider the recognition of Georgia's territorial integrity as a concession to Tbilisi, and reportedly await that in response Tbilisi will yield by making the border with North Ossetia (Russia) more transparent.

No progress was observed concerning the issue of the repatriation of refugees and their safety. Tskhinvali authorities consider only ethnic Ossetians as refugees, and still refuse to regard the Georgians ousted from the region during the conflict in this capacity. Meanwhile, the mixed control group supervising the peacekeeping process have agreed to the gradual reduction of the check-posts in and around the conflict zone. By March 30, the number of check-posts was reduced from 26 to 15. These posts are controlled by Georgian-Ossetian police groups. Meanwhile, according to local sources, the grave criminal situation, and still pervasive ethnic intolerance makes the repatriation of refugees very problematic.

## FOREIGN RELATIONS

**RUSSIA & CIS.** An intense dialogue between high-ranking Russian and Georgian delegations preceded the CIS summit. On March 5, MP, Vakhtang Rcheulishvili, leader of the parliamentary faction "Majoritarian" and reputed as one of the most pro-Russian politicians, met the Secretary of Russia's Security Council, Ivan Rybkin in Moscow and reportedly enlisted his support in lobbying Georgian interests. In addition, Mr. Rcheulishvili organized the March 7-9 visit to Georgia by the delegation of Russian State Duma led by the Deputy Chairman of Duma Mikhail Gutseriev. The Duma-elaborated proposals on the creation of a common Caucasian assembly, joint economic projects, CIS integration, NATO's expansion, and the ways of conflict resolutions were on the agenda for the talks with President Shevardnadze and other officials. Georgian negotiators underlined that four years of Georgian independent statehood has confirmed its possibility of existence even without close links with Russia. The parties, however, failed to find common ground on most of the issues under negotiation. Mr. Gutseriev criticized the hunger-strike of deputation from "Abkhazia". Vakhtang Rcheulishvili, nevertheless, considered the invitation of Mr. Gutseriev as one more attempt to find pro-Georgian lobby in Moscow. In the follow-up news-conference Mr. Rcheulishvili called for Tbilisi concessions to Moscow, specifically noting the Moscow-claimed 25-year Russian military presence in Georgia.

On March 11-13, at the invitation of Duma's faction "Russia is our House" a delegation from ruling party Citizen's Union of Georgia (CUG) surveyed the most painful issues of bilateral relations in Moscow with a wide specter of Russian political establishments. The visit did not bring any specific positive results. The Russian party was told that if Moscow fail to relinquish its "double standards" policy toward Georgia, the latter would reorient its foreign policy priorities.

From March 21-24, in the alpine health-resort Gudauri, Georgia hosted a bilateral inter-parliamentary seminar on the topic "The State of Russian-Georgian Relations and the Prospects of their Development". The resolution of conflicts in Abkhazia and Tskhinvali dominated the agenda. Some members of the Russian delegation, led by the First Deputy Chairman of Duma Alexander Shokhin, regarded as politically invalid the full repatriation of Georgian refugees to Abkhazia which would place Abkhazians again in the condition of ethnic minority. The Georgian party turned down the Russian proposal for the reopening of railway mains via Abkhazia under the control of Russian units, citing this proposition as a means for generation additional sources of income for separatists, hence diminishing the strive for compromise. The Russian delegation also directed Georgian attention to unpaid debts to Russia totaling \$4,5 mln (by Russian calculations), and suggested that Georgia pay the debt through by transferring part of the shares of Georgia's main industrial units to Russia. The head of the Georgian delegation Zourab Zhvania charged Russian authorities with artificially delaying the extradition Georgia's former security supremo Igor Giorgadze who fled to Moscow. He assessed current Russian-Georgian relations as a "Cold Peace", and again warned on undermining strategic partnership if Moscow's policy in Georgia remain unchanged.

The attempt of Russia to control Georgia's external borders not only worsened bilateral relations, but also introduced problems with other countries. On March 12, the intrusion of five Turkish seiners into Georgian territory resulted in the killing of one Turkish fisherman by a Russian border guards who fired at the seiners. Tbilisi was not immediately notified of the border accident. Turkey delivered a protest note, and declared that accident would be considered only with Georgian side.

During the March 7 talks in Tbilisi between Armenia's Foreign Minister Alexander Arzumanyan and his Georgian counterpart Irakli Menagarishvili, the absence of mutual territorial pretensions was officially declared. The visit was slightly clouded by the political passions that erupted over the situation in Javakheti (see "**Regional Policy**").

Searching for ways of rapprochement between the Caucasian states remained actual as shown by the materialization of Shevardnadze's initiative "For Peaceful Caucasus" forwarded in February last year. Shevardnadze decreed to transform the State Bureau for Cooperation with CIS states into the State Bureau for CIS and "Peaceful Caucasus" under Teimuraz Mosiashvili. On March 11, the presidential commission "Peaceful Caucasus" (established January 31, 1997 under Shevardnadze's decree) conducted its first meeting. The commission headed by presidential chief aide Gela Charkviani, and staffed by politicians and intellectual elite was designated as one important instrument in negotiations. The commission's foremost task is the creation of information bank on the Caucasus.

Shevardnadze-commissioned Defense Minister Vardiko Nadibaidze visited Ingushetia (North Caucasus) March 14-15. The visit was held within the framework of "Kislovodsk Declaration of Four" (Georgia, Armenia, Azerbaijan and Russia) and was supported by Moscow. In the city of Nazran Mr. Nadibaidze met President Rouslan Aushev of Ingushetia, and with Chechen president Aslan Maskhadov who had arrived for special talks. Both Caucasian leaders backed Mr. Shevardnadze's idea "For Peaceful Caucasus" and affirmed support for Georgia's territorial integrity. Mr. Maskhadov reportedly regarded the previous Chechen support to Abkhaz separatists as a mistake, and pledged not to repeat it. Mr. Nadibaidze assured him that no Russian units would be deployed along the Georgian-Chechen border (presently, the border is guarded only by Georgian units). Commenting on the results of the visit in his traditional Monday radio address March 17, Mr. Shevardnadze said that "some forces and circles" strongly oppose the idea "For Peaceful Caucasus". He stated that Georgia would not be a passive observer if the situation deteriorated.

On March 3, in his traditional Monday radio address, Eduard Shevardnadze warned the country against excessive hopes from the upcoming CIS summit on the settlement of the Abkhaz conflict. Meanwhile, the anonymously published article "CIS - beginning or the end of history" published March 26 in "Nezavisimaya Gazeta" (later understood to have been written by well-known Moscow politologist Andranik Migranian, and a hawkish politician Konstantin Zatulin) considered the bolstering of separatist trends in some Georgian regions, and thereby the instability in the country, as the only way of keeping Georgia into the Russian fold. The article further clouded Russian-Georgian relations, and even threw into the doubt the visit of Mr. Shevardnadze to the Moscow CIS summit. At the meeting of CIS foreign ministers, the Georgian delegation delivered an official protest to the Russian party. In a special statement the Georgian presidential press-service appraised the article as part of a doomed pattern of imperialist mentality, undermining CIS unity.

On the eve of the CIS Summit Mr. Shevardnadze confidentially consulted with the heads of parliamentary groups the documents to be submitted at the summit. The heads of parliamentary groups reportedly unsuccessfully tried to make stricter Georgian demands on the Abkhaz issue. According to the Georgian draft resolution a 12km. safety zone to be guarded by Russian (formally CIS) peacekeepers would encompass the entire Gali district. Implementation of this safety zone would imply the re-deployment of peacekeepers from the Enguri river far inland into Abkhaz territory (to the river Ghalidzga). According to experts, this will allow the withdrawal of Russian units from the Western Georgian region of Samegrelo, and would facilitate the eventual repatriation of refugees. Additionally, this would assist the Georgians in regaining control over Gali and neighboring sites. In his March 17, traditional radio address Mr. Shevardnadze warned that if during the CIS summit the Georgia-submitted draft was not approved, there would be no sense in the further presence of "peacekeepers" in Abkhazia.

The summit held on March 28 approved the Georgian draft "On Widening the Mandate of CIS Peacekeeping Forces in Abkhaz Conflict Zone". It was decided that the mandate of the peacekeeping forces in Abkhazia would be continued until July 31, 1997. The leaders of the peacekeeping forces in accordance with parties are advised to prepare a plan for the re-deployment of troops and the repatriation of refugees. The next document on Abkhazia approved by the summit on the ground of OSCE's Lisbon summit's declaration had admitted the ethnic cleansing of Georgians in the region, and mandated CIS member states to follow the decisions of January 19, 1996 CIS summit imposing strict economic and political sanctions on separatist regime of Abkhazia (see more "**Conflict Zones**").

At the summit Georgia refused to join the Russia-initiated agreement on "Integrative Development of the CIS" envisaging the unification of customs, investment and taxation systems leading to supranational bodies. The proposal concerning the creation of common economic zones within bordering regions while the country's territorial integrity remains unrestored, was also turned down. Mr. Shevardnadze and President Yeltsin of Russia twice conducted tête-à-tête talks mainly centered on Abkhaz conflict and oil issue.

**EUROPE/USA.** During the second week in March, Zourab Zhvania led a parliamentary delegation to the USA. During his visit, Mr. Zhvania expressed concern over the possibility of a "quid-pro-quo" policy between the West and Russia giving Moscow control over post-soviet countries in exchange for NATO's eastward expansion. He also discussed

many issues about the protection of rights of USA-indicted Georgian diplomat Giorgi Makharadze, and reminded American officials to take Georgian public opinion into account on this case. The March 13 meeting with the UN Secretary-General Kofi Anand was promising because of the proximity of views on two issues dealing with Abkhazia -- the inefficiency of the Russian peacekeeping operation, and the activation of the UN's role. The Georgian delegation demanded the replacement of UN mediator in Abkhaz conflict resolution talks Eduard Brunner citing his invalidity.

A delegation of US State Department officials led by Deputy Director of its Political-military Bureau Eric Newsom negotiated March 15-16 with Georgian officials on a wide range of security issues. Georgia's share in NATO's PFP program, and fulfillment of CFE were discussed in particular. The divisive issue was reportedly the transference to Russia of Georgia's CFE-required quotas of arms. Georgia was called to assert control over arms exports. The resolution of the Abkhaz conflict was also discussed.

Meanwhile, on return from the Brussels-held NATO seminar "On Security and Russia's Policy in Caucasus" the chair of the parliament's defense/security committee Revaz Adamia publicly aired the disappointment of NATO officials over Georgia's contribution to NATO's PFP program. During the past year, out of 100 PFP arrangements Georgia participated in only 16.

On March 3, Mr. Shevardnadze negotiated a wide range of bilateral and international issues with Turkish parliament's group for friendship with Georgia led by Suleiman Fatinoglu. The talks were centered on boosting joint economic projects within the context of development of Caspian oil transit via Georgia, and Eurasian transport corridor. Mr. Shevardnadze called upon Turkey to play a more active role in the resolution of an Abkhaz conflict. In Moscow this move was regarded as attempt to supplant Russia as key player in Abkhaz issue. On March 15, the hawkish deputy chair of Russian State Duma Sergei Baburin publicly claimed to have evidence that 150,000 Turkish servicemen and 600 tanks were moving to the Georgian-Turkish border. Both Georgian and Turkish parties officially denied this allegation.

The Embassy of Israel in Tbilisi denied media rumors that it was closing allegedly for quick reduction of the number of Georgia resident Jews. According to official data nowadays Georgia is resided by 15,000 Jews.

**FOREIGN ECONOMIC RELATIONS.** On March 25, the World Bank decided to allocate soft-credit of \$26.3mln. with interest rate 0.75%. The credit will be put towards the creation of updated land registration systems and toward the agricultural sector's credit network.

The president of the European Bank for Reconstruction and Development (EBRD) Jac L'arozie familiarized himself with the pace of reforms in Georgia on March 18-21. The talks with local officials resulted in EBRD's decision to open credit lines worth \$12 mln. for two more national banks "Tbilicreditbank" and "Absolutbank". The EBRD has approved the project worth 40mln. ECU for funding three priority spheres -- banking, transport, and energy.

On March 6, an IMF delegation under Mokhamed Shadman Valavi completed its visit to Georgia. The purpose of the visit was to survey the government's performance in IMF-funded reform programs. While meeting parliamentary factions, Mr. Valavi was told of parliament's dissatisfaction with the results of IMF-government interactions which do not adequately take into account the interests of domestic businesses -- specifically within the sphere of taxation. Mr. Valavi called for an acceleration of the reformation of the tax and custom's systems.

The regulation of tariffs, pricing, the acceleration of privatization of small and medium enterprises, and the payment of energy debts were the main remarks delivered to the Georgian government by World Bank (WB) representatives Vafik Greiss, and Michel Ribu at their March 10 meeting with President Shevardnadze.

## **THE ECONOMY**

**CURRENCY/BUDGET.** Within the month the exchange rate of the national currency lari to the US dollar was fluctuating from 1,28 to 1,29. According to the experts the maintaining of lari's stable course has become possible due to steadily growing "dollar" interventions launched by the National Bank (NB) at the trading sessions of Tbilisi Interbank Currency Exchange. That information was indirectly confirmed by the NB officials. The stability of lari is expected to be secured for the immediate future, as on March 21, the IMF has approved the next tranche of \$80mln. out of ESAF credit worth \$240mln. allocated to support Georgian government's reform programs for 1996-98.

At the beginning of the month the pace of tax collection appeared to be hopeful. The average daily revenue to the central budget totaled 700,000 laries (\$546,875), 1,5 times as much as in January-February. The total state budget for the first quarter has been fulfilled only by 80%. The total revenue including foreign grants made up 92mln laries (\$71mln) against target 114mln (\$88,3mln). For this period the mobilization of tax payments to the central budget made up 12mln laries (\$9,3mln) instead of target 34mln (\$26,5mln). By the end of the month the state's debt in payment of overdue

allowances, the pensions in particular, totaled 19mln. laries (\$14,7mln), and the debt is expected to be raised as in many regions the allowances for January-February still have not been repaid.

**BANKING SECTOR.** After completion of the NB-launched certification in Georgia 47 commercial banks operate. The NB decree dated January 31,1997 and reportedly initiated by big banks has specified the minimal amount of commercial banks' charter capital by 2001, to be equal to 5mln. laries(\$3,9mln). Some experts regard that move as one more nail in the coffin of small commercial banks. In order to survive many of them are expected to amalgamate, or address foreign investors, and thus contribute to expansion of foreign capital at a local market. Some big commercial banks (privatized state banks) chiefly headed by Soviet-era bankers assertively claim protectionist measures from the government in order to secure the national banking sector. But the final hour has likely come to some of them. On March 26, one of the biggest state-commercial bank "Gulani" has been dissolved. The other giant bank "United Georgian Bank" has already closed its 36 branches, and the "Agrobanki" who has been under the NB's audit also faces the profound reorganization.

Meanwhile, Mr. Shevardnadze has at last approved nine nominees to the NB's council to be run the NB for the next 7 years.. The staff was reportedly conciliated between contending major financial groupings spearheaded by the NB president Nodar Javakhishvili on the one hand, and the chair of parliament's finance-budgetary committee Zaza Sioridze on the other. The new staff is to be confirmed by the parliament the next month simultaneously with the NB's account on 1996 fiscal year.

**PRIVATIZATION.** According to official sources, of 9,307 economic entities subjected to privatization, 9,267 or 99,6% have already been privatized. They include 3,664 commercials, 3,736 units of everyday service, 309 industrial, and 78 transport units, 215 construction units, 163 oil-product enterprises, 496 units of health-care, and 365 in social sphere. However, only 10-12% of shares of privatized entities are under private ownership. About 70% of shares are still state-owned. The state still manages controlling stakes in 700 joint-stock companies. The results of recent sessions of cash auctions showed share-managing as unsatisfactory. Out of 23mln shares of 233 joint-stock companies only 570,000 (2,5%) have been sold. According to the decree of the Ministry for Managing of State Property the economic entities with 50% of unsold shares are to be transferred under the management of regional bodies.

In the meantime, the government has already selected those strategic units where the state will keep controlling stakes. In order to boost the privatization process, the attraction of foreign investors is on the agenda. The European Bank for Reconstruction and Development (EBRD) is highly likely to be one of them (see more in "**Foreign Economic Relations**").

**ENERGY/TRANSPORT.** On March 12, the railway transportation route of Kazakh oil from the Tengiz oil-bed through Georgia and Azerbaijan was resumed. The first portion - 2400 tons of oil has already arrived in Batumi sea-port for further shipping. The annual profit from this route of oil transit is estimated as \$15 mln. Though Georgia's role as a "transit country" depends to a large degree on its transportation sector, the sector has appeared to decline during the last two months. According to the Transportation Ministry, during January and February no sea shipping was launched because of planned reparation to vessels. The efficiency of rail and road freightage was also far below the required level.

The reduced power supply from Russia and Azerbaijan, the low water levels in most hydro-power plants, and the exhausting reserves of fuel for power units, combined equally with the chronic nonpayment of energy debts appeared very detrimental to the energy sector this month. Though negotiations with alternative power suppliers are underway, the forecasts for April remained pessimistic. In mid April the largest Enguri River power plant will be stopped for at least three months for urgently needed repairs.

**INVESTMENT.** After a three month disruption the first investment has appeared thanks to Turkish company "Turkcell". Through the establishment of the joint venture "Geocell", the company has invested \$6mln (plus \$3mln. as a separate technical credit) toward the creation of cellular telephone communications network. Thus, "Geocell" has appeared as serious competitor for "Georgian Megacom" which has monopolized the mobile communications field to date. According to official sources, the amount of foreign investments in Georgia currently totals \$100mln. The communications industry still remains the most attractive sphere for foreign investors striving for footholds in the national economy.

**MANPOWER ISSUES.** In March the number of registered jobless persons totaled 90,000. The monthly unemployment rate has not been registered for the last three years. The number of job seekers has been increased by 1.3 times as compared with the last year, and by 1.2 times in comparison with last month. This month the official rate of unemployment was 4.9%. In March 10,700 persons have received unemployment benefit - 8 laries(\$6) per capita..

**SOURCES:** Agencies: *BGI-press*, *“Iberia”*, *“Iprinda”*, *“Alioni”*, *“BS-Press”*, Newspapers: *“Resonansi”*, *“Alia”*, *“Akhali Taoba”*, *“Droni”*, *“7Dge”*, *“Meridiani”*, *“Dilis Gazeti”*, *“Svobodnaya Gruzia”*, *“Sakartvelos Respublika”*. TV: The first channel: *Morning News* *“Alioni”*, *News-program “Matsne”*, *News-program “Kvishis Saati”*. TV-company *“The Second Channel”*: *“Information Program”*, *“A Weekly Analytical Program ‘Time-Out’”*.

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