

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia-Iraq Discuss Joint Cooperation

- Russian Energy and Fuel Minister Alexander GAVRIN and a delegation arrived in Baghdad Monday. He said that the delegation hopes to, "have the opportunity to discuss with senior Iraqi officials means of developing joint cooperation in different fields." He declined to comment in detail on the fate of contracts signed between major Russian oil companies and Iraq to develop the West Qurna oilfield in south Iraq. He said, "The Energy Ministry has every interest to see contracts signed between Russian oil companies and Iraq be implemented." Russia's largest oil company *LUKoil* signed a \$3.5 billion contract in 1997 to develop the West Qurna oilfield with partners *Zarubezneft* and *Mashinoimport* once sanctions are lifted. Before sanctions were put in place, Russia supplied Baghdad with military goods worth up to \$8 billion to be repaid with oil. Russia's only chance to recoup at least some of the outstanding debt is if sanctions are lifted and Russian firms are allowed to invest in Iraqi oilfields. Political and economic analysts have said that Moscow is testing the limits of the sanctions regime with its flights to Baghdad and strong signals of friendly intentions to Iraq. GAVRIN and the delegation will meet with Iraqi Oil Minister Amir Mohammed RASHEED and other senior Iraqi oil officials.

Safety System Shuts Down Nuclear Reactor

- An automatic safety system shut down a reactor at a nuclear plant in western Russia on January 22nd, but radiation levels remained normal, the Emergencies Ministry said. A ministry spokeswoman confirmed Russian news agency reports that the safety system at the Smolensk nuclear power station had been triggered at 6:40 a.m. (0340 GMT), shutting

down the second reactor. "Radiation levels are normal, but we do not yet know what triggered the safety system," the spokeswoman said. She said there was no danger to staff at the plant, the local population or the environment, Reuters reported.

Economy

IMF Unlikely To Reach Deal With Moscow

- An International Monetary Fund (IMF) team arrived in Moscow to help break the stalemate in Russia's dispute with the West over the Soviet-era debt, Agence France Press reported. Financial analysts expect that the outcome of the IMF mission would set the short-term agenda for Russia's talks with the Paris Club of international creditors about a possible rescheduling of 48.3 billion dollar debt. However, there is much skepticism about such an outcome. On January 1st, Russia's debt to the creditor nations stood at \$48.3 billion, of which \$38.7 billion were Soviet-era obligations. Russia owes to Germany \$21.1 billion of the Paris Club debt. This year, Russia is due to repay some \$3.5 billion, but the current 2001 budget provides for only \$300 million in interest payments. Earlier this week, Germany threatened to bar Russia from economic membership in the Group of Eight world leading powers should Moscow default on its commitments.

The Financial Times reported today that the tensions have emerged between the IMF and Moscow. Specifically, it concerns macro-economic policy; the absence of

restructuring and tighter regulation in the highly politicized banking sector. The two sides are also divided on the outlook for growth, and, in particular, the level of oil prices. All these factors leave experts gloomy about the chances of getting a workable accord. "Russia has much to do if it is to receive a positive recommendation from the current mission," the *Renaissance Capital* financial group said. A previous IMF mission to Moscow last November ended in failure.

<p>Ruble = 28.37/\$1.00 (NY rate) Ruble = 28.37/\$1.00 (CB rate) Ruble = 26.44/1 euro (CB rate)</p>
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Gazprom Cuts Domestic Supplies In 2000

- Russia's gas monopoly, *Gazprom*, cut gas supplies to domestic customers by 11.9 percent last year from 1999 as production fell and exports rose. *Gazprom*, which accounts for about a quarter of world gas output, has said production fell 4.1 percent in 2000 from 545.6 billion cubic meters to 523.1 billion cubic meters. Its exports, which met 26 percent of Western European demand for gas, rose by 2.5 percent from 126.8 billion cubic meters in 1999 to 130 billion cubic meters in 2000. Steve ALLEN, an analyst at *Renaissance Capital* brokerage pointed out, "*Gazprom* loses money domestically," because of low prices and problems collecting payments. He added, "It can't stop selling gas on the domestic market, but it can cut off non-payers," and thus decreases supplies to Russian consumers. The company's revenue from exports to Europe almost doubled last year to \$11 billion from \$6.8 billion in 1999 on high gas prices, *Gazprom* said. The company sells gas in Europe for as much as 10 times the average price of \$12 to \$15 per 1,000 cubic meters it receives from Russian customers. The company also cut gas deliveries to the Commonwealth of Independent State (CIS) and the Baltic countries by 12.4 percent, the chamber said. *Gazprom* planned to supply domestic customers with 264 billion cubic meters of gas last year, or 79.2 percent of the 333.3 billion cubic meters required by the Russian market. The company delivered 299.8 billion cubic meters of gas to Russian customers in 1999, the company said. The Audit Chamber investigated the company's operations from January, 1999 until September, 2000, Bloomberg News reported. The probe revealed that *Gazprom's* debts rose even

as it provided interest-free loans to companies not involved in its primary business of extracting and selling gas. The chamber is empowered to investigate all Russian state-owned companies and firms that receive state credits.

Business

Rus-GAO Gazprom-Itera Audit Cooperation

- Russia's Audit Chamber, run by former Prime Minister Sergei STEPASHIN, plans to contact the US Government Accounting Office (GAO) for cooperation on an investigation of Russian gas monopoly *Gazprom's* relationship with US private company, *Itera*. The inquiry will focus on suspicious transactions between the two. Over the past three years *Itera* has grown rapidly, in part due to deals with *Gazprom* allegedly at below market prices. STEPASHIN said that there were grounds to believe that *Gazprom* managers might, "manage and control the situation at *Itera*," the *Financial Times* reported. Russia hopes the GAO will, "conduct some audit checks," and obtain information on *Itera's* US operations. However, it is unclear how the GAO could provide any information on a private US company. The GAO is the investigating arm of Congress and is charged with examining all matters relating to the receipt and disbursement of public funds. The GAO is under the control and direction of the Comptroller General of the US.

This probe will run simultaneously with an on-going audit ordered by the government. *Gazprom* has selected *PricewaterhouseCoopers (PwC)* to scrutinize its transactions with *Itera*. Shareholders have accused *Gazprom* of transferring wealth to *Itera* by selling it gas and other assets at below market prices.

Swiss Court Froze Assets In Aluminum Case

- A Swiss court froze assets worth as much as \$846,000 in the bank account of *Bauxal Management* after *Base Metal Trading* said the account was linked to *Rusky Alyuminiy's* Chief Executive Oleg DERIPASKA and his associate Mikhail CHERNOI. *Base Metal Trading* filed a lawsuit in the US under the RICO statutes. Three metals trading companies sought the order after filing suit in New York federal court seeking as much as \$2.7 billion in damages from *Rusky Alyuminiy*. The lawsuit accuses DERIPASKA and his associates of murder,

extortion, money laundering and the illegal seizure of an aluminum plant to form an industry monopoly, The Wall Street Journal reported. The plaintiffs say they incurred big losses when *Rusky Alyuminiy* broke trading contracts with them. Money in the Swiss account could be used to compensate the plaintiffs in the US case.

EUROPEAN REPUBLICS

Ukraine Hopes For \$100M EBRD Loan

- Ukraine expects to get a \$100 million loan from the European Bank of Reconstruction and Development (EBRD) this week for its power industry, Ukraina Moloda reported citing Ukrainian First Deputy Prime Minister Yuri YEKHANUROV. The government-guaranteed loan, approved by the EBRD in October, will be split between four power plants: *Dniproenergo*, *Donbasenergo*, *Zakhidenergo*, and *Tsentrenergo*. These power plants account for 55 percent of the country's electricity-generating capacity, the daily paper said. The credit will help the plants replenish their fuel reserves. Ukraine had to qualify for the loan before the EBRD would release a \$215 million loan to help the country build two new nuclear reactors to replace output lost after the closure of Chernobyl in December. In 1995, the EBRD, the European Union, the US, and others promised Ukraine \$1.48 billion of aid to finance completion of the two nuclear reactors, in exchange for Chernobyl closure. The money was part of a \$2.3 billion package to compensate Ukraine for shutting down Chernobyl.

Iranian-Ukrainian Boost Relations

- An Iranian delegation led by Foreign Minister Kamal KHARRAZI arrived for an official visit in Ukraine on Tuesday. During the visit, the delegation will have talks with President Leonid KUCHMA, Prime Minister Viktor YUSHCHENKO, and Foreign Minister Anatoly ZLENKO, the Foreign Ministry press service said. The sides will discuss bilateral relations in the political, economic, scientific and humanitarian fields, and hold consultations on a number of regional and international issues. The Iranian delegation will include representatives of various ministries and agencies as well as a trade and economic group that will hold a joint forum with Ukrainian industrialists and entrepreneurs. KHAR-

RAZI plans to attend the opening of the forum and meet teachers of Persian, students of the Institute of International Relations and Iranian citizens who live in Ukraine. The two sides also plan to sign bilateral documents.

Latvian Economy Grows 5.7 Percent

- The Latvian Economy Ministry said on Tuesday it expected 2000 gross domestic product (GDP) growth to come in at 5.7 percent and forecast an expansion of 5.0 to 6.0 percent in 2001. The forecasts were a part of the ministry's biannual report on the economy released on Tuesday. The economy will mainly rise as a result of growth of trade, commercial services, finances and transit. Latvia's gross domestic product (GDP) grew 1.1 percent in 1999. Latvia's third-quarter GDP rose 5.9 percent year-on-year, with nine-month annual GDP growth at 5.4 percent. The country's inflation is expected to rise to 3 percent in 2001, up from 2.6 percent in 2000, while the current account deficit is to decline to 7 percent from about 7.2 percent last year. The country's unemployment is to drop to 7 percent in 2001, from 7.8 percent in 2000. Final GDP data for 2000 are expected at the end of March.

Lith. To Close Down Ignalina Nuclear Plant

- The Lithuanian government has approved a plan to close its Ignalina Nuclear Plant in a three-step procedure. The first reactor's closing could occur by 2005, while dismantling the plant could take until either 2030 or 2080, depending on the procedures to be used. The Finance Ministry must prepare a concrete plan by May 1st. Work through 2005 will be financed by contributions from international organizations and countries to a fund being administered by the European Bank for Reconstruction and Development (EBRD). The fund totals 208 million euros (\$193.3 million), more than the cost of the first closure. The European Union (EU) and Lithuania's Nordic neighbors see Ignalina as unsafe since it was built on the same design as Ukraine's Chernobyl, the site of the world's worst civilian nuclear accident in 1986. Lithuania gets more than 70 percent of its electricity from Ignalina, Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

Russia Says Baku-Ceyhan Not Viable

- Russian Energy Minister Alexander GAVRIN

said that Russia considers the Baku-Tbilisi-Ceyhan oil pipeline project as uneconomical and has no plans to join it. He said, "I have always tried to move the conversation from the political area to a purely technical and economic one." He said that in order to make the Baku-Ceyhan pipeline viable it would need flows of 50 million tons of oil per year. GAVRIN pointed out that Azerbaijan does not have that level of resources today. He further pointed out that Azerbaijan's commitments of oil for the Baku-Novorossiisk pipeline will be considered at the next inter-governmental commission meeting scheduled for late February. Earlier this week, 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.

Negotiations Held On Nagorno-Karabakh

- Following a ceremony making Armenia and Azerbaijan new members of the Council of Europe on Thursday, the two Presidents held negotiations on the settlement of the Nagorno-Karabakh conflict, with France, a member of the Organization for Security and Cooperation in Europe (OSCE) Minsk group, mediating. Azeri President Geidar ALIYEV described the talks as, "rather useful" and called for continuing direct contacts because they allow the sides to "understand each other better." He pointed out that each round of negotiations does, "not waste of time and each round has great significance." Armenian President Robert KOCHARYAN said, "At the first meetings we studied each other, at later meetings we tried to understand each other, and now we are trying to resolve problems." ALIYEV pointed out, "With every new meeting we have been finding more and more understanding and come closer to a solution to problems." Both Presidents agreed to involve representatives of Nagorno-Karabakh at a certain stage in the bilateral talks and that the Paris round of talks brought about a new impetus for the intensification of the bilateral dialogue. The Nagorno-Karabakh conflict broke out in 1988 when the majority ethnic Armenians in the enclave tried

to secede from Azerbaijan. Some 35,000 people died in six years of fighting which was halted by a 1994 ceasefire.

Kazakh Oil Output To Rise

- Kazakhstan plans to boost oil production by 12 percent this year compared with last year, Interfax reported, citing Energy Minister Vladimir SHKOLNIK. Kazakhstan plans to produce 39.6 million tons of crude oil (792,000 barrels a day) in 2001, up from 35.2 million tons produced in 2000. Last year's output rose by 17 percent from 1999. The Central Asian nation plans to increase refining throughput by 38 percent to 9 million tons this year, compared with 6.5 million tons processed in 2000. Kazakhstan's three refineries refined 9 percent more crude in 2000 than in 1999. The *Chevron Corp.*-led *Caspian Pipeline Consortium (CPC)* have planned for the pipeline from Kazakhstan to the Black Sea to carry as much as 8 million tons of oil a year by the end of 2001. When completed, the pipeline will have a capacity of 28.2 million tons a year.

CPC Pipeline To Carry 8 Million Tons in 2001

- A new pipeline from Kazakhstan to the Black Sea is expected to carry as much as eight million tons (58.6 million barrels) of oil by the end of this year, Bloomberg News reported last week. The *Caspian Pipeline Consortium (CPC)* plans to finish tests by March and start filling the line with oil. *CPC* General Director Sergei GNATCHENKO stated that, "The construction is proceeding without delays." The new, 1,580-kilometer pipeline will allow oil producers in Kazakhstan to cut transportation costs by more than half, and to ship their oil to world markets, while preserving the quality of the crude. Currently, *Tengizchevroil* operating in Kazakhstan pays an average \$60 per ton to ship oil for export across Russia or by barges across the Caspian Sea and then across Azerbaijan and Georgia by rail. Once the new pipeline starts operating, *CPC* shareholders, and ten other companies and three governments, will pay \$25 per ton.

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