Lithuanian ministers resign over terms of US buyout of state oil refinery

Steve James
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Valda Adamkus, Lithuania's Conservative president, approved a new list of government ministers on November 5—one week after the dramatic resignation of three ministers.

Prime Minister Rolandas Paksas, Finance Minister Jonas Lionginas and Economics Minister Eugenijus Maldekis resigned after the government failed to extract better terms for transferring control of the country's major oil refinery to America's Williams International. Williams is owned by Fortune 500-listed MAPCO.

Conservative Andrius Kubilius was appointed prime minister. Valentinas Milaknis, the former director of an information technology company, was made economics minister. The new finance minister is American-Lithuanian Vyautas Dudenas, former vice-president of the US Municipal Bond Assurance Corporation and founder of the Lithuanian Stock Exchange.

The transfer of the Mazeikiu Nafta state oil refinery to Williams had been under negotiation for 18 months. Under the deal, Williams is to take a 33 percent stake and operational control of Mazeikiu Nafta. It will also have an option to buy a majority stake over the next seven years.

Paksas, Maldeikis and Lionginas agreed these arrangements but a crisis erupted over the condition that the Lithuanian government spend 1.4 billion litas ($350 million) modernising the refinery and allow it to borrow money on the international capital markets.

Williams also refused to moderate its demands on the government to honour existing loans to Nafta and extend new loans for two years.

On October 18 Paksas appeared on three TV channels announcing his opposition. "Lithuania has such money. However, that's all she has," Paksas said. His stance was supported by the opposition Social Democrats, the president of the Industrialists Confederation, leading clergy and academics. Two thousand students demonstrated outside parliament against the deal.

The impact on Lithuanian state spending can be judged by comparing the 1.4 billion litas loan to Williams, against the entire 1999 state budget of 7.21 billion litas. In October the government had already agreed to cut 450 million litas from public spending.

Warning of a state financial crisis, the director of the Lithuanian Banking, Insurance and Finance Institute told the *Baltic Times*, "There is no money and no financial sources.... The state's ability to borrow from the international market is now more difficult. The Williams deal just brought these problems [into the spotlight]."

"It's not all caused by the Russian crisis. But the Russian crisis [last year] did come while this economy was weak. The next half year will be difficult.... Now Lithuania is in something similar to the Russian crisis."

Nevertheless, the majority of the Conservative government and party, including the country's leader at independence, Vyautas Landsbergis, insisted that the deal must go ahead.

Immediately on his appointment, Dudenas said that repayments promised to small investors who lost money in the state bank during the hyper-inflation of the early 90s would be delayed. The government's priorities, he continued, would be to push through new privatisations and the restructuring of energy, transport and the two state banks. The measures effectively place the cost of the Williams deal on the backs of Lithuanian workers.

Last year privatisation of 344 companies netted the Lithuanian government $582 million. A further 600 were planned for this year. In addition to Mazeikiu Nafta, major insurance, shipping, cable making and tourist facilities are to be sold off. Nafta is one of the most modern refineries within the territory of the former Soviet Union, with the capacity to process 8 million tons of oil annually. To be internationally competitive, however, the complex is severely in need of investment.

Much of Nafta's problems lie in the fragmentation of the former Soviet energy supply network. The once integrated distribution systems are either in disrepair, or are controlled by rival corporations. The power generation systems of the Baltic republics of Estonia, Latvia and Lithuania were highly integrated. Estonia used to export 5.5 terrawatt-hours of power to Russia and 5.2 billion kilowatt-hours to Latvia, but in 1998 it exported a mere 4.1 million kilowatt-hours to Russia and 1.2 million to Latvia.

Access to the Mazeikiu Nafta terminal has became a hotly contested issue among the Lithuanian government, Williams, and the Russian oil company LUKoil. Three times over the past year LUKoil has cut supplies to Nafta in pursuit of its own bid to buy 33 percent of the plant. On other occasions LUKoil has offered to supply Mazeikiu Nafta with as much as 6 million tons. At present LUKoil is the refinery's only source of crude oil. While Williams are anxious to find alternative sources, they cannot easily replace such an immense volume of oil.

There are suggestions that LUKoil's threats were also intended to remind Lithuania of Russian opposition to its attempts to join NATO.

Lithuania lies on the rail routes between Belarus and the EU, as well as on the North-South rail route between Scandinavia and central Europe.

The country also has a well developed transport infrastructure. It has been making efforts over the last period to join NATO and the European Union. It has just made ex-US Army Colonel Jonas Kronkaitas the new head of the Lithuanian army.

The conditions of the Lithuanian population continue to deteriorate. Within two years of independence in 1991, most workers had been impoverished through triple digit inflation and gross domestic product had collapsed by 42 percent. By 1993 large-scale privatisation and price hikes meant that the top 10 percent of the population owned 28 percent of the wealth, against the 3.4 percent owned by the bottom 10 percent.

By 1997 foreign investment had flooded into the country—56 percent from the EU—attracted by the highly educated but low paid workforce. Some 58 percent of adults have a university degree, but the average wage was just $200 a month. Even this low average conceals the fact that fully 61 percent of people were living on less than $87 a month. The basic state pension is only $35 a month. Unemployment is currently around 9 percent, although some estimates are as high as 16 percent. The average child mortality rate has risen by 40 percent and the suicide rate by 64 percent, 75 percent in rural areas.