

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russia-Iran Expand Nuclear Project**

• Ignoring the US' strong objections, Russia and Iran have agreed to expand a 1995 contract for the building of a nuclear reaction at Iran's Bushehr power plant to include a second reactor. The first reactor will be completed by 2003 at an estimated cost of \$800 million. Work on the second reactor is already underway at the same site. Russian Nuclear Energy Minister Yevgeny ADAMOV said at a news conference, "There is not a single piece of evidence that we are helping or might help Iran develop nuclear weapons potential. It's all pure politics." Moscow and Tehran maintain the plant can be used only for civilian purposes. Iran had previously asked Moscow to conduct a feasibility study on building three more reactors on the site. Moscow has repeatedly insisted that the Bushehr project allows the struggling Russian nuclear energy industry to earn much-needed hard currency and dismissed US warnings that civilian nuclear projects could help Iran develop nuclear weapons know-how, the Associated Press reported. The US has also expressed concerns over plans to sell Iran conventional weapons, breaking a 1995 unofficial agreement between US Vice President AL GORE and former Russian prime minister Viktor CHERNOMYRDIN to stop all tanks and weapons to Iran by 2000. In December, Russian Defense Minister Igor SERGEYEV visited Tehran and signed several agreements on military cooperation, the details of which haven't been released. Moscow insists that it will abide by international agreements banning the proliferation of nuclear and missile technologies.

On Sunday, Russian Deputy Foreign Minister Viktor KALYUZHNY met with Iranian Oil Minister

Bijan Namdar ZANGANEH to discuss efforts to boost cooperation in the oil and economic sectors. KALYUZHNY, who is also Russian president's special envoy on Caspian Sea affairs, pointed to the strategic ties between the two countries and called for more extensive cooperation in oil, gas and petrochemicals sectors. Earlier, he met with his Iranian counterpart Ali AHANI to discuss holding a working meeting on the status of the Caspian Sea at the level of deputy foreign ministers in February. Russia and Iran still disagree on some issues. For instance, Iran insists that the Caspian Sea should be divided into equal parts among all littoral states. KALYUZHNY told his Iranian counterpart about the results of Russian President Vladimir PUTIN's visit to Azerbaijan and gave him the text of the joint statement on the Caspian Sea made in Baku. KALYUZHNY and AHANI also focused on the protection of ecology and fishing in the energy-rich waters.

**Comment:** The renewing of ties with Iran falls in line with PUTIN's foreign policy objective of uniting governments who are interested in countering the US global power domination. The PUTIN administration has been increasing cooperation with China, India, and North Korea, not only in diplomatic and economic issues, but also in the military armament sectors. The new BUSH administration will have to do more to keep Russia's nuclear technology from falling into dangerous hands than economic sanctions, which appears not to be having an impact.

### Deputy Presid. Envoy Wins Tyumen Election

- According to the preliminary results, a tough battle for control of one of Russia's biggest and oil richest Tyumen region ended on Sunday in defeat for the incumbent governor Leonid ROKETSKY, the Financial Times reported Tuesday. Officials stated on Monday that Sergei SOBYANIN, deputy presidential envoy to the central Ural region, won 51.32 percent of the vote. Incumbent governor ROKETSKY, who has presided over a period of relative economic prosperity in Tyumen, stood on 29.92 percent with three other challengers trailing. According to lenta.ru, the turnout was 55,38 percent—well over the 25 percent required to validate the vote and remarkably high considering the severe weather in the region.

Governorships are less coveted since President Vladimir PUTIN reduced their powers by evicting them from parliament, passing legislation allowing him to sack the governors, and appointing seven personal envoys to oversee the regions. Despite losing some of its gloss, however, governorships remain an important power base and are hotly contested. As strana.ru reported on Monday, the way the election race unfolded in Tyumen was typical of all recent gubernatorial campaigns in Russia. Both candidates were teetering on the verge of downfall, with their election headquarters stooping to every kind of trick in an effort to ensure electoral victory. Both candidates filed lawsuits against each other listing numerous wrongdoings in an attempt to have each other's election registration revoked. RODETSKY was generally held to be among Russia's better governors. But he angered the northern part of the region by using its tax revenues to subsidize development of the less industrialized south, the Financial Times stated. SOBYANIN's post as deputy presidential envoy to the Urals barred him from campaigning actively in Tyumen, but his northern backers were powerful enough to do that successfully on his behalf. According to strana.ru, rumors circulating in the election office claimed SOBYANIN had the support of President PUTIN, which partly ensured his victory.

### Economy

#### Russian Defaulting on Japan Debt Payment

- A Japanese source told Reuters on Tuesday that Russia is expected to default on an initial payment

of \$6 million from Soviet-era debt owed to Japan. The payment is not included in recent rescheduling plans for Soviet-era debt by the Paris Club of creditor nations due to its classification as a long-term loan. The source said that, "It is supposed to be paid to the Japan Bank for International Cooperation (JBIC), but I expect Russia not to make the payment today." A spokesman for the state-owned JBIC said the bank could not comment on any specific debt payment. The source added that Russia was due to repay Japan about \$80 million in February under a previous Paris Club rescheduling deal. Russia has said it will not service its Paris Club debt, excluding some interest, in the first quarter of 2001, citing falling budget revenues and rising public spending. The country's Deputy Finance Minister Sergei KOLOTUKHIN said on Monday that Russia may ask the Paris Club of state lenders to reschedule debt due in 2001 and 2002, and request a comprehensive restructuring later. KOLOTUKHIN said Russia owed a total of \$48.6 billion to the Paris Club members, including \$38.7 billion of Soviet-era debt. Russia wants to restructure Soviet debt under an agreement that would include debt relief, but an agreement with the International Monetary Fund (IMF) is normally required before formal negotiations with the Paris Club can begin. Moscow expects an IMF mission to arrive in early February for talks on a new economic program for Russia.

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| <p><b>Ruble = 28.32/\$1.00 (NY rate)</b><br/> <b>Ruble = 28.41/\$1.00 (CB rate)</b><br/> <b>Ruble = 26.46/1 euro (CB rate)</b></p> |
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### Business

#### Media Most Finance Chief Detained

- Russia's Prosecutor General's office on Tuesday detained *Media Most* financial chief Anton TITOV, who is suspected of conspiracy to embezzle specific funds. After two days of questioning, he was placed under arrest. Authorities claim that they took TITOV into custody to stop him from absconding or damaging the investigation against *Media Most* and its chairman Vladimir GUSINSKY. He could be held at the notorious Butyrka Prison for a period of 10 days without being charged. According to a *Media Most* statement, TITOV's arrest was an act of intimidation "without legal foundation" that underlined the "unprofessionalism, arbitrariness

and, at times, frankly criminal activities” of the prosecutor’s office. The detention comes one day after *NTV*, *Media Most’s* independent television station, was raided by prosecutors and Federal Security Service (FSB) officers as part of their probe into GUSINSKY’s finances. The first deputy chief of *Media Most*, Andrei TSIMAILO, also was summoned for questioning Tuesday but failed to appear because he was ill, the Associated Press reported. Liberals charge that legal action against *Media Most* and business tycoon GUSINSKY is evidence of a concerted Kremlin campaign to muzzle the free press. Top UN officials have voiced concerns over Russia’s free media, but Russian President Vladimir PUTIN has brushed these criticisms aside. Tuesday, UNESCO Director General Koichiro MATSUURA sent a letter to PUTIN asking him to firmly support freedom of the press in light of the latest developments, United Press International reported.

#### **Media Most Urges Dismissing Tax Case**

- *Media Most* today urged a Moscow court to throw out a government suit to liquidate the company and its flagship *NTV* television station. The claim, filed by federal tax authorities last month, alleges *Media Most* and several subsidiaries can’t meet their obligations. The media group says it’s paid all its taxes. According to a *Media Most* statement, “The ultimate goal of the present Kremlin dwellers has been declared, openly and unabashedly: any media outlets which dare to criticize the authorities and talk about their mistakes and the errors of officials and corruption should be liquidated.” The International Press Institute told Russian President Vladimir PUTIN it is “deeply concerned” about the action of the tax authorities. *Media Most* said article 99 of the Civil Code, under which the inspectorate filed the suit, has never been used before. Federal tax officials at Tax Inspectorate No. 3 in Moscow, which filed the lawsuit, couldn’t be reached for a comment. The tax authorities’ suit also targets *Media Most’s* satellite network *NTV-Plus* and Russian daily *Sevodnya*. The court delayed a hearing the case against *NTV* and *NTV-Plus* until February 2<sup>nd</sup>. PUTIN has said that the Tax Inspectorate and other law enforcement groups that have filed charges against *Media Most* are constitutionally independent.

#### **BorsodChem Fights For Transparency**

- Hungary’s *BorsodChem* shareholders have

expressed concern over the true ownership of company shares and are calling for clarification of ownership to help support the sagging share price. The *Financial Times* reports that at issue is whether Russian interests are being a take-over attempt of the petrochemicals group using front companies to avoid a public offering. *PszAF* has demanded that shareholders reveal the final beneficial owners of shares. European Bank for Reconstruction and Development (EBRD) director Hubert WARSMANN said, “This is the most important capital markets issue here today. It’s a test of how this market operates for all investors.” He stresses that all corporate battles should be transparent and according to market regulations. Russian interests came into play last September when *Milford Holdings*, an offshore company with links to *Gazprom*, acquired a 24.6 percent stake in *BorsodChem*. Immediately, *BorsodChem’s* shares lost one third of its market value. *Sibur*, a Russian oil company, has options to buy *Milford’s* entire stake in *BorsodChem*. *Sibur*, which is partly owned by *Gazprom*, said it is interested in buying the stakes, but the sale has not been confirmed. Mysteriously in October, *BorsodChem’s* shares, “started a near miraculous recovery on no news, that we could discern,” a report by *Deutsche Bank* stated. Other shareholders soon emerged, including *MDM Bank of Russia* (8 percent stake with links to *Gazprom*), and *VCP* and *CE Oil* (with a combined 16.8 percent stake). If the latter two were being used as front companies by *Milford Holding*, the Russian side would control almost 50 percent of *BorsodChem*. *VCP* and *CE Oil* have denied any connections with Russian entities. *Gazprom* on Tuesday said that a proxy had sold its 24.8 percent stake in *BorsodChem* to *Central European International Bank (CIB)*. Other sources cite that *CIB* bought the stake from *Milford Holdings*. Budapest-based *CIB* wouldn’t say why it bought the shares or whether it will vote the stake at the shareholders’ meeting on January 24<sup>th</sup>. At the meeting, shareholders will vote on changes to the board. *Gazprom* has been maneuvering itself to take key posts on the company’s board of directors and supervisory board. Some speculate that *Gazprom* is interested in these positions to head off an investigation by Hungarian authorities over possible illegal alliances of shareholders.

## EUROPEAN REPUBLICS

### Estonian Agency Predicts 2001 Export Growth

- The Estonian export agency said on Monday it expects the country's 2001 exports to grow by as much as 12 percent, supported by a planned output boost by Finnish *Elcoteq's* Tallinn branch. Estonian exports amounted to 51 billion kroons (\$3.07 billion) in 2000, according to estimates, Lea KROONMANN, director of the agency, said in a statement. "*Elcoteq*, with its large share of [Estonian] exports, plans to expand its plant by about one-third, so there should be no drop in [export] growth, that will come in at up to 12 percent," KROONMANN said. The Central Bank said last week it expects both country's exports and imports to rise by 10 to 15 percent over the course of 2001. In December, electronics manufacturing services group *Elcoteq*, a supplier to telecom equipment majors *Nokia* and *Ericsson*, said expansion of its Tallinn plant is on time for a first quarter 2001 start-up, Reuters reported. The company reported its 2000 nine-months profit surging to almost 40 million euro from 2.6 million the year before. It has been Estonia's single biggest exporter since the second half of 1994, and made up 12.4 percent of 1999 exports. Estonia's exports in 1999 totaled 43.2 billion kroons, a five percent decrease from the year earlier.

### Itera Cuts Gas Supplies To Ukraine

- Itera*, Russia's single natural gas supplier to Ukraine, drastically cut off supplies to Ukraine's four main thermal electric power stations on Tuesday, seeking the repayment of a \$64 million gas debt, the *Financial Times* reported today. The privately-owned gas trading giant *Itera* said that Ukraine's poor payment record had forced it to take action. Ukraine's cabinet in 2000 granted *Itera* an exclusive contract to supply gas to the electric power industry. Boris TANSYURA, an official at one of the affected power plants *Dniproenergo*, stated it was unable to pay for gas because they were in turn unable to

collect payments from their customers. He added that if the gas was not turned back on soon, "we will all be sitting in the dark." Commenting in the issue, Viktor SOROKIN, chief of the Ukraine department at Russia's Ministry of Foreign Affairs, said there was no hidden geopolitical design behind it, "All we are seeking to do is to move our relations with Ukraine to a rational, market basis."

## SOUTH CAUCASUS & CENTRAL ASIA

### Georgian Economic Statistics And Forecasts

- The Georgian Department of Statistics reported that inflation in the country during 2000 reached 4.6 percent and 0.5 percent in December alone. Prices of food products increased by 7.5 percent last year. Non-food products' price decreased by 0.8 percent, tariffs for services increased by 1.9 percent. Inflation rate in 2000 was predicted at 8 percent. During 2001, it is predicted to reach six to eight percent according to Georgian Economic, Industry and Trade Minister Vano CHKHARTISH-VILI. The economy will grow at the rate of four to five percent, Prime News Agency reported. He noted that last year's growth rate would have been higher, if Georgia had not been hit with a summer drought.

### Georgia To Reduce Army Staff By 3,000

- Head of Georgia's main staff department of the Defense Ministry Dimitry LEZHAVA said that serious structural reform is underway in Georgian Armed Forces. The Ministry announced that it will reduce Georgia's armed forces by 3,000 troops in 2001. During the first stage of an army reduction program that ended in January, 2000, the country's troops were cut from 27,000 to 20,000 men. After the reduction is finished in the year 2005, the armed forces will have only 13,000 troops. According to the Defense Ministry, the cuts are aimed to create a professional army and to lessen the pressure of military fund shortage triggered by the current financial and budget crisis in Georgia. The Ministry noted that the reduction will only affect servicing personnel and non-combat structures, leaving

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