

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

Daily intelligence briefing on the
former Soviet Union

Thursday, January 11, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Putin Reshuffles FSB Oblast Head

• Russian President Vladimir PUTIN has signed a decree removing Alexander GRIGOREV as director of the Federal Security Services' (FSB) St. Petersburg and Leningrad Oblast. GRIGOREV, who is a university friend of PUTIN's, has been openly in conflict with presidential envoy of the Northwestern Federal District Viktor CHERKESOV, a former FSB official in St. Petersburg. GRIGOREV will be replaced by Sergei SMIRNOV, who is also a close associate of PUTIN's. When PUTIN was director of the FSB, he sent SMIRNOV to Moscow where he served as a deputy head to the Federal Guard Service, RFEIRL Newswire reported.

Russia Tracks Foreign Spy Planes

• General Anatoly KORNUKOV said that the Russian Air Force tracks more than 100 foreign spy planes around its borders every month. In 2000, Russian Air Defense forces had sent up interceptors 30 times to chase off planes trying to violate Russian airspace. There were 10 cases when foreign planes breached air defenses. Each month up to 70 foreign military reconnaissance planes were tracked in Russia's Far East, up to 20 over the Arctic Barents Sea and up to 15 over the Baltic Sea, Interfax news agency reported. During the Cold War, aircraft from both sides regularly flew missions to test defenses. That practice trailed off after the Soviet Union collapsed in 1991 but still continues. Last month, the Pentagon said Russian Tu-95 bombers had been moved to the Far North with a view to testing US air defenses. But KORNUKOV later denied this, saying the crews were taking advantage of fresh fuel supplies to train in Arctic conditions.

Economy

Russia To Make Only Partial Payments

• Prime Minister Mikhail KASYANOV said Russia will make partial payments on loans of \$5.9 billion this year, after President Vladimir PUTIN promised to honor the nation's debts. On January 4th, Russia sparked concern that it would suspend all payments to the Paris Club for the first quarter. The Paris Club secretariat issued a strong letter stating it would not condone any "unilateral default." The Prime Minister pointed out, "We are delaying payments so as not to put at risk other important payments earmarked for the needs of the population." Deputy Finance Minister Alexei ULYUKAEV said Russia made its first, \$10 million payment on Soviet-era debt to creditor governments this year and will pay \$21 million later this month. The payment is only a part of \$560 million Russia owes the Paris Club in January. Russia in its 2001 budget set aside \$1.24 billion in interest payments on the debt to the Paris Club and will ask creditors to reschedule \$3.5 billion in debt principal coming due this year. Russia says it needs debt rescheduling to create sustainable economic growth and is calling for special treatment because it made loans to developing countries during the Cold War. Russia also feels that without a restructuring its economy could suffer serious damage. Creditors claim that Russia's economy is strong enough for it to pay in full. In addition, Russia's foreign reserves tripled in 2000 to \$24 billion and the federal budget for that year ended with a sur-

plus of \$4.7 billion. KASYANOV asked Deputy Prime Minister and Finance Minister Alexei KUDRIN to consult with the Paris Club, though the process is hindered because of differences about when talks can start.

<p>Ruble = 28.38/\$1.00 (NY rate) Ruble = 28.32/\$1.00 (CB rate) Ruble = 26.98/1 euro (CB rate)</p>
--

Business

CNN's Turner Potential Investor in NTV

- *CNN* founder Ted TURNER is the leading favorite, ahead of *Sky Global's* Rupert MURDOCH, in the search for a Western investor to purchase stakes in Russia's biggest independent television station, *NTV Television*, founded by self-exiled Russian media baron Vladimir GUSINSKY. It appears that MURDOCH has decided not to compete for the stake. The Russian media tycoon wants to sell a stake to a foreign investor. Industry sources said any potential investor was unlikely to want a stake of less than 25 percent plus one share—the lowest a minority shareholder can hold to have a blocking vote. This stake could be valued at over \$90 million. The television station is known for its critical coverage of the Kremlin and its strong effort to protect its editorial independence. Last month, GUSINSKY ceased to be the majority shareholder in *NTV*, turning over a large stake to the state-dominated natural gas monopoly, *Gazprom*, to cancel debts it had guaranteed on his behalf. *Gazprom's* holding totals 46 percent, while GUSINSKY's totals 49.5 percent. GUSINSKY has pledged a further 19 percent stake to *Gazprom* as collateral for more debts due next year. The West has expressed concerns that Russian authorities appear to be restricting the freedom of the press. Russia President Vladimir PUTIN has denied Russian media is subject to pressure. TURNER spokeswoman Mora NORTON said the talks were, "a personal initiative" that didn't involve *Time Warner Inc.*, the media conglomerate of which he is a vice chairman. TURNER showed interest in Russia beginning from the 1986 Goodwill Games, but it is not his practice to comment his personal investment, NORTON said. An unnamed source told Reuters that whether TURNER goes through with his offer depends on how PUTIN reacts to his proposal. PUTIN, who appeared to get along with

TURNER when he met him last spring, is expected to give the US media tycoon his decision by the end of January.

Media Most Offices Searched

- *Media Most's* offices were searched on Wednesday for the third time since a dispute erupted between the group's chairman Vladimir GUSINSKY and *Gazprom* over debts. The searched was timed to disrupt talks between *Media Most* and potential Western investors for the sale of stake in *NTV Television*. *Media Most's* deputy director Andrei TSIMAILO, who was questioned at length, was scheduled to fly abroad for a meeting with a possible foreign investor. *Media Most* also accused *Gazprom*, which is partly government owned, of trying to block *Media Most* from managing its remaining stock independently. An unidentified representative of a *Gazprom Media* subsidiary complained that all talks should have been authorized by *Gazprom*. *Media Most* noted in a statement that, "Today's statements by some anonymous sources in *Gazprom Media* clearly show that this company is obviously trying to monopolize the process of selecting a respectable Western investor for *NTV*...[*Media-Most*] cannot fail to see a connection between the actions of the prosecutor's office and of *Gazprom*." A spokesman for the Prosecutor General's Office refused to specify what investigators were looking for Wednesday, but said that the search was linked to the case against GUSINSKY. The *Media Most* chairman was arrested in Spain in December under a Russian-issued warrant that he understated his company's assets to get loan guarantees from *Gazprom*.

Berezovsky To Sell ORT Stakes

- Self-exiled Russian businessman Boris BEREZOVSKY told *Kommersant Daily* that he is selling his stake in *ORT*, Russia's most watched television station, and that the shares will most likely come under state control. The status of Russia's media has come under close scrutiny under President Vladimir PUTIN, with some critics accusing him of trying to stifle free speech, Reuters reported. BEREZOVSKY, once a Kremlin insider, has sided with those who accused PUTIN of threatening press freedom. *ORT* has always been partly state-owned, but BEREZOVSKY was seen as the driving force behind the media station. He said, "The deal to sell *ORT* shares is being completed.

Roman ABRAMOVICH is acting as go-between. I don't know who the new formal owner is, but I have no doubt that these shares will pass under state control." BEREZOVSKY refused to reveal details of the *ORT* talks but the newspaper suggested BEREZOVSKY's stake would sell for about \$80 million or might involve a swap for shares in an oil-related enterprise, such as a large oil refinery. Sergei DORENKO, a well-known *ORT* journalist and executive, told Sevodnya he had opposed bids to pass *ORT* to the state.

EUROPEAN REPUBLICS

Estonian Central Bank Sees 2001 GDP Growth

- The Estonian Central Bank said today it expected the country's economy to grow by between five and six percent this year and inflation to be 4.2 to 5.3 percent. The Central Bank said last September it was expecting annual economic growth of five to seven percent in 2001, with prices rising between 3.9 and 4.6 percent. Estonian Economic Minister Mihkel PARNOJA said last week he expected gross domestic product (GDP) growth this year to reach six percent. The Finance Ministry forecasts last September predicted the figure at 5.5 percent, raising a May 5.1 percent projection. The Central Bank added, in the latest of its regular quarterly overviews, it expected a current account gap of between 5.9 and eight percent of GDP this year, versus an estimated gap of 6.5 to 7.2 percent for 2000. Estonia's current account gap stood at 4.0 percent of GDP in the third quarter of 2000. Both Estonian exports and imports are seen rising by 10 to 15 percent over the course of 2001. Year-on-year GDP growth in 2000 is seen at 6.1 to 6.3 percent with inflation of 4.1 percent. Analysts say Estonia is mostly over the lingering effects of 1999's recession that saw the economy shrink 1.1 percent, year-on-year after eastern export markets were lost due to the Russia's financial collapse in August, 1998. Growth figures in 2000 were strong amid an export-driven recovery that saw producers tap western markets and the EU to take a full 77 percent of Estonian exports last November, Reuters reported.

Ukraine To Sell Alumina Maker

- Ukraine said it failed to sell its remaining 10 percent stake in *Mykolayivskiy Hlynozemniy Zavod*, Europe's top alumina producer, as the only bidder expected a lower price. The government, which refused to identify the bidder, has been trying to sell the stake for 83.8 million hryvnia (\$15.4 million) since last November. It will offer the stake again through the *Ukrainska Mizhbankivska Valuitna Birzha* stock exchange on January 17th. Ukraine's State Property Fund declined to say whether it will lower the price before next week. Alumina is a key raw material for making aluminum. *Ukrainsky Alyuminy*, the Ukrainian unit of *Rusky Alyuminy*, which is taking control of more than 70 percent of Russia's aluminum production, is interested in the stake, though it didn't seek to buy the stake on Wednesday, said company spokesman Oleh PANIUTA, declining to elaborate further. *Ukrainsky Alyuminy* purchased 10 percent of the alumina producer for 83 million hryvnia in November, after paying 45.4 million hryvnia for a 5 percent stake a month earlier. Early last year, the company bought 30 percent stake for \$100 million, adding to the 4 percent it held earlier. Ukraine expects that its revenue from selling state assets this year will be the country's highest since its independence in 1991. The government plans to raise 5.9 billion hryvnia in 2001, compared with about 2 billion hryvnia in 2000.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia's Cut-Offs Related To Turkey Deal

- Russia's gas cut-offs to Georgia came after high-level lobbying by *United Energy Systems (UES)*, the Russian electricity utility, as a part of its efforts to win a lucrative export contract with Turkey, the *Financial Times* reported Wednesday. In a letter to Russian Deputy Premier Victor KHRISTENKO, head of *UES* Anatoly CHUBAIS criticized the ways gas was supplied from Russia to the US-based electricity group *AES*. *AES* runs part of Georgia's electricity network and controls the transmission network through which *UES* would export to Turkey. According to the newspaper, the letter illustrates the close links between *UES* and *Itera*, which has also benefited from its close ties to *Gazprom*, the Russian gas monopoly.

As CHUBAIS said in the letter, *UES* had "an ab-

solute understanding” with *Itera*, which then cut off supplies to AES “based on the advice of the Security Council.” “This carefully planned scheme”, designed to help *UES* to win its contract with Turkey, was then foiled when AES got gas from rival *Inneftegazstroi*, CHUBAIS stated. Following his letter, Russia cut off its supplies to Georgia on January 1st by forbidding *Inneftegazstroi* to purchase gas from Russian reserves, thus causing power shortages and weakening the position of AES. As the letter goes on, CHUBAIS accuses AES of “trying to monopolize the Trans-Caucasian market.” He says *Inneftegazstroi* contravenes Russian government policy, “by helping the Americans to prevent Russia from penetrating into the Turkish market.” On Tuesday, *UES* said it was “absurd” to suggest that it had applied pressure on Moscow to interfere in gas supplies to Georgia.

Azerbaijan To Ship Tons Of Oil Via Russia

- Russia and Azerbaijan have reached an agreement on the transportation of Azeri oil across Russia to the Black Sea, increasing it more than four-fold to 2.2 million tons in 2001 from 500,000 tons shipped in 2000. Russia’s state-owned oil pipeline monopoly, *Transneft*, will handle the shipments to avoid mixture of Azeri light oil with a lower quality Russian export blend, Urals, which reduces Azeri oil revenue. Russian Vice Prime Minister Viktor KHRISTENKO said, “An interstate agreement signed in 1996 reads that transportation volume will be no less than 5 million tons by the end of 2002.” Russia charges \$15.67 a ton at current volumes to ship crude to the Black Sea. This appears to have caught the attention of other international oil companies working on projects in the region. *BP Amoco*, the world’s third-largest publicly traded oil producer, and seven other oil companies will pay more than \$120 million for engineering studies to build a pipeline to carry Caspian oil from Azerbaijan across Georgia to the Turkish port of Ceyhan. The *State Oil Company of Azerbaijan (Socar)* said it produced 9 million tons of oil last year (180,000 barrels a day), up from 8.99 million tons in 1999.

Turkmen To Host Caspian Sea Summit

- Turkmenistan plans to host a summit of countries with coastlines on the Caspian Sea to resolve the legal status of the inland body of water. “A Caspian summit may take place, at the initiative of our president, in the town of Turkmenbashi at the end of February or the beginning of March. The heads of Azerbaijan, Russia and Iran have already approved the proposal,” a government official said. Kazakhstan is the other Caspian littoral state. The main aim of the meeting would be to reach an internationally acceptable definition of how the waters and reserves of the Caspian should be divided between the surrounding countries. The issue has been simmering since the break up of the Soviet Union at the end of 1991, when there were only two countries involved—the Soviet Union itself and Iran. These two reached an agreement on the division in 1970. The emergence of three new independent states in the region has complicated the negotiations. The official said a meeting of Caspian deputy foreign ministers was scheduled for February in Tehran. Russian President Vladimir PUTIN and Azeri President Geidar ALIYEV Tuesday in Baku signed an agreement in principle to draw a line from a mutually recognized point in the middle of the sea, to be determined later, to the borders of the two countries on the shoreline. The line would mark off the Caspian seabed, but not its waters or surface. **Comment:** *Intercon* sources report that the division of the seabed has not been finalized because of certain unresolved issues. If this agreement goes through Azerbaijan would have conceded to Russia’s position on non-division of the surface and water of the Caspian Sea. If this is the case, Russia might be able to block energy developments for environmental reasons, thereby complicating further economic progress.

**The Daily Report on Russia and the FSU
will not be published on January 15th
in observance of Martin Luther King Jr. Day**

Paul M. Joyal, *President, Editor in Chief*
Clifton F. von Kann, *Publisher*
Oleg D. Kalugin, *Content Advisor*
Jennifer M. Rhodes, *Principal Editor*
Tatyana Kotova, *Contributing Editor*

Daily Report on Russia is for the exclusive use of the subscriber only. Reproduction and/or distribution is not permitted without the expressed written consent of Intercon. *Daily Report on Russia* © copyright 2001, Intercon International, USA.

Daily Report on Russia is published Monday-Friday (excluding holidays), by Intercon International, USA. Subscription price for Washington, D.C. Metro area: \$950.00 per year. A discount is available for non-profit institutions.