

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Chechen Attacks, Bush Calls For Negotiations

• A day of rebel ambushes and mine blasts killed 14 Russian troops in breakaway Chechnya, while Russian troops claimed to have destroyed two well-equipped rebel bases near the village of Selmentauzen. Both sides have exaggerated their opponents' losses during the 15-month conflict and minimized their own casualties. Earlier this week, Russian President Vladimir PUTIN signed a troop reduction plan and turned over command of the 16-month-old Chechnya war from Russia's Defense Ministry to Russia's Federal Security Service (FSB). The new strategy for Russia's troops will be to focus on small special operations instead of large-scale attacks to root out Chechen rebels. On Wednesday, nearly 2,000 civilians rallied in Gudermes and Shali to demand an end to the military offense and a full withdrawal of Russian troops. The first Russian army units could start leaving Chechnya as early as next month, the military said Wednesday. The head of the Moscow-appointed Chechen administration, Akhmad KADYROV, said a cut to 40,000 troops from 80,000 would not undermine operations against the rebels.

The new US BUSH administration, in its first official contact with Russia, urged it to begin relations with Chechen rebels to peacefully end the conflict. State Department spokesman Richard BOUCHER said, "We continue to believe that the only way to bring about lasting peace and stability in the region is to begin a dialogue that will lead to a political settlement." He acknowledged PUTIN's plan to withdraw troops, but stated, "frankly, Russia's presence in Chechnya remains massive." He also urged Russia to take steps to deal with social and economic

problems in Chechnya. The BUSH administration's strong comments coincided with a letter received from PUTIN.

PUTIN has called for broadening Russian-American cooperation and establishing major issues to be discussed. The letter stated, "When Russia and the US act jointly or on parallel tracks decisions meeting the interests of peace and international stability may be reached." Some issues to be tackled include the BUSH administration's plan to go ahead with a national missile defense despite a ban contained in a ABM 1972 treaty, the security of Russia's nuclear stockpiles, and possible plans to expand NATO to include the Baltic States. A panel advising the Energy Department issued a report that urged Bush to appoint a high-level official at the White House to oversee US efforts to help safeguard nuclear stockpiles in Russia and to stem the spread of nuclear technology. A former White House counsel who served on the panel Lloyd CUTLER, said "The most urgent unmet national security threat to the United States today is the danger that weapons of mass destruction or weapons-usable material in Russia could be stolen or sold to terrorists or hostile nation states and used against American troops abroad or citizens at home." In addition, the US should be concerned over the new alliances Russia is establishing under PUTIN with China and India to off set what Russia calls an American-run "unipolar world."

Economy

Russia Predicts GDP Growth

- Russia draft-

ed an economic program for the next three years foreseeing 4 percent growth this year, 4.8 percent in 2002, and 5.2 percent in 2003, KommersantDaily reported, citing documents from the Economics Ministry. Inflation would slow to between 12 percent and 14 percent in 2001, 11 percent in 2002, and 8 percent in 2003, the newspaper reported. The draft will be submitted to the government for approval in March. The growth projections assume rescheduling of about \$38 billion of Soviet-era debts owed to creditor nations, tax cuts, foreign investment, and a growth in domestic demand. If Russia doesn't get creditors to reschedule the Soviet part of its \$48 billion debt to creditor nations, growth rates would be as much as 2 percentage points lower, while inflation rates would be higher. Russia last year approved a 10-year reform plan that aimed to achieve annual growth rates of 5.5 percent to 5 percent through tax cuts, banking system reform, ending late payments for gas and power and stopping subsidies through low rent and utility rates. Russia's GDP rose in 2000 to \$250 billion, 7.6 percent more than the figure for 1999, RFE\RL Newsline reported. Russia's foreign trade surplus more than doubled to \$67 billion. Russians' real incomes rose 9.1 percent in 2000 compared to 1999, while unemployment fell from 12.2 percent to 10.2 percent over the same period.

In addition, Deputy Finance Minister Anderi PETROV said that the Russian economy requires investment of \$10 billion to \$15 billion per year to keep its economy growing. He believes that a significant portion of that figure must come from foreign investors. **Comment:** If this is the type of investment required, it must come from international investors and organizations. Russia's foreign policy approach and its relations to wealthy nations under President Vladimir PUTIN do little to assure investors. For example, earlier this week PUTIN rejected a request by *CNN* founder Ted TURNER, who is interested in purchasing a stake in *Media Most's NTV Television Station*, for assurances that the government would not interfere with the station's news coverage. PUTIN's actions do little to raise the confidence of investors in Russia's government and its ability to monitor corporate governance laws. Instead, the President's actions contribute to Russia's bad reputation.

VTB To Buy CB Foreign Subsidiaries

- Russian Central Bank-controlled *Vneshtorgbank* (VTB) has received permission from foreign authorities to buy out two of the five Central Bank's subsidiaries abroad, VTB head said on Wednesday. VTB Chairman and President Yuri PONOMARYOV said VTB received permission from Luxemburg authorities to buy 100 percent of the *East-West United Bank*, 49 percent of which belonged to the Central Bank. Austrian authorities allowed VTB to buy 49 percent of the local *Donau-Bank* in addition to 51 percent it had already acquired. Russia's Central Bank owned 49 percent of *Donau-Bank* at the beginning of 1999. The buy-outs could nominally satisfy International Monetary Fund (IMF) demands that the Central Bank divest its subsidiaries abroad. But the deals would leave the assets under indirect control of the Central Bank, which owns 99.9 percent in VTB. PONOMARYOV also said VTB was on track to buy 31 percent of *Ost-West Handelsbank*, a stake in London-based *Moscow Narodny Bank*, and a 38 percent stake in Paris-based *Eurobank*, Reuters reported.

Ruble = 28.39/\$1.00 (NY rate)

Ruble = 28.37/\$1.00 (CB rate)

Ruble = 26.00/1 euro (CB rate)

Business

BorsodChem Board Taken Over

- At an extraordinary *BorsodChem* shareholder meeting on Wednesday, three shareholder groups, with ties to Russian gas monopoly *Gazprom* and a combined 51 percent control, ousted five of the seven board members. The groups appointed their own nominees, including a new chairman and three new members of the supervisory board, the Financial Times reported. Analysts have long believed that *BorsodChem* was the target of groups with undeclared links to *Gazprom*. Hubert WARSMANN, director of the European Bank for Reconstruction and Development (EBRD) which holds an 8.6 percent stake, said, "This is a sad day, the last day of the old *BorsodChem*. The company has passed to a group of shareholders with 51 percent control, leaving the other owners with 49 percent out in the cold." The recent accumulation of *BorsodChem's* shares by foreign investors has put pressure on Hungary to improve its corporate governance laws. Over the past five months, the

share price of *BorsodChem* on the Budapest stock exchange fell by 30 percent. The Budapest Stock Exchange suspended the shares on Wednesday as shareholders met in Budapest.

PwC To Audit Gazprom-Itera Relations

- The board of Russian natural gas monopoly *Gazprom* on Tuesday appointed *PriceWaterhouseCoopers* to probe its mysterious relations with gas firm *Itera*. Minority shareholders have raised questions about company transparency. *Itera* is the main supplier of *Gazprom* gas—which it acquires indirectly from the company—to former Soviet states. It uses *Gazprom's* own pipelines to move the gas, prompting many Russian oil and gas firms to press for similar terms and access. Board member Boris FYODOROV, a former deputy prime minister, insists *Gazprom* management is obligated to disclose to investors the terms of sale and transportation and to clarify and the legal relationship between itself and *Itera*. He has also demanded explanations on how *Itera*—supposedly a *Gazprom* competitor—received licenses from *Gazprom* for big gas fields and sales markets. The government, which controls 38.37 percent of *Gazprom* shares and holds five of 11 board seats, has taken a tougher line toward the company in recent months.

EUROPEAN REPUBLICS

Ukraine's Borrowing Drops To \$440 Million

- Ukraine's total budget borrowings were 2.4 billion hryvnias (\$440 million) in 2000, 67 percent lower than planned, the head of the State Treasury said on Tuesday. Alexander KIREYEV told Reuters the government had raised two billion hryvnias from treasury bill sales on the domestic market. Foreign loans totaled 381 million hryvnias. Ukraine received little foreign lending in 2000 after the International Monetary Fund (IMF) froze its loan program at the end of 1999 due to slow reforms. It has since resumed lending. "The volume of state borrowings in 2000 fell by 57.3 percent or by 3.2 billion hryvnias compared to 1999," KIREYEV said. Ukraine's state budget revenues were two percent higher than expected last year due to a ban on barter deals and payments with promissory notes. He said the state planned to receive two billion hryvnias as budget revenue in January compared to 1.5 billion

gryvnias received in the same period last year, adding it would allow it to cover spending without new borrowing. "We hope we will get through January without borrowing. We will have to borrow in March when financing [budget spending] without domestic borrowing is problematic." KIREYEV said Ukraine could suffer from gaps in financing as budget revenues traditionally increase in the third quarter of the year due to seasonal work of the agriculture and processing industry. The government hopes to receive around 14 percent of its budget revenue from privatization in 2001, but the bulk of the money is expected closer to the end of the year.

New Union Secretary Appointment Criticized

- Belarus Prime Minister Leonid KOZIK has criticized Russian Prime Minister Mikhail KASYANOV's appointment of Igor SELIVANOV as acting State Secretary of the Rus-Belarus Union in place of Pavel BORODIN, who is under arrest in the US. Russian Deputy Prime Minister Viktor KHRISTENKO has defended KASYANOV stating that he was acting in the capacity of chairman of the government of the Union state, rather than the Russian Prime Minister. Deputy chief of the apparatus of the Russian government Aleksei VOLIN pointed out that the work of the board must not be paralyzed while BORODIN is held in the US. Russia hopes to resolve this issue before the next meeting of the Russia-Belarus Council of Ministers scheduled for January 29th. The meeting is to discuss the 2001 draft budget of the union state and joint use of the potential of the Kaliningrad region, VOLIN said. Meanwhile, *Vremya Novosti* reported Belarus President Alexander LUKASHENKO's unscheduled departure from Moscow to Minsk raised speculation that the Kremlin was angered by his remarks over BORODIN's arrest. The newspaper said, "even the most nationalist and most pro-Western politicians in Belarus understand that approval for the presidency of Belarus is handed out in the Kremlin." It further suggested that LUKASHENKO was falling out of favor with Russian President Vladimir PUTIN.

Rus-Belarus To Register New Oil Company

- Russia and Belarus plan to officially register their joint oil company in February, 2001 to extract oil in the Tyumen region of Russia and process it in Belarus. The president of the Russian-Belarus oil and gas company *Slavneft*, Mikhail GUTSERIYEV held talks in Minsk with Belarus Deputy Prime Min-

ister Valery KOKOREV to discuss the creation of *Slavyanskaya Neftyanaya Kompaniya (Slavic Oil Company)*. GUTSERIYEV said the new company may break even within seven years. Its creation will require investment of about \$1 billion.

SOUTH CAUCASUS & CENTRAL ASIA

Georgian-Russian Base Proposals

- Georgia and Russia are separately preparing proposals for the withdrawal of Russian military bases from Georgia, specifically the Batumi and Akhalkalaki bases. Georgian Deputy Defense Minister Gela BEZHUASHVILI claims that the Georgian side calculated that three years will be long enough for the withdrawal. Russian Deputy Prime Minister Ilya KLEBANOV has suggested that Russia will need 15 years to withdrawal its troops, military technology and hardware. Georgia and Russia must before February 15th with complete suggestions for the deadlines of withdrawals. A final decision on the issue will be made at the sixth round of negotiations scheduled for March, Prime News Agency reported. Russia must withdrawal from its Gudauta and Vaziani by July, 2001, according to an agreement reached at the November, 1999 Istanbul Summit of the Organization for Security and Cooperation in Europe (OSCE). As of February 15th, all Russian equipment from Vaziani will be transfer to Georgia. To date, eight military equipment pieces have been transferred.

Azeri-Armenia Join Council Of Europe

- Armenia and Azerbaijan are set to join the Council of Europe in a ceremony to be held in Strasbourg today. Armenian President Robert KOCHARYAN and Azeri President Geidar ALIYEV and foreign ministers of the two countries will participate in the accession ceremony in the framework of the Parliamentary Assembly of the Council of Europe session. The Council of Europe had hoped that by joining the group Azerbaijan and Armenia would resolve their 13-year conflict over the Nagorno-Karabakh region. The Council's secretary-general Walter

SCHWIMMER said, "We hope that their simultaneous integration into the European family will help Armenia and Azerbaijan adopt a new approach to seeking a rapid solution to the conflict." President ALIYEV, however, has not softened his stance. He said, "Azerbaijan is today the victim of large scale armed aggression by its Armenian neighbor. There is no similar situation in the world, but the international community watches this fearful tragedy in silence." He called on the world to act. KOCHARYAN said, "Armenia's position is determined by the need for legal equality between the two sides involved in the conflict and also by the need to take into account the reality of Nagorno-Karabakh." The Council of Europe said it believed both countries would comply with its standards on democracy and human rights, adding that it would monitor their democratic progress on a regular basis.

Armenia And Iran—Strategic Partners

- Iranian Finance and Economics Minister Hossein NAMAZI arrived in Yerevan Tuesday to co-chair the Iran-Armenian Intergovernmental Commission for coordination of contacts between the two countries. The Commission met on Wednesday to discuss the construction of a gas pipeline from Iran to Armenia, a joint project for the construction of a hydro-electric power-station on the Aras river on the border between the two countries, an oil and gas pipelines' construction across Armenia's Megri region bordering with Iran, and the construction of a mountain-tunnel from Megri to Kajaran. Later NAMAZI met Armenian President Robert KOCHARYAN. He described relations with Armenia as "strategic, serious and deep". Itar-Tass reported KOCHARYAN also gave a high assessment to the development of relations between the two countries. He stressed that Armenia and Iran are strategic partners. Both leaders stressed the need to review the tariff policy to expand Armenian goods on the Iranian market.

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