

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

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RUSSIAN FEDERATION

Politics

Putin Outlines Foreign Policy

• On Friday, Russian President Vladimir PUTIN outlined Moscow's foreign policy priorities, calling for cooperation with the West while warning against further NATO expansion and the deployment by the US of a national missile defense system (NMD). PUTIN warned that Washington's provisional plan to deploy the NMD shield would cause, "irreparable damage to the architecture of international relations." Russia claims that the NMD violates the 1972 Anti-Ballistic Missile Treaty reached between the US and the USSR. The President stressed that Russia has taken steps to boost arms control, noting that Moscow has ratified both the START-II treaty and the Conventional Test Ban Treaty. Russian missile experts from February 1st to 10th will attend a training session at the US NORAD airbase in Colorado Springs with US specialists. During their stay at the secrecy-shrouded North American Aerospace Defense Command, the mountain base that watches out for missile attacks on North America, experts will also discuss the proliferation of rocket technology. Washington says it needs a NMD shield to ward off possible attack from hostile states like Iraq, Iran and North Korea, which are developing missile and nuclear weapon technology.

PUTIN also called for the normalization of relations with NATO. Russia remains against the eastward expansion of the military alliance. He said NATO's expansion policy, which calls for inclusion of former Warsaw Pact members in the alliance, is a "mistake," adding that these moves are "unacceptable to us." The Russian government has repeatedly warned NATO that it will not tolerate the inclusion of the three former Soviet Baltic states of Estonia, Latvia, and Lithuania in the alliance. All three have applied

to join NATO, but no date for their acceptance into the bloc has been set. The Russian leader said cooperation and integration in regional structures in Asia and the Pacific was a top priority, giving Moscow a better balance in world relations and leading it away from a Western-leaning foreign policy practices in the early 1990s, after the collapse of the Soviet Union. Russia has actively pushed for a larger role in East Asia, taking part in talks with the reclusive North Korean leadership, and has re-established close ties with China and India.

An-70 Prototype Crashes Before Tests

• Russia's \$300 million venture with Ukraine to build military transport planes suffered a setback Saturday when its only An-70 prototype crashed at Omsk airport after takeoff, Vedomosti reported. The 33 crew survived when the plane plunged to earth after two of its four prop engines failed, though two passengers were taken to the local hospital. The plane was en route from Kiev to Yakutsk in East Siberia to be tested under low temperatures. The crash could jeopardize Russian plans to invest a further \$170 million in the project. Russia already had queried the reliability of the An-70's engines, made by Ukrainian airplane producer *Antonov's* Kiev factory, Vedomosti reported. Russia said this month it will consolidate hundreds of defense companies, including the maker of MiG fighter jets, into about ten holding companies to boost exports and regain market share lost over the past decade. Russia last year boosted arms exports by 26.5 percent to

\$4.3 billion, compared with \$3.4 billion in 1999, according to Russian media reports.

Economy

<p>Ruble = 28.36/\$1.00 (NY rate) Ruble = 28.37/\$1.00 (CB rate) Ruble = 26.13/1 euro (CB rate)</p>

Control Over Railway Export Fees Changes

- Russia stripped the Railways Ministry of the right to set railway fares for exporters, one of its main sources of revenue, handing that right to the Antimonopoly Ministry, Vedomosti reported. Export shipments make up about a third of all rail shipments through Russia, though they account for most of the Railway Ministry's revenue, as rates on exports are higher than fees charged for internal cargo transport. President Vladimir PUTIN last year criticized the ministry, saying the difference between export and domestic fees is a loophole that breeds corruption. Russia has said it plans to break up the state-owned railways as a part of its economic program, which calls for the deregulation of the national power, natural gas, and railways monopolies, Bloomberg News reported. Cargo transport in the state-owned railway system accounts for the bulk of revenue in a country of 11 time zones with 87,000 kilometers of railways, while passenger traffic accounts for only 10 percent.

Business

Gazprom Lobbies Delay Of Energy Treaty

- Russia's gas monopoly *Gazprom* has called on the government to delay the ratification of the International Energy Charter Treaty (IECT), already signed by 51 countries and ratified by 44. As the Financial Times reported, *Gazprom* fears that the treaty would weaken its grip on Russia's pipelines and on domestic and export markets. Signed by the Russian government in 1994, the treaty gives more legal security for cross-border investment and long-term supply contracts. Many rules of the treaty overlap those of the World Trade Organization (WTO), which Russia has been seeking to join. The Russian Duma conducted hearings on Friday to ratify IECT. The hearings ended inconclusively and the deputies asked for a fresh review of the economic and political consequences of ratification. Continued Russian delay could cast a shadow over the plans for a "strategic energy partnership" with

the European Union (EU) announced in October. Russian President Vladimir PUTIN backs the energy deal with the EU so ratification of the charter looks set to pit the Kremlin against *Gazprom*. *Gazprom* claims that Russia's ratification of the treaty could cost it domestic revenues of \$5 billion a year, and export revenues of twice that amount by 2005. Moreover, *Gazprom* says the charter would oblige it to open its pipeline network, across Russia to Europe, to lower-cost gas from Kazakhstan and Turkmenistan. Russia's other big energy companies, including *Transneft* which runs the country's oil pipelines, support the ratification.

BP Amoco Sells LUKoil Stake

- *BP Amoco* today said it received \$657 million from the sale of its 7 percent stake in *LUKoil*, Russia's biggest oil producer, through a combined ADR placement and exchange bond offering. *BP* received \$237 million from the sale of 41 percent of its stake in the form of American Depository Receipts (ADR) —at a price of \$40.375 per ADR—and \$420 million in exchangeable bonds carrying a three percent coupon. The British company inherited the *LUKoil* stake from its purchase of *Atlantic Richfield Co. (Arco)* last year. *Credit Suisse First Boston* and *UBS Warburg* conducted the sale on *BP*'s behalf. Shares in *LUKoil* slumped 10 percent following the sale and the RTS index fell by 3.2 percent. The Financial Times reports that *BP* sold its stake because it had no representation on the board of directors of *LUKoil* and no control over its assets. Ralph ALEXANDER, a vice president at *BP*, said the company was selling the stake to use the money in projects elsewhere.

Putin Backs NTV Independence

- After three hours of talks with *NTV* journalists in the Kremlin, Russian President Vladimir PUTIN said on Monday he wanted Russia's *NTV Television* to remain independent. Journalists, however, complained that actions speak louder than words, as prosecutors continue to conduct a witch-hunt against the station and Vladimir GUSINSKY, founder of its parent group *Media Most*. Prosecutors have raided the group 28 times since last May in what critics say is a Kremlin-orchestrated campaign to muzzle a vocal critic and Russia's sole independent media empire. GUSINSKY is trying to sell financier George SOROS and *CNN* founder Ted TURNER a 25 percent blocking stake in *NTV*. TURNER sought

a guarantee from PUTIN that the government would not interfere in the editorial content of the station; this request was denied. SOROS said that maintaining NTV's independent status is a precondition for any western investment in television station. SOROS said the European Bank for Reconstruction and Development (EBRD) could invest up to \$100 million in NTV, while sources close to the negotiations told Reuters that Sweden's *Modern Times Group* was also interested.

Tuesday Tid-Bit

Yeltsin To Celebrate Birthday In Hospital

- Former Russian President Boris YELTSIN was rushed to the government's Central Clinical Hospital today with a high fever and a suspected viral infection. YELTSIN's aide Valentin SHEVCHENKO said an intensive course of treatments will take several days to be administered. YELTSIN, who turns 70 on Thursday, underwent quintuple bypass surgery in November, 1996, shortly after winning a second term. He limped from one hospitalization to another in the years that followed—getting treatment for ailments ranging from pneumonia to bronchitis to ulcers, the Associated Press reported. Each of his ailments caused a political crisis and sometimes triggered succession battles. YELTSIN abruptly resigned on December 31, 1999, six months before the end of his term, turning power over to then Prime Minister Vladimir PUTIN.

EUROPEAN REPUBLICS

Philip Morris To Open Plant In February

- Philip Morris Lietuva*, the Lithuanian subsidiary of *Philip Morris Cos.*, said it will finish a tobacco preparation plant in mid-February, boosting investments in the country by 52 million litas (\$13 million). *Philip Morris*, the world's largest tobacco company and Lithuania's second biggest foreign investor, has already invested 500 million litas in the Klaipeda tobacco plant and a confectionery in Kaunas. "We are very satisfied as investors here and we are going to use Lithuania as our export basis," said Lars OHNEMUS, *Philip Morris'* managing director for the Baltics. The new *Philip Morris* production facility in Klaipeda will add 55 new jobs to the 1,700 work force. *Philip Morris* has posted annual revenue

of about 1 billion litas in the Baltic States over the last two years, about the same level it expects for this year, as well.

Ukraine CB Licenses Small Bank

- Ukraine's Central Bank licensed *Mikrofinansovyi Bank*, partly owned by the European Bank for Reconstruction and Development (EBRD), the World Bank, and other international financial organizations. The EBRD, the International Financial Corporation, the World Bank's private investment arm, the Western Newly Independent States Enterprise Fund and the German-Ukrainian Fund each own 20 percent stakes in the bank. The remaining 20 percent is split between German investment company *IMU* and the *Doen Fund* of the Netherlands. *Mikrofinansovyi Bank* aims to provide loans to small businesses, as Ukraine's growing economy boosts demand for credits. The bank, with capital of 10 million euros (about \$9.5 million), plans to open branches this year in some of Ukraine's biggest cities, including Kharkiv, Donetsk, and Lviv. The bank's Slavutych branch aims to help the city's 28,000 residents cope after the closure last month of the Chernobyl nuclear plant, the town's main employer. Chernobyl was the site of the world's worst nuclear plant catastrophe in 1986.

SOUTH CAUCASUS & CENTRAL ASIA

Mail Bomb Explodes In Tbilisi

- A parcel exploded today in a Tbilisi post office killing security officer Dzhambul GORGODZE and injuring Erasti TOROTADZE, who were investigating the mysterious package. Witnesses and post office employees at the scene said the blast shook the entire building. *Intercon* sources in the Security Ministry report that this was not a political act, but a revengeful dispute between two families. A few months ago a boxer was murdered in Poti. The family of the deceased apparently sent the package to the brother of the man they thought was responsible for the murder. The parcel was sent on January 25th from the Georgian city of Kutaisi.

Azerbaijan Economic Statistics

- Azerbaijan's State Statistics Committee said the nation's gross domestic product (GDP) in 2000 grew 11.4 percent to 21.94 trillion manat. GDP growth in 1999 was 7.4 percent. Industrial production in 2000 rose 6.9 percent to 12.95 trillion

manat. Interfax news agency reported that capital investment increased 2.4 percent to 4.684 trillion manat. Agricultural production grew 12.1 percent to 5.303 trillion manat. Transport companies posted freight turnover up 9.9 percent to 19.792 billion ton-kilometers. The volume of communication services increased 33.9 percent to 7.28 billion manat. Retail in goods was up 9.8 percent from 1999 to 10.599 trillion manat and retail in services increased 5.8 percent to 2.386 trillion manat. Azerbaijan's foreign trade turnover in the first 11 months of 2000 grew 75.4 percent to \$2.750 billion, as exports jumped 166.3 percent to \$1.699 billion and imports rose 13 percent to \$1.051 billion. Consumer price inflation as 1.8 percent in 2000.

Azerbaijan Limits Oil Shipments Via Russia

- Due to a rising domestic demand for oil, Azerbaijan said that it will be limiting the total of shipments of oil via Russia to no more than 1.7 million tons (12.5 million barrels). This amounts to about a fifth of what was planned. Azerbaijan can't meet a pledge to more than quadruple this year to 2.2 million tons its shipments to Novorossiisk, on the Black Sea, made during Russian President Vladimir PUTIN's visit to Baku three weeks ago, Bloomberg News reported. *Azerbaijan State Oil Company (Socar)* President Ilkham ALIYEV said the company doesn't plan to boost output. "Any increase in shipments would be followed by problems with oil refining, and that could hurt the economy," he said. Despite this, *Socar* plans to ship 75,000 tons of oil across Russia by the end of January and expects to transport 850,000 tons of oil to Novorossiisk by July, of which 200,000 tons will be shipped in June alone. Russia's aim to get Caspian Sea oil producers to ship more of their oil through its pipes, thereby gaining extra revenue for *Transneft* and boosting its political influence in the oil-rich region. *Socar* also has raised concerns that the quality of its oil will decline if Russia's *Transneft* mixes it with lower-quality Urals export blend oil. *Transneft* was not available for comment. The *Azerbaijan International Operating Co. (AIOC)*, a Caspian venture managed by *BP*

Amoco, will lose \$40 per ton of oil if it's mixed in the pipeline with Russian crude, ALIYEV said. *AIOC*, which transports most of its output across Georgia to the Black Sea, last year increased production by 7.1 percent to 5,200 tons (104,000 barrels a day) of oil, compared with 1999.

Armenia Forms Peacekeeping Unit

- Armenian Defense Minister Serzh SARKISYAN announced Monday that Armenia will have its own peacekeeping unit. The minister said 300 people have expressed their desire to serve in the peacekeeping unit. The place for its deployment has already been chosen. A team of 30 officers will undergo special training to learn foreign languages and master new equipment. SARKISYAN noted that the peacekeeping unit is being created not within the framework of NATO, but in accordance with an agreement between the Armenian leadership and the UN. Nonetheless, Greece and other NATO countries have expressed an interest in assisting Armenia to create its peacekeeping unit.

Kazakh Minister Predicts GDP Growth

- Kazakhstan expects its gross domestic product (GDP) to grow by 30 percent over the next five years, including GDP growth of four percent this year, Deputy Economy and Trade Minister Alexander ANDRYUSHCHENKO said today. "GDP growth in 2001 will be four percent, industrial output will grow by eight percent and there will be changes in the structure of GDP," he said, adding that Kazakhstan was moving away from being just a raw materials based economy and was increasing its industrial base. "Over the next five years GDP will grow by 30 percent." ANDRYUSHCHENKO, who was speaking to a meeting of regional governors, said that already this year the share of industry in the economy would grow to 33 percent from 30 percent last year. He added inflation was set to fall to six percent by 2005 from 9.6 percent last year. Kazakhstan is rising as an important oil producer and has large reserves of base and precious metals.

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