

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

Tuesday, January 23, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Swiss Authorities Reject Russian Proposal

• Swiss authorities today rejected a Russia proposal to withdraw an international arrest warrant issued against State Secretary of the Rus-Belarus Union Pavel BORODIN on charges of money laundering. If the Swiss accepted the proposal and released BORODIN, Russia pledged to guarantee that BORODIN would give evidence at the appointed time. Geneva Chief Prosecutor Bernard BERTOSSA rejected the offer, stating that Russia did not have the legal means to ensure this. "He explained, "If there is no arrest warrant and no extradition request for Mr. BORODIN, then he is free to do as he wants. The Russian authorities have no legal means to force him to come to Geneva. For this reason we cannot accept the proposal." BORODIN, who served at the time as head of the Kremlin's property empire, is accused of accepting millions in bribes from two Swiss-based construction firms in return for awarding them lucrative refurbishment contracts. BORODIN and the firms, *Mabetex* and *Mercata*, deny wrongdoing. BORODIN's defense team said they were using every type of diplomatic and legal pressure to get BORODIN freed at a court hearing due to be held on January 25th. Until then, he is being held without bail. FBI agents arrested BORODIN on January 17th at New York's Kennedy airport when he arrived to attend George W. BUSH's presidential inauguration ceremony. **Comment:** Circumstances surrounding the invitation remain mysterious, fueling the ever-conspiratorial Russian media with various theories. Most interesting is the fact that the timing of the invitation, which was issued in Moscow from the office of Vincent ZENGA's *Star Capital* and making the issuance of a diplomatic passport possible. Irrespective of the circumstances, one message is

clear for the Kremlin: the US foreign policy toward Russia is and will be dramatically difference under the BUSH Presidency.

Putin Withdraws Bill To Reduce Police Powers

• Russian President Vladimir PUTIN withdrew draft amendments to force law enforcement officials to obtain warrants from a court before arresting suspects or searching private property. The President withdrew the bill, submitted to parliament last week, under pressure from the Prosecutor General's Office and other law enforcement authorities. The draft legislation would amend Russia's 40-year-old law on law enforcement procedures, which gives prosecutors and other officials the right to arrest suspects and order searches on their own authority. While Russia's 1993 constitution states that only the courts have that right, officials still operate under the Soviet-era procedural code. Russian prosecutors win more than 90 percent of cases they bring to court, helped by powers that exceed those of their Western counterparts. Their right to arrest suspects without a warrant, coupled with the fact that detainees are rarely released on bail, means hundreds of thousands of Russians spend months or years awaiting trial.

Economy

Lifting Restrictions On Foreign Banks?

• First Deputy Finance Minister Alexei ULYUKAYEV today suggested that Russia could lift restrictions on foreign bank

operations on the domestic market to ease the country's entry into the World Trade Organization (WTO). He said liberalization of Russia's insurance and banking sectors was a key issue in talks with the WTO. "It is possible...that in the course of these negotiations we can end restrictions on foreign banks' entry onto the Russian market. This could be a serious concession on our part," ULYUKAYEV told a banking conference. The WTO insists that Russia must throw open its banking sector for foreign capital. Russia promised last month it would make new offers on opening its vast market for goods and services in February. Vladislav METNEV, a banking analyst at *Aton* brokerage, said that the 12 percent legal limit on foreign bank capital on the Russian market was no longer strictly observed by the Central Bank. Matthias VARING, chief coordinator for the *Dresdner Bank* group in Russia, said in an interview with the *Vedomosti* daily that registration of foreign banks in Russia had become a "normal process" But VARING said their entry would not become a "decisive" factor on the Russian market. "This is normal economic development, but I don't think it will be decisive for the development of Russian banks." ULYUKAYEV said the Russian government was taking an inventory of the banks in which it held stakes. It is considering its exit from those banks where it holds less than 25 percent and reviewing its ownership in banks where it owns a larger stake. The Central Bank has said the government has financial interests in more than 400 banks.

Rosbank Behind Inkobank Restructuring

- Picking up from a failed attempt to restructuring in March, 2000, *Inkobank* is preparing to restructure itself again with the help of *Rosbank*. A Moscow court declared *Inkobank* bankrupt. The bank had debts of at least \$1.6 billion, including \$200 million owed to private depositors and \$800 million to foreign creditors, and large off-balance sheet obligations, the *Financial Times* reported. On Thursday, *Rosbank's* President Mikhail PRO-LKHOROV took over as chairman of *Inkobank* creditors' committee. *Rosbank* is the successor of *Uneximbank*. *Rosbank* has been conducting a complete examination of *Inkobank's* assets. One bank official said, "We will show the possible option, ranging from liquidation to hypothetical restructuring," in February. *Rosbank* said that it does not hold any *Inkobank* debts, but that *Inkobank* does owe money to other companies in the *Interros*

Group, to which *Rosbank* is related by common shareholders.

<p>Ruble = 28.37/\$1.00 (NY rate) Ruble = 28.40/\$1.00 (CB rate) Ruble = 26.74/1 euro (CB rate)</p>
--

Business

Putin Supports Turner Interest In NTV

- A senior Russian politician said President Vladimir PUTIN has welcomed CNN founder Ted TURNER's interest in buying a stake in the country's leading independent television station, NTV. Boris GRYZLOV, parliamentary leader of the pro-PUTIN Unity party, discouraged TURNER from pushing the Kremlin for guarantees that it would not interfere in the running of the NTV channel, part of the *Media Most* empire of Vladimir GUSINSKY, who Russia wants extradited from Spain to face fraud charges. GRYZLOV said, "At a meeting with the President, we touched upon this question and the president made it totally clear that if TURNER wants to acquire NTV shares it would be fine." He noted a request that KREMLIN not interfere with the station was rejected. *Gazprom-Media*, which already owns 46 percent of NTV, has launched legal action to secure a further 19 percent stake, which it earlier agreed with *Media Most* to sell to a foreign investor. GUSINSKY says the sale of a blocking stake is vital to preserve media freedom in Russia, Reuters reported.

Gazprom-Itera Links Investigation Proposed

- The Russian government is to propose hiring an auditor to investigate links between *Gazprom*, the world's largest natural gas company, and *Itera*, a Florida-based private gas company. According to *The Wall Street Journal*, minority shareholders in *Gazprom* have pushed the government, which owns 38.4 percent of *Gazprom*, to clarify why the gas monopoly has transferred big gas fields and sales markets to *Itera*, a supposed competitor. A letter, written by economic development minister German GREF to Kremlin-appointed *Gazprom* board chairman Dmitri MEDVEDEV, calls on an independent audit to clarify *Itera's* structure and ties to *Gazprom*; the terms by which *Gazprom* has transferred gas fields to *Itera*; and the size of loan guarantees and credits *Gazprom* has given to *Itera*. The letter states that *Gazprom* is one of

Russia's most important assets and the audit, if approved, would help answer, "whether *Gazprom's* partnership with *Itera* is in the interests of *Gazprom* shareholders".

The state holds five of the 11 seats on *Gazprom's* board and, together with an outside board member representing minority shareholders, could push through a vote supporting an audit. *Gazprom* management holds four seats and has resisted answering questions about *Itera*. *Itera* has denied repeatedly that any *Gazprom* managers own shares in the company and maintains that it helps *Gazprom* by taking unprofitable gas fields and difficult customers off its hands. On Friday, *Gazprom* released third-quarter 2000 results in accordance with international accounting standards, which showed a 13 percent fall in revenues to \$3.6 billion, the *Financial Times* reported today. According to the Bloomberg News, *Itera's* output tripled last year to 20 billion cubic meters (bcm), while *Gazprom's* production declined the past two years, to about 520 bcm in 2000, compared with 545.6 bcm in 1999 and 553.7 bcm in 1998.

EUROPEAN REPUBLICS

Latvian Fiscal Gap 2000 Below Expectations

- Latvia's Finance Ministry said that the 2000 fiscal deficit for the consolidated budget came in lower than expected at 121.9 million lats (\$197.8 million). Finance Ministry official Daiga GULBE said, "This brings the general government deficit (fiscal deficit) to 2.8 percent of gross domestic product, estimated at 4.317 billion Latvian lats (\$7 billion)." The fiscal gap, the state's main budgetary indicator, is below the government's planned 129.3 million lats, or 3.2 percent of GDP. The finance ministry's treasury department said in a statement net revenue came to 1.626 billion lats and expenditures were 1.748 billion lats. Revenues were set at 1.335 billion lats and expenditure at 1.449 billion lats. Latvian government officials earlier said that the real full-year 2000 fiscal gap would not exceed three percent of GDP, a key limit set out in the Maastricht Treaty of the European Union (EU), which Latvia is trying to join, Reuters reported. Latvia wants to be ready to join the EU by 2003 and has been keeping its policies on track for adoption of the euro currency once it becomes the member of the 15-nation trading

block. Latvia also plans to return to a deficit-free situation in 2002.

Lithuanian Transport Minister Resigns

- Lithuanian Transport Minister Gintaras STRIAUKAS resigned on Monday over alleged ethics violations and Prime Minister Rolandas PAKSAS said his Economics Minister may also be forced to quit. STRIAUKAS' resignation followed PAKSAS' receipt of information on allegations of public service ethics violations made by the special investigations service earlier this month. "After reviewing the material the prime minister asked the transport minister to submit his explanations...[of] the facts pointed out by the special investigation service," the government said in a statement. The statement did not provide information on the nature of the alleged violations. The resignation still must be accepted by Lithuanian President Valdas ADAMKUS. Economics Minister Eugenijus MALDEIKIS has also come under fire for a recent trip to see officials of the giant Russian utility *Gazprom* in Moscow, and may be forced to step down. The issue is sensitive as the Lithuanian gas utility *Lietuvos Dujos* is slated for privatization this year and *Gazprom* has said it is considering taking part in it. MALDEIKIS asked the state ethics commission for a ruling on his visit. The ruling is expected within 10 days.

Ukraine Approves Asset Sale Plan

- Ukraine's State Property Fund, the government's asset-selling agency, said it approved a list of companies to be sold this year. The government, which wants to raise at least 5.9 billion hryvnia (about \$1 billion) from selling state enterprises in 2001, said it plans this year to sell stakes in 25 of Ukraine's 27 monopoly regional power distributors, including controlling stakes in 19 distributors. Ukraine said it will offer 49.9 percent of *UkrTelecom*, the national phone company, 76 percent of *Khartsyzskyi Trubnyi Zavod*, which produces large pipes used for making gas pipelines, and 39.5 percent of soda ash maker *Krymskyi Sodovyi Zavod*, adding that the government also plans to sell controlling stakes in the insurers *NASK Oranta* and *Orante-Donbas*. Ukraine plans to raise \$3 billion from selling state assets in 2000-2002. Last year, it fell short of revenue from selling state assets, as it raised 2.073 billion hryvnia (\$380 million), down from 2.5 billion hryvnia initially planned.

WB To Discuss New Installment To Ukraine

• The World Bank on January 17th announced it was sending a senior official to Kiev early next month to discuss releasing the first installment of a \$750 million loan aimed to help restructure Ukraine's economy. Luca BARBONE, World Bank director for former Soviet Ukraine and Belarus, will arrive on February 6th for talks on terms of a \$250 million installment of the three-year loan, agreed at the end of 2000. BARBONE's visit follows a mission on social projects, which worked in Ukraine last week. The mission working on the financial sector adjustment loan will stay in Ukraine until the start of February and plans to discuss reforms in the financial sector and a restructuring of the major state bank *Oshchadbank (Savings bank)*. Ukrainian officials have said they hope to receive the last tranche worth \$60 million of the existing \$300 million financial sector adjustment loan in January. Ukraine has already received \$200 million of the loan approved in 1998. The remaining \$100 million tranche was restructured to \$60 million after the government failed to meet the conditions for the loan. Ukraine has not approved a law on insuring individual deposits. The government failed to meet all the targets in *Oshchadbank* restructuring, Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

Lari To Strengthen Against Dollar

• Georgia's National Bank (NBG) has assessed the internal currency market stabilization. The NBG stated that starting from mid-January it will gradually increase the exchange rate of the Georgian lari to the US dollar. Last week on the TICEX, the dollar supply exceeded demand and, according to the expert assessment, this will create good base for strengthening Georgian national currency. Along with this, NBG did not allow fast growth of the lari rate and thus stopped conjecture quakes on the internal currency market. Prime News Agency reported that by actively purchasing dollars, NBG partially neutralized flow of excess dollars to the

market and achieved strengthening the national currency rate along with accumulating its own currency reserves.

Georgia To Host NATO Pfp Exercises

• Ten North Atlantic Treaty Organization (NATO) members and six partner states, including five from the former eastern bloc, will hold military exercises in Georgia. The military exercises will be conducted in June near the town of Poti, on the Black Sea coast, about 200 kilometers from Gori, the birthplace of former Soviet leader Josef STALIN. The "Cooperative Partner – 2001" exercises will involve 2,000 troops, 40 vessels and 15 planes and helicopters and are designed to help participating countries better co-ordinate humanitarian operations, Bloomberg News reported. A conference on planning these drills will be held in Tbilisi on February 6th to 8th between NATO experts and the head of General Staff of Georgian armed forces, General-lieutenant Joni PIRTSKHALAISHVILI. Similar exercises will be held in Azerbaijan. The exercises are part of NATO's Partnership for Peace program, launched in 1994, which aims to develop military ties between non-NATO members and the US-backed alliance. Russia's President Vladimir Putin warned in June last year against any further expansion of the NATO, which was originally formed to defend Europe from attack by the Soviet Union.

Azeri-Armenian Presidents Meet In Paris

• Azerbaijan's President Geidar ALIYEV and Armenia's President Robert KOCHARYAN will meet today in Paris for another round of direct talks over the Nagorno-Karabakh settlement. Both leaders will also meet with French President Jacques CHIRAC. There is a tripartite meeting ALIYEV-KOCHARYAN-CHIRAC also put on the visit schedule. On January 25th, the Azerbaijani Head of State will attend a ceremonial admission of Azerbaijan to the Council of Europe in Strasbourg, and speak at the Parliamentary Assembly of the Council of Europe.

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.