

## USSR Trip Report #12

February 20 – March 6, 1992

The itinerary for this trip was Moscow, Mineral'nyye Vody, Nevinnomyssk (Kuban), Maikop, Belorechensk, Rostov, Millerowo, Rostov, Moscow, Riga, Panevezys, Klaipeda, Siauliai, Riga, St. Petersburg, Moscow and back home. The trip involved two local flights, three nights on trains and approximately 24 hours on highways. If anyone is keeping score, there is no Trip Report labeled #11. The 11<sup>th</sup> trip was a short visit to Latvia and Lithuania in January, 1992 and is reported in an update about Lithuania Christian College.

The initial visit to Moscow was solo, the trip to the Caucasus and Rostov included my brother Frank DeFehr, Jake Martens of Portage la Prairie in Manitoba, (potato expert), Harry Giesbrecht of Winnipeg and Carl Nygren of Agritec on the Caucasus portion. Johannes Reimer met me in Lithuania and remained with me for the balance of the trip.

### Assessment of Political and Economic Climate

On the occasion of India's 25<sup>th</sup> anniversary Indira Gandhi began her speech with the words "India's greatest achievement is that it has survived". Six months after the putsch a similar statement sums up the fragile state of democracy and the economy in the ex-USSR. There is no precedent for the disintegration of an empire covering 1/6 of the globe with 100 nationalities and 30,000 nuclear weapons. The absence of civil war is in itself an achievement!

There is indeed war and chaos, but the issues are almost entirely the re-joining of old conflicts kept in temporary hiatus by the Russian empire. There are any number of potential local wars, but a realistic appraisal limits the danger to the Southern Caucasus with some flash points on the Northern slopes, Moldavia and some of the Asian republics. The Baltics may have problems, but probably not of a military nature. The most damaging conflict could arise from the inability to resolve the complications caused by the Ukraine's search for identity. The absence of an independent history creates problems when the Ukraine attempts to reinforce its new identity by assertive action. The Crimea will undoubtedly resist rule from Kiev, regardless of Yeltsin's or Kravchuk's policies. Kravchuk's invitation to Germans of Central Asia to resettle in the Crimea is hardly an olive branch to the Russian majority. If the Crimea is successful in its challenge, problems in the Eastern Ukraine will not be far behind. Russia will have some severe local problems such as the Chechen-Ingush region of the Caucasus and Tartarstan – but these are small areas surrounded by Russian territory. There will be plenty of ways to exercise persuasion. A more distant but dangerous threat is an eventual disenchantment of the mineral-rich territories of Eastern Siberia. The issues will be based less on nationalism but will be fueled by economic and geographic issues.

*Note: From the perspective of 2014, these comments are surprisingly accurate and prophetic. The problems regarding Eastern Siberia may still be in the future as China flexes its muscle.*

The military is also in disarray. We hear about the large Moscow meetings and struggle for the Black Sea fleet. On a local level there is increasing anecdotal evidence of soldiers trashing their quarters because of poor living conditions, demanding transfer to more friendly territory and local commanders dealing independently with properties under their command. The Russian cosmonaut remains in unhappy

orbit because there is no consensus about who will pay the expenses of his return. There is certainly substantial sentiment for a return to a more orderly society where prices and food supplies were more predictable. The military remains a wounded but dangerous force.

On the economic front, Russia is in the midst of a very risky experiment. The increase of prices from 3 – 30 times has effectively robbed society of its 70 years of savings in a matter of months. Fifty of the leading Russians attended the Davos, Switzerland Annual Meeting of the World Economic Forum and publicly displayed the disarray in their policies. They included eight Presidents of the new republics, Vice-President of Russia plus the leading academicians, economists, foreign ministers and well known individuals such as Mayor Sobchak of St. Petersburg and Mayor Popov of Moscow. There were public statements that the Government would not survive through April, that the price increase was robbery (Smelyov), and that the policy has no chance without prior privatization (Sobchak). Seven of the Presidents spoke in a forum with completely contradictory ideas on what the Commonwealth of Independent States should be. I met privately with Anatoly Chubais, Minister of Privatization and concluded that they had no idea whatsoever how they would implement privatization. This view is shared by the “Economist” and other analysts. We are negotiating what will be the first privatization of industrial food production assets and the understanding of policy leaves much to be desired. These negotiations gave us an interesting access to individuals very knowledgeable about the food situation. In a meeting in Moscow with the Deputy Minister of food procurement (buys Canadian wheat), he stated that bread production was up substantially. They interpret this as a shift in diet as the population finds it increasingly difficult to buy the other more expensive products.

The economy is definitely approaching some kind of crisis. The bankruptcy of the Vnezheconbank (foreign currency bank) had effectively frozen the hard currency deposits of most Russian enterprises so that they could not import parts and supplies even if they had the money. With over 3,000 items produced on a single plant monopoly basis, the whole industrial structure is on the verge of grid lock. Many plants already turn out only unfinished products. We were told in Davos of a huge tractor plant in St. Petersburg which turns out the desirable smaller tractors but is shipping every tractor without rather essential components such as wheels.

So why is the ruble strong or stronger? Don't hold your breath. The high prices have removed the overhang of rubles and without compensatory payments and other draconian measures, the government has purposefully dried up the supply of printed rubles. The strong ruble has sucked “small money” or dollars held in small amounts plus a supply of dollars from the government – but the big money is holding back and hanging on to its hard currency.

At some point the government is going to be forced to put rubles back into the economy and then there could be a new collapse of the ruble beyond anything we have seen. If privatization and other policies begin to take hold, we could see a slow restoration of the ruble after that. The problem today is that nothing whatsoever has happened at the level of production which can justify a strong ruble. How long can Prime Minister Gaidar blow hot air to keep it aloft?

### Privatization

Russia has announced a very aggressive price and privatization policy. It has acted on the price side but is far behind on the privatization questions. The published policy is certainly aggressive but it leaves far too much control to central authorities. Moscow City Council wanted to implement the privatization of living

quarters but after monumental disputes with national authorities the whole issue was derailed. The question of farm land is very crucial and little real action has taken place. The Russian Ambassador to the UN stated in early March that the absence of implementation of the new policy and the industrial chaos may well result in famine next winter. They are counting on God for a bountiful harvest rather than the effectiveness of the policies!

Most privatization has occurred in the trade sector with small stores and services. Even here the results are marginal. Our Baptist friend Filev, in Maikop, owns the only private store in a city of 200,000, open only a week with a few imported items. In Rostov, a city of 1 million, we were told that privatization had for all practical purposes not started. I suspect that when you leave the paved roads they may not have even heard of the policy!

The privatization policy is quite detailed and attempts to balance national priorities, industrial strategy, worker interests, and community interests and have a semblance of fairness. For example, the law requires that employees receive up to 25% of shares in a new enterprise firm; administration may get another 10%, managers 5%. Any sale to private parties is to be by auction with at least two bidders present and one clause suggests shares will be sold in 10% increments. Many industries require prior central approval and some are banned. Banks may not make loans toward privatization from capital which originates from the state.

The implications are rather interesting. How do you make new investments, especially in hard currency if employees and administration hold 40% of the shares and do not have either dollars or rubles to invest? There are no restrictions on the resale of shares and one can suspect that they will be quickly purchased by others during periods of crisis. An interesting investment strategy may in fact be to obtain a supply of cheap rubles and invest in strategic plants as their employee shares become available. An investor could obtain some interesting minority positions with little investment which could be used to negotiate for control positions later. This would avoid the whole process of dealing with the state apparatus.

My own prediction is that the process will have a very slow and difficult beginning and the policy will require some major surgery. The minister we dealt with argued that "why should I sell you plants which are operating perfectly well – I'll sell you some money losers instead". His idea of a plant operating well is 90-year-old buildings with 40-year-old equipment within a system of unsustainable state subsidies. Even today the price of bread on the basis of its flour content only sells at ¼ of the Russian (not higher world) free price of wheat alone. Many people are already reduced to a bread diet – think of the consequences of realistic pricing of grain-based commodities?

Privatization will get underway in 1992 but will not be soon enough or effective enough to make a positive impact in this year. The other problem is that so many plants exist on the basis of monopoly products or subsidized arrangements. These will end under privatization. It was interesting that in our discussions the Deputy Minister expressed great concern that we would need various contracts and guarantees from the government in order to make money. We pleaded with him just to leave us alone – that was the essence of private enterprise – and let us try to figure it out. Old habits will die hard!

### Christian Entrepreneurs

My involvement with a number of the church-related business people has not been very encouraging. My pattern has been to allow each of them to suggest an investment of their choice and I would support them. Their pattern has been to not invite me into their existing profitable enterprise but use a new venture to

prize some capital out of me. In most cases the benefit has been one way and I have advised them that my future involvement will be restricted to limited and defined “transactions”. The limited educational level, the years of working in a shadow economy, short-term opportunistic attitudes, different definitions of integrity and a total absence of accounting make a genuine East-West partnership an unrealistic proposition today. The other major problem is that every entrepreneur thinks he can do everything. In a breath they will speak of a vast array of industries – with the result that on each visit our agreements from the last visit have been abandoned.

The Christian entrepreneurs have all been involved in the support of local religious and other charities and continue to do so. Given their experience in authoritarian environments, they have great difficulty sharing control of a project as it expands beyond their capabilities. This has already resulted in broken relationships and discontinuities in projects. Western agencies are bringing plenty of their own divisions which don't make the process easier.

I have the sense that after a heady experience in 1989 and 1990, many of the entrepreneurs found the latter part of 1991 and the inflation of 1992 to be somewhat sobering. Profits are not as high and inflation has severely cramped their capital.

### ACB

Alexander Zaichenko remains upbeat but was still not physically in a proper office. He reports that more companies are joining the association but I could not get a real fix on whether ACB was beginning to deliver benefits. In late February there was a meeting in Kiev to establish a Ukrainian version of ACB. Zaichenko attended and felt very positive about the results.

The Odessa Conference was in jeopardy because Ukrainian authorities want to charge Russians hard currency for hotel, food, etc. That would mean zero attendance by Russians so Sergei Kibirev of Siberia activated his local contacts and received a letter from the Mayor of Odessa guaranteeing that Russians could pay in rubles. The ACB has certainly succeeded in getting the entrepreneurial group acquainted with each other – and maybe that is a sufficient result for this stage.

I encourage Zaichenko to get on the smaller seminars about “How to Choose an Area of Business” and “How to Start a Business” in cities other than Moscow with the support of our Foundation. I hope he can put something together soon. The Conference in Odessa remains on schedule for May 13<sup>th</sup> arrival and 17<sup>th</sup> departure. Come and bring some friends!

Zaichenko and Semchenko went to Holland in early March to attend a meeting of 30-40 Dutch Christian businessmen organized by Kees Knijnenberg to cooperate with SUN and ACB. He hopes to encourage substantial Dutch attendance at the Odessa Conference.

### Lithuania

Lithuania Christian College continues to operate as an English Institute in Panevezys and is doing great from an educational perspective. Our 30 full-time students are getting better scores after six months on TOEFL tests than many third-year English majors in Vilnius. There is a solid church group meeting on Sundays and a variety of evening initiatives.

Discussions with the Catholic authorities reflect a great chasm between their understanding of the modern world and ours. Their proposals include the requirement that “70% of the books in the library be written

by Catholic authors and 30% by Protestants”. Another requirement was that theological faculty could not discuss any differences in dogma publicly, privately or off the campus. I wonder what any two theologians in the world could say to each other if limited to areas of agreement!

In the meantime, Klaipeda University has issued an excellent invitation to form an independent College on their premises. We would focus on language, Biblical studies and anything else we wished and cross register the balance of liberal arts requirements with their faculties. A Protocol of Agreement was signed but it will still require the blessing of City Council. This is less than a certainty but chances are much greater than in Panevezys. It has been decided to move the 1992 Summer Institute to Klaipeda with the expectation that a long-term agreement will follow.

Staff recruitment for the summer of 1992 has gone very well with 26 confirmed volunteers. The program will also include a Theology component and probably Management. There is a very serious request from the Capernwray Schools of Europe to send their students from Eastern Europe to the Lithuania Institute first to upgrade their English. The Logos Bible School of Belorechensk also wants to send some students and we have requests from individuals. It would not be difficult to imagine an ongoing program which serves many non-Lithuanians to learn English and as a way-station to the West.

The Institute has high professional credibility in Lithuania and needs to navigate past a few more shoals. A successful conclusion to the Klaipeda discussions could result in a long-term home for a quality Christian institution. The sharing of facilities and resources could also be easier to sustain financially.

### St. Petersburg

We visited the proposed campus for a new Bible School. This is a partial takeover of a technical school to be combined with a Bible School. There are some serious impediments to final approval of this project.

I was also investigating St. Petersburg from the perspective of a base for an “international study experience” for students of the new Concord College of Winnipeg and possibly other Christian Colleges. I felt every positive about St. Petersburg as a location but did not have the time to follow through to identify a specific site.

### Kuban

This is the name used by many Mennonite families whose ancestors lived in two Mennonite villages near the present day city of Nevinnomyssk in the Central Caucasus. The villages are located on excellent soil in the bend of the Kuban River. The settlement was largely Mennonite Brethren, reflecting the reason for its establishment in 1866. My mother’s family lived in the Kuban from its founding until she escaped from the USSR in 1929 – her parents were sent to Siberia in 1936.

The Mayor of the area and other officials not only welcomed us but had thoroughly researched the Mennonite history and our family and property. The Reimer property and that of his brother were known for their outstanding fruit garden reflecting their extensive experimentation with fruit trees. The gardens were removed only in recent decades.

The original family home still exists and is now half occupied as a residence and half as a chicken barn. The “new” residence built in the 20’s was never occupied because of the revolution. The house was quite large with a deep stone cistern.

The new house was next used as a school. In 1934-35 a German company known as “Rodke” built a hatchery for the Soviet Government. The house was hit by the only bomb to land in the village during World War II. Since it was built of high-quality brick, the house was slowly plundered until nothing was left but the foundation.

During later years there were roof repairs to a “Toews” house nearby and they discovered a suitcase of my grandfather’s papers and lots of Czarist money. There is no record that these documents have survived. The Mayor commented that in the thirties during the famine the Mennonite families kept digging up their gold reserves, bought food and kept themselves and their Russian neighbours alive.

The only German person to remain after World War II was a woman born in 1926 as Sonnenberg. She married a Russian and remained. She remembers our garden, the rows of grated multi-colored lilacs and a great variety of fruit.

Several Mennonites have visited the settlement recently from the Asian Republics. Only one has come to live so far. She is Olga Deleski, born in 1925 and sent to Kazakhstan in 1941. She returned to the village in 1990. Her father is Jacob Abramovitch Deleski and she has a brother or uncle in Winnipeg named Rudi Deleski. I believe he is the father of a schoolmate of ours in elementary school days.

The community is most anxious to re-establish ties with the past. They are researching the original owners of homes and even want to give the Reimer property back to us. They would welcome visits by the families associated with the Kuban settlement and seek more historical information. We have sent them the history of the Kuban settlement and my mother’s biography.

### Millerowo

The prime focus of this trip was the discussion to privatize the mill built by my grandfather as well as one or two other agro-industry properties in the same town. We had excellent local support from Rostov region and Millerovo authorities as well as the operator of the properties. Privatization of food-related industry required National government approval so we spent several days of negotiations in Moscow. We had good support from the Deputy Minister and the opposite reaction from the Minister. It seems as if some people resent that people may get assets which their forefathers owned; we would have had an easier time with more neutral assets.

We recently discovered a prominent law professor in Moscow of Mennonite background – born in the same group of villages near Omsk where my maternal grandparents died in exile. He went to Moscow as a youth, joined the party, obtained a very advanced legal education and is now head of the department for the national training of prosecutors. He is enthusiastic about rediscovering his Mennonite roots and agreed to act as lawyer on our behalf. When the talks seemed on the verge of collapse he quietly proposed a compromise that the Minister could accept. While we drank coffee he drafted a protocol on the Minister’s own computer and before dinner our agreement of intent was signed and sealed.

There is a great deal of detailed negotiation to follow – but this will be done at the regional level where we have stronger support. It should be noted that our former ownership was not directly relevant. There is no legal basis for the restitution so the discussion is simply about our purchase of property as if we were any other investor.

We know that success is far from guaranteed but it's a good first step. Our project is the first agro-industry privatization in the whole country and we are not aware of any other industrial privatizations which have in fact been concluded. The proposals include a flour mill, a feed mill and two modest storage elevators. Stay tuned!

*Note: We took this to the highest levels but in the end national privatization policies excluded agro-industry and agricultural land and we eventually abandoned the project.*

### Conclusions

Russia and the other Republics are entering a dangerous phase but also a time of opportunity. The drive to privatize and the relatively cheap ruble will create interesting investment opportunities. The limitations are that the old bureaucracy is still substantially in place and hasn't caught much of the vision of private enterprise. The industrial chaos which is looming will cause great difficulties but also opportunities for investors with external contacts and some financial staying power.

The Christian entrepreneurs are continuing to develop, many are prospering, but there are real limits to the scope of partnership which is possible at this stage. Emphasis should remain on friendship, assisting in access to contacts and information and very circumscribed transaction-type investments. They also need help in building bridges to their own religious organizations as well as Western groups. There are genuine cultural differences, but one cannot excuse management or accountability lapses as cultural. We need to continue to stand by them but be realistic in our expectations.

After 12 visits and many experiences not suitable for recording on paper, I have passed through and beyond any stage of innocence. The problems are genuine, but only make the need for positive growing relationships more important.

The successful transition of Russia to a Western-style democracy and economic equal of Europe is far from certain. If we all help, they may still fail, but the cost of failure will be high for all of us.

Art DeFehr

March 10, 1992

P.S. There are many personal experiences which simply do not fit into these reports. My article entitled "Night Train to Riga" records some of these kinds of experiences. Please request a copy if interested.