

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

Primorye Deputy Governors Resign

• Eleven out of 12 Primorye regional deputy governors resigned en masse on Monday. According to Reuters, the resignations were submitted after a meeting with President Vladimir PUTIN's regional envoy Vladimir PULIKOVSKY. The departures follow the surprise resignation of governor Yevgeny NAZDRATENKO. Last week, NAZDRATENKO claimed that he was stepping down after a telephone conversation with PUTIN who offered him a new position in Moscow. NAZDRATENKO had weathered many storms in his eight years in power, but observers said his days were numbered after PUTIN named him among those responsible for the energy crisis. NAZDRATENKO supposedly suffered a heart attack to avoid a meeting in Moscow on the region's critical energy situation. Protestors had been demonstrating for weeks in Vladivostok, calling on NAZDRATENKO to step down. Approximately 3,000 residents are without heat and more than 9,000 have their heat interrupted. The Prosecutor General's office noted that 15 criminal cases have been launched against those responsible for the heating and power outages. According to a regional administration official, an early election for the governor may be called for June 10th. Until then, the 12th deputy governor Valentin DUBININ will be overseeing the region. Over the next two weeks, he will be helped by a team from PULIKOVSKY's office, RFE\RL Newsline reported.

Kremlin Defends Court Reform Proposals

• Kremlin aide Dmitry KOZAK, a deputy chief of staff in charge of a commission drawing up reform proposals, claimed that the proposed changes would rein in judges and create an unbiased legal system. Russian President Vladimir PUTIN de-

scribed the legal reform is a key priority in establishing a "dictatorship of the law." PUTIN's critics, recoiling from the use of the terms "dictatorship of law" with its eerie similarity to the LENIN's "dictatorship of the proletariat," say the new reform would weaken the independence of the judiciary. Efforts to rein in abuses by police and prosecutors continue to remain stalled. The proposals, opposed by Russia's Council of Judges, would allow judges to be targets of certain criminal probes and place outside experts on qualifying boards that approve new judges, now made up only of other judges. KOZAK said the measures were needed to, "shield judges from attempts by organized criminal groups to influence them and minimize the possibilities for buying judges." Another measure would impose a mandatory retirement age of 65 or 70 for judges in place of existing lifetime terms. Liberals have said that measure would increase judicial turnover, giving politicians more opportunities to pack the bench with their supporters. Last month, PUTIN unexpectedly called back from parliament a bill that would have required prosecutors to obtain warrants from judges before launching searches and arrests. Liberals considered the bill a step on the road to reform and were alarmed that PUTIN had stepped back from the changes in the criminal code.

German Foreign Min. On NMD

• German Foreign Minister Joschka FISCHER, after two-days of talks in Moscow, has encouraged the Kremlin to resolve differences with the US over a planned National Missile Defense

(NMD) scheme. Foreign Minister Igor IVANOV, after his meeting with FISCHER, said "Russia will act constructively in talks on strategic weapons and missile defense systems in the interests of preserving and strengthening international stability." FISCHER said, "We are strictly against an arms race and we would like the creation of an even more effective system of nuclear arms control. We were therefore very happy here to note such a constructive approach...to all aspects of anti-missile defenses," the Financial Times reported. FISCHER predicted Moscow would soften its resistance to NMD, which Washington says is aimed against missile strikes by "rogue states" like North Korea, Iran, and Iraq. "In the end, I believe Russia will accept negotiations on NMD," he said. FISCHER is scheduled to visit the US next week.

Economy

<p>Ruble = 28.68/\$1.00 (NY rate) Ruble = 28.69/\$1.00 (CB rate) Ruble = 26.49/1 euro (CB rate)</p>
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Russia Commits To Paying Foreign Debts

- Russian Economics Minister German GREF confirmed Prime Minister Mikhail KASYANOV's commitment to meet its foreign payment obligations on debt to Western governments in full at a bilateral meeting in Berlin. He said, "There is no other way to have a civilized relationship between Russia and its creditors." GREF noted, however, that debt service payments would as a result exceed Russia's welfare budget and would have to be approved by the Russian State Duma. Earlier, the German Finance Ministry said on Monday it had reached an agreement in principle at the weekend with Moscow under which Russia will service its Soviet-era debts. "There have been advances insofar as the Russian side has said it was ready to include its responsibilities on 57 billion marks (\$27.1 billion) of Soviet-era debt in their budget," a ministry spokesman said.

Tax Ministry Seeks More Control

- The Russian Taxes and Dues Ministry has called for expanding its powers in the sphere of tax control, First Deputy Tax Minister Vladimir GUSYEV said today. Speaking at an all-Russia conference of heads of tax services and federal tax police bodies, GUSYEV said their ministry is drafting proposals on

the issue, which should be included in Part One of the Tax Code in the form of changes and amendments, Itar-Tass reports. According to GUSYEV, Part Two of the Tax Code will include chapters on the profit tax for enterprises and organizations and on resource payments. GUSYEV also pointed out that his ministry expanding its cooperation with the Tax Police Service, the State Customs Committee, the Federal Security Service and other agencies in exercising control over facts of illegal levying of value added tax (VAT). Effective July 1st, Commonwealth of Independent States (CIS) countries will pay VAT according to the "country of destinationp"

Business

LUKoil-Rosneft Interested In Rosshelf

- *LUKoil Holding* and *Rosneft* may join *Gazprom* in the exploration of an offshore oilfield in the Arctic regions. *LUKoil* and *Rosneft* are interested in stakes in *Rosshelf*, a *Gazprom* exploration unit that owns 50 percent of the Prirazlomnoye offshore oil field in the Pechora Sea. *Wintershall*, a subsidiary of Germany's *BASF*, owns the other 50 percent. *LUKoil* wants to triple to as much as 30 percent the stake held in *Rosshelf* by *Arkhangelskgeoldobycha*, in which the oil producer is acquiring a 74.5 percent stake; *Rosneft* already holds 25.5 percent of the exploration firm. *Rosneft* aims to acquire as much as 25 percent in *Rosshelf*. In addition to *Gazprom*, *Severstal* holds 12 percent of *Rosshelf*, as does submarine builder *Sevmashpredpriyatiye*; *AGD* holds 11.25 percent *Gazprom* and *Wintershall* have said they will deploy a drilling rig at the field by 2004 at a cost of as much as \$900 million, Bloomberg News reported.

Norilsk Nickel Lawsuit Re-Filed

- Russia's Federal Securities Commission Thursday said it had re-filed a lawsuit with the Moscow Arbitration Court to challenge the purchase of a metals trading firm by *Norilsk Nickel*, done as part of a restructuring. The court returned the lawsuit the first time it was filed in January for being, "incorrectly formulated." Alexei TURBIN, the commission's spokesman, told Reuters, "The previous attempt was rejected for formal reasons. Because of that we're going to re-file the suit without any [fundamental] changes." The lawsuit challenges the swap of *Norilsk* shares for a metals trading company, *Norimet*, carried out at an early stage

of the restructuring. The commission says the deal should have been approved by a general meeting of *Norilsk* shareholders. Under the restructuring, currently traded *Norilsk Nickel* shares are to be swapped for shares in *Norilsk Mining Company*, which accounts for up to 80 percent of the holding's profit. *Norilsk Mining Company* is to become the only traded share as a result of the restructuring. Minority investors have expressed worries about the *Norimet* deal and the restructuring as a whole, fearing it will dilute their holdings.

Aeroflot Reports A Profit In 2000

- *Aeroflot* said expects to report a profit of \$15 million in 2000, compared to a loss in 1999. *Aeroflot* carried more than 5 million passengers last year, 9 percent more than in 1999. The state-controlled airline last year started cutting unprofitable routes left over from the Soviet era and added flights to popular destinations, helping boost 2000 revenue by about 17 percent to \$1.4 billion. An optimistic net profit of \$30 million is predicted for 2001. The airline is trying to remake its image as a Soviet-era airline by improving customer service and investing in new aircraft. *Aeroflot* said it is in talks to buy the unprofitable Irish unit of *Virgin Express Holdings*, a carrier 59 percent owned by Richard BRANSON, to offer its passengers flights within Europe.

EUROPEAN REPUBLICS

Ukraine Receives Final WB Installment

- The World Bank on Friday disbursed the last \$60 million installment of a \$260 million loan to help restructure Ukraine's financial sector. Bank spokesman Dmytro DERKACH said that installment was disbursed because Ukraine had managed to approve a new law on banks and banking activity, which was one of the major terms of financial sector adjustment loan approved in 1998. The loan had initially been set at \$300 million but Ukraine forfeited \$40 million because the government had not met other conditions under the financial sector-restructuring program. The World Bank has said Ukraine failed to adopt a law on insuring individual deposits or to make any significant progress in restructuring major state bank *Oshchadbank* (*Savingsbank*), Reuters reported. Luca BARBONE, World Bank director for Ukraine and Belarus said the Bank, "intends to continue its support for Ukraine's

financial sector."

Russia-Latvia Commit To Better Relations

- Russian President Vladimir PUTIN on Sunday met with Latvian President Vaira VIKE-FREIBERGA. She called the meeting the beginning of improved relations between the two countries. "This is the first step to be taken on the road to continuing to improve bilateral relations between Latvia and Russia," VIKE-FREIBERGA. She said they discussed minority rights, a long-standing issue between the two countries. Russia has often accused Latvia of using tough language laws and other citizenship issues to discriminate against the one-third of its 2.4 million people that are Russian speaking. Latvia denies the charge. VIKE-FREIBERGA said PUTIN accepted Latvia's right to protect its language but asked for understanding towards those for whom it is not their mother tongue, or for those, mainly pensioners, who cannot afford administration fees related to naturalization. "Many of these questions are very difficult, and they cannot be resolved in one day, but we have forces and a desire to settle them," she noted. Latvia and Russia have had strained relations since the Baltic State regained independence in 1991. Russia objects to Latvia's aspirations to join NATO.

Latvia Predicts 2002 Budget Gap

- The Latvian Finance Ministry said a 2002 fiscal budget deficit of up to 2.0 percent of gross domestic product (GDP) has been set out in a draft memorandum with the International Monetary Fund (IMF). Finance Minister Gundars BERZINS last November said the Cabinet would prioritize a balanced budget for 2002, based on assumed GDP growth of seven to eight percent. Latvia expects a 2001 fiscal deficit of 2.2 percent of GDP, up from the budgeted 1.7 percent. Talks with an IMF mission over the memorandum continue this week. The Cabinet must approve any final text before signing.

SOUTH CAUCASUS & CENTRAL ASIA

Rus-Georgia Fail To Agree On Disposal

- Russian and Georgian representatives failed to reach an agreement on a timetable for the closing of an ammunition depot in eastern Georgia. Georgian specialists have estimated that it would be possible to remove all munitions and mines stored at the facility within 10 to 12 months. The Russian side

believes that this could only be possible in a three-year time period, RFE\RL Newswire reported.

Georgia-Azerbaijan Strengthen Relations

- Georgian Foreign Minister Irakly MENAGARISHVILI arrived in Baku on Monday to hold talks with his Azeri counterpart Vilayat KULIYEV. They are expected to focus on consolidating bilateral relations and regional cooperation. A joint statement will be signed following their talks. MENAGARISHVILI will also be received by Azerbaijan's President Geidar ALIYEV. Baku sources believe that they will discuss security in the Caucasus region and cooperation within GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova).

Baku-Supsa Oil Transportation

- As of February 1st, a total of 8,904,711 tons of Caspian crude was transported through the Baku-Supsa terminal, which opened in April, 1999. In January, 2001, 480 tons of crude was transported, according to *Georgian International Oil Company (GIOC)*. The transport fee for 1 barrel of Caspian oil through Georgia is 18 cents.

Kyrgyz-China Trade Turnover Increases

- During a meeting last week with Kyrgyz Prime Minister Kurmanbek BAKIYEV, ZHU Zhemin, the Ambassador of the People's Republic of China to Kyrgyzstan said that Kyrgyz-Chinese trade turnover increased by 30 percent in 2000, reaching \$170 million compared with only \$123 million in 1999. The Chinese Ambassador expressed hope that bilateral relations would continue to develop in all fields. He added that China is pleased with Kyrgyzstan's growing sovereignty with each passing year since its independence. ZHU said this positively influences Kyrgyzstan's relations with other countries in the political, economic, humanitarian, and cultural spheres.

IMF Urges Further Kazakh Reforms

- The International Monetary Fund (IMF) on Monday praised Kazakhstan's economic growth in 2000,

and encouraged it to continue to pursue further reforms. Kazakhstan is working to coordinate its economic program with the Fund. Kazakhstan has no outstanding obligations to the IMF and does not plan to draw from a \$400 million facility granted in December, 1999. John ODLING-SMEE, director of the IMF's second European department, after meeting Prime Minister Kasymzhomart TOKAYEV, said he was impressed with the nation's economic performance. He said, "Growth in the economy is strong, and inflation is now low at 10 percent or so and is falling...Kazakhstan had the highest growth rate of all CIS (Commonwealth of Independent States) countries last year, which is obviously very good." Kazakhstan's gross domestic product grew by 9.6 percent last year, compared to a modest 1.7 percent rise in 1999. Inflation fell to 9.8 percent from 17.8 percent in 1999, Reuters reported. ODLING-SMEE, however, warned that the nation should diversify, as the positive performance was mostly due to high oil prices. The IMF urged Kazakhstan to speed up privatizing large-scale enterprises and improving the structure of the oil sector. It also said it hoped to see "more transparency" in the government's fiscal and financial operations, and a more liberal external trade which would increase the country's chances of being admitted to the World Trade Organization (WTO). ODLING-SMEE stressed, "The most important task is to ensure... that the extra revenues that are coming now at a high price are saved for the future when prices may be low or that future generations can benefit from the oil which is now being extracted. That's a very high priority task." The IMF welcomed the creation of the National Fund, which will be replenished mostly with oil revenues and is responsible for staving off economic risks that may rise from sudden price falls in oil and other commodity exports.

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