Lithuanian government resigns amidst bitter intrigues over privatisations

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Social Democratic Party leader Algirdas Brazauskas was confirmed as the new prime minister of Lithuania on July 3. His elevation, confirmed by an 84-45 vote in the Lithuanian parliament, the *Seimas*, follows the June 18 walkout of six Social Liberal (New Union) government ministers from the Social Liberal/Liberal Union coalition. The walkout forced the resignation of Prime Minister Rolandas Paksas on June 20 and introduced two weeks of a caretaker administration under Paksas' Economics Minister, Eugenijus Gentvilas. Brazauskas will form a new coalition between his SDP, the Social Liberals and smaller parties in the *Seimas*.

Underlying the government's collapse are ongoing disputes over the sweeping privatisation of Lithuanian state assets. All the major parties want privatisation to be completed, but are deeply divided over the distribution of the spoils—whether Western or Russian companies should be the main beneficiaries—and over the amount of shareholding to be retained by the Lithuanian state.

Lithuania, along with the other Baltic states and former Soviet republics of Estonia and Latvia, has no energy assets of its own, but the country straddles a nexus of political and industrial interests arising out of the changing political landscape of Europe. Lithuania borders on Russia on one side and Poland on the other and has a transport corridor kept open to the disintegrating Russian military enclave of Kaliningrad. It is seeking to join the European Union and NATO while rebuilding relations with Russia.

Over the last few years, Lithuanian politics has been largely dictated by the potentially vastly lucrative deals being cut by Western companies seeking access to Russian energy and raw materials, and Russian companies seeking to provide the same. While the majority of the working population has suffered deep impoverishment, the Lithuanian elite has sought to extract a cut of the expanding East/West traffic in oil, gas, and state property while attempting to manage the deepening social tensions their policies are creating.

Rolandas Paksas' recent career is revealing. A former stunt pilot and flight instructor, Paksas' June 20 resignation from prime ministerial office was his second in two years. In 1999 he resigned as prime minister from the conservative and free market Homeland Union government over the terms of the sell-off to Williams International of 33 percent of the Maziekui Nafta oil refinery. To some popular support, Paksas claimed that the terms of the deal negotiated with Williams, under which Lithuania would pay for substantial upgrading at the refinery, would ruin the Lithuanian state. Russian oil giant LUKoil, the sole supplier of crude oil also wanted to buy Maziekui Nafta and opposed the Williams deal. As part of its negotiation efforts it attempted to turn off oil supplies. It was suggested that the supplies were disrupted as a means of pressuring the Lithuanian government over maintaining access to the Kaliningrad enclave.

In the 2000 general elections, Paksas, now leading the equally free market Liberal Union, re-emerged as prime minister following the electoral destruction of the Homeland Union.

Ten years of plummeting living standards and exposure to the instability of the world capitalist system has provided no sign of the prosperity that was supposed to accompany Lithuanian independence and capitalist restoration. The Homeland Union, the party most associated with aggressive pro-market policies, formerly led by Vyautas Landsbergis, fell to eight percent of the vote, from 40 percent in 1996. Paksas' "New Policy" coalition of the newly formed Liberal Union and Social Liberal parties sought to continue the old policy of privatisation, along with a more aggressive push to join the European Union.

But the Paksas government became mired in controversy and scandal. In January, Lithuania joined the World Trade Organisation and immediately cut petrol duties. Subsequently, the Lietuvos Taupomasis Bankas (Lithuanian Savings Bank) was sold to Estonia's Hansapank. In April, the government pushed through a deal to sell 76 percent of the state-owned Lisco to Danish-owned DFDS Tor Line for 190 million litas (US$47 million). Transport Minister Gintaras Striaukas resigned after his wife's share in a state-favoured road repair company was revealed. Two ministers resigned after being incapacitated at EU negotiations because of hangovers. The head of the SoDra, the state social insurance fund, was charged with negligence by the tax police while the government announced that pensions would be reduced from a previous guaranteed monthly figure of 645 litas (US$191) to just 138 litas (US$41), to prop up the SoDra. Despite the difficulties this caused the government has generally kept to its timetable for EU accession.

Government policy has triggered a wave of protest. Adding to the public outrage at the attack on pensions, in March thousands of people protested outside the offices of Lietuvos Telekomas (Lithuanian Telecom) against increased telephone and heating charges. Farmers have blockaded the Polish border and launched protests to the EU against low farm prices and reduced subsidies. Sections of workers have opposed the "liberalisation" of employment law, which allows employers to more easily sack workers and change their working conditions. This law is one of the requirements of EU accession.

The main political beneficiaries have been the opposition Lithuanian Social Democrats, the largest party in the *Seimas* and most significant winners in the 2000 elections. Led by Algirdas Brazauskas, the then Democratic Labour Party (formerly the Stalinist Lithuanian Communist Party) won 51 seats. Early in 2001, Brazauskas' party merged with the Social Democratic Party of former dissidents, Aloyzas Sakalas and Vytenis Andriukaitis, to form the Lithuanian Social Democratic Party. Sakalas and Andriukaitis' party, affiliated to the Second International, has long cooperated with its former Stalinist persecutors and fully supports privatisation, as well as EU and NATO membership. To the extent Brazauskas and the Social Democrats have programmatic differences with "New Policy", they centre primarily on the proportion of state shareholding to be retained after privatisation.

Brazauskas has a long record in Lithuanian politics. He was elected as leader of the Lithuanian Communist Party in 1988. As part of the Lithuanian nationalist Sajudis movement, along with the Homeland Union, the Lithuanian Stalinists split from their Russian counterparts in 1989 and took advantage of the deep popular hostility to the Stalinist bureaucracy in Moscow due to its brutal rule in Lithuania, to push through capitalist restoration. Brazauskas, elected Lithuanian president in 1994 while his renamed Democratic Labour Party was in government, was the first leader in the Baltic states to apply for NATO membership and is a close political ally of Polish president, ex-Stalinist Aleksander Kwasniewski. Brazauskas was forced out of office in 1996, after an economic collapse that at one point saw inflation reach 400 percent. The reappearance of such a discredited figure expresses the chronic instability of Lithuanian politics and the desperate crisis of political perspective in the Lithuanian working class.

The final collapse of the Paksas government came only eight months after its formation. In early May 2001, Brazauskas and Social Liberal leader, Arturas Paulauskas, were reported to be having secret meetings in Berlin on forming a new coalition government. By early June, the first more concrete rumours of coalition splits emerged with the Lietuvos Dujos (Lithuanian Gas) sell-off and a new Mazeikui Nafta deal as the principal bones of contention. After the Social Liberal walk-out on June 20, the battle lines became clear.

Firstly, the Social Liberals, and Brazauskas favoured a deal with another Russian oil company, YUKos, which Paksas opposed. A June 26 article in the oil industry website www.baltenergy.com noted that Paulauskas considered Paksas to be speaking for an unnamed rival Russian oil company—by implication LUKoil—in his efforts to undermine a new deal. Under this agreement YUKos would take a 28.5 percent share in the Mazeikui Nafta at a cost of 253 million litas ($75 million), with another 168 million litas (US$50 million) in loan guarantees coming from the Lithuanian government. Williams International's share would be somewhat reduced from 33 percent, creating a three way partnership between YUKos, Williams and the Lithuanian government.

For their part, the Social Liberals and Brazauskas Social Democrats insisted only that an incoming coalition should not be overburdened with loan obligations. No sooner had Brazauskas given the deal the nod, than fellow party member and former dissident Vytenis Andriukaitis accused Williams of "corruption" and vowed to "fight them to the end." Caretaker prime minister Eugenijus Gentvilas demanded that evidence of corruption be presented, while Williams insisted that all was morally perfect with their operation. Brazauskas immediately reassured the company, stating that "No one is trying to expel Williams from Lithuania", yet days later he opined "this type of the deal, regardless of how it was formulated, is detrimental for our state".

Such was Williams' alarm that, in a remarkable intervention, President Bush and Powell penned a letter to Lithuanian President Valdas Adamkus expressing support for Williams' deal with YUKos, applauding Williams' profitability, and mentioning the US government's support for Lithuania's efforts to join NATO. The clear message was that any moves against Williams would prejudice US support for NATO accession, a policy agreed by all the Lithuanian parties.

Secondly, the Social Liberals and Brazauskas wanted to alter the terms of the Lietuvos Dujos sell-off from the initial proposal, under which 75 percent of the state's 92 percent shareholding would be sold to a consortium led by the supplier of all Lithuania's gas supplies—the Russian gas company GAZprom. As soon as Paksas resigned, the Social Liberals, SDP and Gentvilas announced that Lithuania would retain 34 percent of Lietuvos Dujos. Another 34 percent would be offered to a "Western" company, with only 24 percent being offered to a supplier, presumably GAZprom. Privatisation is to be concluded by the end of 2001. GAZprom's Lithuanian partners immediately denounced the proposal, with one Social Liberal deputy, Viktor Uspaskich, describing the arrangement as "pure corruption". Gentvalis responded in the Lithuanian press, hinting that Uspaskich had offered him, "the possibility to make my life financially independent, but I can't call it a bribe..."

The most visible contender for the 34 percent share of Lietuvos Dujos is the German gas company Ruhrgas, although other German, French, Belgian and Finnish groups have expressed an interest. Ruhrgas, like all European energy companies, is desperate to integrate its operation across the continent, as currently just 19 percent of its share value are held outside Germany. Ruhrgas has recently expanded its share of Swedish gas company Vattenfall (Sweden) to 30 percent, while on July 4, the company announced its purchase of Congas, a Rumanian gas supplier. Ironically, given the circumstances of Paksas' political demise, Ruhrgas also owns five percent of GAZprom.