

North Ossetia Loses Battle of Spirits

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Moscow has wrested alcohol excise taxes from the North Ossetia - leaving a large hole in the republic's budget.

A new Russian government ruling on revenue from spirit and vodka production has left North Ossetia with a big hangover.

The ruling, which took full effect in January, requires all excise taxes on spirits and vodka to go to Russia's federal - rather than the regional - budget. This is having a particularly disastrous effect on the economy of North Ossetia, where tax on the production of strong alcoholic drinks was providing more than 60 per cent of budget revenue.

Implementation of the ruling began last year and resulted in 1.3 billion roubles (more than 40 million US dollars) in alcohol taxes going to the federal budget. This year the total is expected to rise to two billion roubles - a huge sum when it is considered that the total republican budget will be around 4.4 billion roubles in 2003.

The lucrative alcohol business was one reason why North Ossetia has had one of the better-performing economies in the North Caucasus, a region otherwise plagued by poverty and unemployment.

Now, the local authorities want Moscow to compensate for the big loss of revenue by increasing federal subsidies. "Of course, new rules will limit our opportunities to manage our finances, but obviously, the more Moscow takes, the more it should give back," Batyrbek Gadzaov, economic adviser to the North Ossetian president told IWPR.

Before the Soviet Union broke up in 1991, North Ossetia had only one alcohol-producing plant. But when the state monopoly on production of spirits was abolished, the republic moved quickly into the market.

For many years, the republic was a major transit route for contraband alcohol coming from the South Caucasus. Then, when the rouble was sharply devalued in 1998, local alcohol factories mushroomed across North Ossetia.

According to Nokh Tokayev, an economics professor at North Ossetia's state university, there are 18 big alcohol factories in the republic, of which twelve "produce alcoholic spirit seriously as a trade product".

Tokayev says that the alcohol boom in the republic was quite logical, "We had long standing traditions, natural resources like good water and end of the state monopoly, so the result was a vodka production boom."

However, the republic got addicted to its new source of cash, leaving it highly vulnerable to new economic trends.

The head of the North Ossetian parliament's budgetary policy committee Georgiy Kozayev blames the government for not foreseeing the change in the law. "It was obvious that Moscow soon or later would take away alcohol related taxes from us, but the North Ossetian government did nothing substantial to make

the republic's economy less dependent on alcohol production," he told IWPR.

Kozayev said he believed the new ruling is in breach of the Russian tax code, which states that, half of tax revenues collected should stay in the regions, "But, I am afraid we can do nothing now, because only seven to ten regions in the Russian Federation may be interested in overturning this decree, while the other 80 benefit from it."

North Ossetian president Alexander Dzasokhov went to Moscow at the end of the last year to try to persuade the federal government to leave some of the vodka excise tax for the North Ossetian budget, but apparently his mission failed.

North Ossetia now faces an acute budgetary headache. Now it is anticipated that some three quarters of this year's budget will have to come in direct transfers from Moscow for the budget to be balanced.

According to economics expert Tokayev, Moscow had promised to compensate fully North Ossetia's revenue losses, but in fact returned only half of what was taken. He concluded, "the Russian government is set to take away the taxes from all high yielding industries. I can even predict, that they may end up nationalizing our alcohol factories."

Presidential adviser Gadzaov, complained, "We cannot fight the decisions of the federal authorities, but by taking actions like that, they are discouraging territories from developing their industries".

Expenditure in this year's budget has been cut by 400 million roubles, in an attempt to cope with the shortfall. And this is without accounting for the two billion roubles of debts the republic still owes lenders for a failed project to build a maize seed factory. One of the creditors is the European Bank for Reconstruction and Development, which loaned 12 million US dollars for the project.

Ruslan Agkalayev, director of the republic's agency supporting small and middle sized businesses, said, "We have no prospects of getting any substantial investments from government sources, all we can do is to switch to small size projects and attract private investment."

Whatever course is taken, most analysts agree that the days of free-flowing vodka production are over. "From now on we have no much interest in keeping up our alcohol industry, what we get is just some pollution for our rivers," said Kozayev of the parliamentary budget comment.

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