

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Yushenkov Comments On KGB Revival

- With the restoration of the Soviet national anthem, the rise of a KGB officer to power, is the revival of the feared KGB far behind? Many analysts are taking this concern seriously. Sergei IVANOV, secretary of the advisory Security Council, which has seen its own role rise, has said that strengthening the links between the special services is one of the top priority in the coming six months. The agencies involved would include the Federal Security Service (FSB), Border Guards, and Fapsi, the agency in charge of intercepting communications. Sergei YUSHENKOV, deputy chairman of the Russian parliament's Security Committee, said that the KGB name might be reintroduced. He said that a single agency could be more efficient, but might reduce the control of civil society over their operations. He further noted that a proposal for a single agency had been submitted to parliament in November, but had triggered too much concern.

Nuclear Security Risk Raises Concern

- According to a bi-partisan panel, set up a year ago headed by Howard BAKER, a former Republican Senator, and Lloyd CUTLER, President Bill CLINTON's former White House counsel, the US should spend \$30 billion in the next decade to make Russia's nuclear stockpile safe or risk "potential for catastrophic consequences." The panel says Russia's stockpile of nuclear weapons and nuclear material poses "the most urgent unmet national security threat" facing the US, the Associated Press reported. It argues in a report to be presented to the Secretary of Energy Advisory Board today that the \$700 million currently earmarked is inadequate. Members of the panel have already discussed the findings with incoming Vice President Dick

CHENEY. More than 40,000 nuclear weapons and more than 1,000 metric tons of nuclear material are scattered in facilities all over Russia, and Russian nuclear scientists facing economic hardship "may be tempted to sell their expertise" to other countries, or to terrorist groups the report states.

US Aid Worker Kidnapped In Chechnya

- US citizen Kenny GLUCK was abducted Tuesday by masked gunmen outside of Stariye Atagi, Chechnya, where he was serving as an aid worker with Medecins Sans Frontier (MSF-Doctors Without Borders). A combined MSF and Action Against Hunger mission convoy of four cars was fired on by masked gunmen, believed to be Chechen rebels. GLUCK's car was surrounded; he and three assistants were taken from the car by gunmen; and they were driven away. A second US citizen was wounded in the head during the attack. According to a statement release, "MSF is extremely concerned about the fate of its colleague and is outraged at this direct attack on a clearly marked humanitarian convoy that was delivering medical assistance to the Chechen population. MSF urges that whoever may be holding their colleague will respect his physical and mental integrity and will release him unharmed." General Ivan BABICHEV, Russia's military commander in Chechnya said special services have started a search for GLUCK. He said the Americans had been traveling in Chechnya without military permission and without an escort, and added that the aid group itself bore some of the blame for the incident.

BABICHEV could not confirm other Russian news agency reports that the men who had seized the American belonged to a group of rebels under the command of a field commander named as AKHMA-DOV. Kidnapping is common in Chechnya, where gruesome tactics are used against hostages and videotaped ransom requests are issued to foreign embassies. Hundreds of people including foreign humanitarian aid workers have been kidnapped in Chechnya after the first Chechen War.

Economy

<p>Ruble = 28.39/\$1.00 (NY rate) Ruble = 28.44/\$1.00 (CB rate) Ruble = 26.75/1 euro (CB rate)</p>
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Russian Trade Prediction For 2001

- Russian Deputy Finance Minister Alexei ULYUKAYEV predicted Tuesday that Russia's \$60 billion trade surplus for 2000 will decrease sharply in 2001. He explained that the reason for the fall will be a drop in commodity prices and the loss of some currency advantages for Russian exports. "The situation with our exports is worsening," he said, noting that in addition to falling world oil prices, "worsening trends in gas prices are predicted in the second half of 2001." ULYUKAYEV added, "The timber situation has already worsened and nonferrous metals could also worsen." A strengthening euro would lower the market price of Russia's exports and increase the price of imports, he said, as Russia pays for imports primarily in euros and receives export revenues in US dollars.

Russia's Palladium Supply Fears Raise Prices

- Precious metal palladium finally cracked the long-awaited \$1,000 an ounce level on Monday as concern over supplies from Russia continued to jolt a market trading at all-time highs, Reuters reported. A key component of auto catalysts, palladium reached \$1,010 a troy ounce at the London morning fix, eclipsing a record high of \$987 hit on Wednesday amid fears that supplies from Russia would be disrupted. Russia produces around two-thirds of the world's palladium. Its supplies to markets have been erratic since 1997, causing traders to be skeptical about Russian exporters' promises that palladium will be shipped until the metal actually arrives. Palladium, which was trading around \$100

an ounce four years ago, has more than doubled in value over the past year. Analysts say it is hard to predict the extent of further rises but there is talk of prices going as high as \$1,200.

Business

Russia Names UES Special Commission

- The Russian government on Tuesday announced the makeup of a special commission to study the restructuring of the *United Energy Systems (UES)* and an extension for the decision deadline to mid-April. Last spring, *UES* unveiled a plan to merge some of the regional generating companies and issue new shares in the combined entity to outside investors. *UES* believes this will bring in new investment, boost production, and modernize the strategic sector. Minority shareholders, represented by Boris FEDOROV, believe the plan will result in asset-stripping and unfair dilution of their investments. In December, Anatoly CHUBAIS, head of *UES*, said that the government had approved a revised restructuring plan. Andrei ILLARIONOV, President Vladimir PUTIN's economic advisor flatly denied this. On Christmas Day, PUTIN stressed that *UES* needed to be restructured, but, "in a prudent manner...in the interest of the nation as a whole," and not in the way CHUBAIS proposed, the *Financial Times* reported. The 25-member commission headed by Tomsk Governor Viktor KRESS will include deputy chairman ILLARIONOV who is critical of the restructuring plan, CHUBAIS, supporters of *UES'* proposal, and minority shareholders who oppose the ideas. Hartmut JACOB, an analyst with *Renaissance Capital* said, "The group is so diverse it is hard to imagine they could all agree to a single plan."

EUROPEAN REPUBLICS

Aero Airlines To Open In Estonia

- *Finnair* announced plans to set up *Aero Airlines* to be based in Estonia. The new carrier will start flying next summer. It will initially fly between Baltic countries and then expand to include other European destinations. *Finnair* started services in 1924 between Helsinki and Tallinn.

Latvian Economic Statistics

- Latvia's Central Bank Tuesday forecasted its gross domestic product (GDP) growth for 2001 at

six percent, after expected GDP growth of between 5.5 percent and six percent in 2000. The Bank lowered its expectations for the 2000 current account deficit to 7.0 percent of GDP from a previous 8.0 percent. It also said it expects the 2001 current account gap to come to 7.0 percent of GDP. Latvian third quarter GDP rose 5.9 percent year-on-year, with nine-month annual GDP growth at 5.4 percent. The third quarter current account deficit was 5.8 percent of GDP. The Bank has prioritized low inflation and has said getting consumer price rises down to the 2.0 percent contained in the European Union's (EU) Maastricht Treaty remains a medium-term project, Reuters reported. Latvia, as part of a second wave of aspirants, began EU accession talks last year and is now hoping to catch up with the leading pack of hopefuls that began discussions in 1998. Latvia's annual inflation last year was 2.6 percent, with services up 5.4 percent and the prices of goods up 1.8 percent, according to data released by the statistics office earlier in the day. The office said it expects average annual inflation in 2001 to rise between 2.0 and 3.0 percent, pushed by further service price hikes. Head of the Statistics Office Aija ZIGURE said, "Knowing that service prices keep increasing, and this influences overall price levels, we could see a 2001 inflation between two to three percent, largely on the level of last year." She added administratively regulated prices had been the main motor behind inflation growth in 2000.

Ukraine To Sell Coal Mines

- The Ukrainian government said it wants to sell its unprofitable coal mines, allowing the country to increase its total coal output by 31 percent in the next 30 years and reduce its dependence on Russian natural gas. Deputy prime minister for the fuel and power industry Julia TYMOSHENKO said, "The reform that we are planning is very hard" to implement, as the coal industry is "one of the most corrupt" in the country. "We want to set clear and transparent rules of the game and, of course, it can't be done without counteraction." TYMOSHENKO, herself the subject of accusations of fraud and illegally transferring from Ukraine about \$1.1 billion in the late 1990s, said prosecutors were following the orders of rich businessmen who yield vast influence in the country. The planned reform of the coal industry is one of the reasons they want

her out of office, she said. The reform would allow Ukraine, which depends on supplies of natural gas from abroad for about 78 percent of its overall gas needs, to increase production of coal to 105 million tons a year in 2030 from 80 million tons now, Bloomberg News reported. The government, which plans to begin selling mines this year, said it will soon approve rescheduling of 7 billion hryvnia (\$1.3 billion) in debts from its estimated 220 mines. The debt rescheduling would help attract investors to the coal industry, TYMOSHENKO said. The government said it plans to approve a final plan at its meeting on January 17th.

SOUTH CAUCASUS & CENTRAL ASIA

300 New Visas Issued Per Day

- In the months since the new visa regime went into effect between Russia and Georgia, more than 7,000 visas to enter Russia were issued by the Russian consulate in Tbilisi. Russia introduced the visa regime with Georgia on December 5th. Consul of the Russian Federation in Georgia Valeri LEBEDEV told Prime NewsAgency, currently about 300 visas to enter Russia are issued for the Georgian citizens daily. He said that the decision of Georgian government on necessity of visas for Russian military to leave Georgia, effective on January 1, 2001 will give more work to the Russian Defense Ministry, which will have to ensure the visas and foreign passports for their workers.

Beijing To Finance Turkey-Georgia Railway

- Turkish Foreign Minister Ismail CEM and his visiting Chinese counterpart TANG Jiaxuan signed on January 8th an agreement on whereby Beijing will finance construction of the planned railway linking the Turkish city of Kars and Tbilisi, RFE/RL Newline reported today. China envisages that link as part of a railway linking China with the Turkish Mediterranean coast via the Central Asia. The outcome of the initial tender proclaimed in November, 1997, for construction of that railway was nullified in the spring of 1999 due to financial disagreements.

Russia Boosts Ties With Azerbaijan

- Russian President Vladimir PUTIN has called for closer military cooperation between Russia and Azerbaijan, during the second day of his visit to Baku. "Military cooperation between Russia and

Azerbaijan has been showing signs of progress lately. I think our contacts in this area may be intensified," PUTIN told the Azeri parliament. He added, "Such cooperation reflects the two states' security interests and is not targeted against third countries." Relations between the two nations have been tense since Azerbaijan accused Russia of favoring Armenia during the Nagorno-Karabakh conflict, which erupted in 1988 when ethnic Armenians tried to secede from Azerbaijan, Reuters reported. Georgian chairman for the parliamentary Security and Defense Committee Giorgi BARAMIDZE believes that closer military cooperation between Russia and Azerbaijan is aimed at spoiling Georgian-Azerbaijan relations, Prime News Agency reported.

PUTIN also expressed the need to increase trade turnover between the two countries and the development of cooperation in different branches of the economy. He pointed out that the volume of trade between Russia and Azerbaijan last year totaled \$300 million, which accounted for less than 11 percent of the Azeri trade volume. PUTIN believes that new legal acts are needed to enable the two sides to improve tariff and taxation regulations in foreign economic contracts and remove unsubstantiated customs barriers and abolish additional fees. PUTIN said Russia was interested and ready to cooperate with Azerbaijan in all areas of the fuel and energy sector. Russia's oil major *LUKoil* and *Azeri State Oil Company (Socar)* signed a \$250 million exploration deal on Tuesday and Russian and Azeri officials agreed to decide within two months how much Caspian crude would be transported from Baku to the Russian port of Novorossiisk over the next two years. PUTIN said the idea of exporting Russian natural gas to Azerbaijan was also "extremely promising."

Russia's interest in Azerbaijan is political as well as economic. The Russian President noted that, "A visa regime with Azerbaijan is not envisaged... The level of Russian-Azeri cooperation in fighting crimes,

especially lately, shows that additional measures by Russia are not needed." This is in contrast to the travel restrictions recently imposed on Georgia, effective December 5th. Russian authorities said the visa regime would help prevent Chechen rebels from crossing into Russia. Russia has accused Georgia of supporting and sheltering fighters from Chechnya. PUTIN said he saw no need for such visa regulations with Azerbaijan.

Turkmenistan Doubles Gas Output

- Turkmenistan's natural gas output more than doubled in 2000, to 47 billion cubic meters (bcm) from 22.8 bcm in 1999, the Turkmen Khabalary state news agency said today. Turkmenistan plans to raise output to 70 to 75 bcm this year, and then to lift it further to 85 bcm by 2005 and to 120 bcm by 2010. The spectacular growth has been achieved by increasing exports. In Soviet times, Turkmenistan used to produce over 80 bcm per year and exported nearly all of it through the Russian pipeline network. But after independence at the end of 1991 and a row with Russia over pricing exports slumped to around 13 bcm in the late 1990s. With the dispute resolved, Russia is buying large volumes again. Russian gas monopoly *Gazprom* bought 20 bcm of Turkmen gas last year, and another affiliated gas concern, *Itera*, bought a further 6.2 bcm. Ukraine's *Naftogaz Ukrainy* bought a further three bcm, with another two bcm going to Iran. Such huge exports will depend on continued new demand, in particular from Russia. But if Russia and Iran, both of which have huge natural gas reserves, increase their output significantly over the coming decade, Turkmenistan may have to look for alternative routes or keep output lower than currently planned.

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