

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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Daily intelligence briefing on the  
former Soviet Union

Published every business day  
since 1993

Wednesday, February 14, 2001

## RUSSIAN FEDERATION

### Politics

#### **Russian Bombers Violate Japanese Airspace**

• Director general of the Foreign Ministry's European Affairs Bureau Kazuhiko TOGO today issued a formal protest to the Russian ambassador to Japan, Alexander PANOV over Russia's violation of Japanese airspace. TOGO, "strongly called for the Russian government to make clear the cause of this intrusion and take steps to prevent it ever happening again," according to a ministry statement. The Russian air force has denied Japanese claims that Russian bombers entered Japanese airspace near Rebun Island off its northernmost island of Hokkaido and remained there for some three minutes just around noon. The four Russian planes flew out of Japan's airspace after Japanese military jets scrambled in response. A second incident occurred at 2:36 pm, when two other Russian bombers entered Japanese airspace for about three minutes. Four of the bombers were Tupolev Tu-22 codenamed "Backfire" in the West. Russia's air force said its planes were training near Japan, but denied the aircraft had violated Japanese airspace. It said the Tu-22s and two accompanying Sukhoi Su-27s, called "Flanker" in the West, flew along the Japanese coastline but not over it. Russian Defense Minister Igor SERGEYEV told journalists in Moscow, "After the statements from the Japanese side we analyzed all our flights once again. There were no violations of Japanese airspace." The intrusion comes just one day after Russian President Vladimir PUTIN and Japanese Prime Minister Yoshiro MORI agreed to meet on March 25<sup>th</sup> to work towards signing a World War II peace treaty. In 1997, Russia and Japan had agreed to resolve a dispute over the Kuril Islands seized by the Soviet Union during the war by the end of 2000. SERGEYEV stated that Russia simply flying

its air force again, but that no aircraft had violated foreign airspace.

Other reports state that two supersonic Russian Tu-160 Blackjack bombers flew in international airspace northwest of Andoeya, an island along Norway's northern coast. Norwegian fighters scrambled to identify the aircraft. Colonel John Espen LIEN of the Norwegian Supreme Defense Command said the Russians had advised Norway that it was planning increased activity from military bases on the Kola Peninsula of northwestern Russia. Russian officials said there was nothing illegal or unusual about either exercise. Russian Air Force spokesman Alexander DOBRYSHCHEVSKY said, "We fly without violating anything. We don't complain when every day a dozen NATO planes fly along our shores."

The Russian air force has stepped up its maneuvers since PUTIN became President. Last year, Su-27s, buzzed a US aircraft carrier three times, taking close-up photographs. Nuclear-capable Tu-95 "Bear" strategic bombers have also been chased out of the Arctic airspace close to Alaska and Norway in 1999. However, the Russian air force is falling into disrepair. Aviation fuel is still tight and flying hours minimal because of cash shortages, except for the Chechnya campaign. Alexander PIKAYEV, a military analyst at the Carnegie Endowment's Moscow office said, "The military wants to show that it's too early to write Russia off."

#### **Putin Orders Luxury Apartment Probe**

• Russian Presi-

dent Vladimir PUTIN has ordered Kremlin auditors to investigate how the Prosecutor-General Vladimir USTINOV obtained a spacious apartment in the center of Moscow. Russian media first reported in 1998 that the Kremlin Department of Business Affairs purchased a 148 square meter apartment for USTINOV at a cost of \$430,000. USTINOV paid no taxes on the transaction. *NTV* reported that there was a conflict of interest on USTINOV's part when he closed a government investigation on former Kremlin Property Manager Pavel BORODIN. It was BORODIN who provided the use of the luxury apartment. USTINOV claimed he received illegible photocopies of documents from Swiss prosecutors. BORODIN, held in a New York prison on a Swiss warrant, is waiting extradition. USTINOV has denied wrongdoing. Last year, he won a libel case against *NTV* over reports suggesting he obtained the apartment illegally. USTINOV has spearheaded a wave of searches of *NTV* and other *Media Most* companies, which accuse him of conducting a politically motivated vendetta against the group.

### Economy

<p><b>Ruble = 28.70/\$1.00 (NY rate)</b>  <b>Ruble = 28.69/\$1.00 (CB rate)</b>  <b>Ruble = 26.38/1 euro (CB rate)</b></p>
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### **Rus-German Debt Talks Differences**

- Russian Economic and Trade Minister German GREF and his German counterpart Werner MULLER said that progress had been made on restructuring Russia's debt to foreign creditors by swapping the debt for stakes in Russian companies. They will draw up proposals for the debt-for-equity swap in time for an April visit of German Chancellor Gerhard SCHROEDER to President Vladimir PUTIN's St. Petersburg. GREF said that the proposal included both Russia's debt to the Paris Club and its borrowings from the former German Democratic Republic (GDR). MULLER, however, said the discussions only involved the latter. GREF said, "We agreed at this stage it was not worth wasting time on the source of the debts to be swapped [and concentrated on] the procedure. MULLER countered, "The federal government has a clear view that a swap can only involve old transferable ruble debts [from the GDR]." Both ministers declined to name the companies, which might be involved in the debt-for-equity swap. GREF stressed that Russia

would meet its obligations even if it meant straining this year's budget.

Meanwhile, the Russian government on Tuesday approved a plan to raise new revenues to help pay the nation's foreign debt. It foresees \$3.8 billion in additional revenues and spending, according to the Interfax news agency. Last week, Finance Minister Alexei KUDRIN said the government planned to raise a larger sum, \$6.4 billion in extra revenue and spending. The additional revenue will come from increased taxes, proceeds from privatizing government property and borrowing either from the Central Bank or on the domestic debt market, the state-owned *RTR* television reported.

### Business

#### **Yukos CEO On Russia's Oil Development**

- Mikhail KHODORKOVSKY, Chairman and CEO of *Yukos*, one of the largest Russian oil companies, spoke on Russia's oil development at the Center for Strategic and International Studies (CSIS) on Tuesday. He pointed out that Russia's oil companies account for 40 percent of Russia's state budget revenues. *Yukos*, which operates in 22 Russia's cities, is responsible for 3.5 percent of Russia's gross domestic product (GDP). Production sharing agreements (PSA) introduced by the government in 1998, resulted in the growth of Russia's oil companies by leaps and bounds. PSAs allow the producers to back out the cost production and split the residual revenue between the government (70 percent) and itself (30 percent). This allows companies to grow by leaps and bounds. Before the PSA was attained the Russian government would receive 110 percent and the companies minus 10 percent, which negatively affected any new oil development. In 2000, *Yukos* produced 49.6 million tons of oil, accounting for an 11 percent increase in production. This year, the company plans to produce 56.5 million tons of oil, or 1.1 million barrels a day.

Customs duties, however, remain the only "unpredictable variable" that stands in the way of a long-term planning in the industry. "We are very concerned about customs duties," KHODORKOVSKY said. Last year, export duties rose from 5 percent to 30 percent of the Russian oil companies tax burden. Initially, "this change didn't go by any predictable rules," he said, though the government

later developed a scale of oil-export duties related to prices for Russian crude. The government planned to cut export duties when prices fell. However, when oil prices started their decline late last year, the Finance Minister, "changed his mind." "This is unimaginable. How can you plan an investment program?" KHODORKOVSKY said. According to the Bloomberg News, last week Russia delayed plans to reduce the duties by 54 percent to 22 euros (\$20.3) a ton starting in March. It would be the first reduction after two years of increases. *Yukos* has been repeatedly calling on Russia's government to slash crude oil export duties.

### **GAZ Investigated By Russian Police**

- Russian authorities began investigating the former management of *Gorkovsky Avtomobilny Zavod (GAZ)* for economic crimes. One of the probes centers on car exports for which GAZ claimed 14 million rubles (\$487,804) from the state in rebates on value-added taxes. GAZ appointed a new 15-member management team on Tuesday, naming 12 directors who formerly worked at *Sibirsky Alyuminy*, which owns a quarter of the carmaker, or at *Rusky Alyuminy*. Sibirsky's Vice President Viktor BELYAEV was installed as general director at GAZ last November after raising its stake in the carmaker. The aluminum producer began buying GAZ shares last August to diversify into the automotive business, following its purchase of a controlling stake in bus producer *PAZ* earlier in 2000.

## EUROPEAN REPUBLICS

### **Tymoshenko Arrested On Corruption Charges**

- Ukraine's former deputy prime minister in charge of energy Julia TYMOSHENKO was arrested Tuesday on corruption charges and placed in one of Ukraine's worst prisons. A criminal investigation of TYMOSHENKO began on January 5<sup>th</sup>. She was removed from her official position by President Leonid KUCHMA on January 19<sup>th</sup>, a move opposed by Prime Minister Mikhail YUSHCHENKO. Prosecutors said TYMOSHENKO is suspected of

fraudulently importing about 3 billion cubic meters of Russian gas in 1996, illegally transferring about \$1.1 billion from Ukraine, and not paying about \$149,000 in taxes in 1997 to 1999. Deputy chief prosecutor Mykola OBYKHOD said investigators have learned that TYMOSHENKO allegedly gave about \$79 million in bribes to her one-time ally, former Premier Pavel LAZARENKO. LAZARENKO fled Ukraine in 1999 and is jailed in the United States on charges of conspiring to launder millions of dollars in bribe money. The alleged criminal actions stem from the time when TYMOSHENKO headed a key energy supplier, *Unified Energy Systems (UES)* in Ukraine. She has denied all the charges and claims that powerful oligarchs are framing her because they who oppose reforms in Ukraine's electricity sector raising the rate of cash payments from 10 percent to 60 percent. After TYMOSHENKO was sacked in January, she launched a stinging attack on KUCHMA, accusing him of ignoring the constitution and saying her dismissal marked "liberation day" for the country's powerful business interests. She leads the Fatherland Party, which controls 31 of 450 parliament seats and played a crucial role in passing reformist legislation considered vital for Ukraine's economic recovery. A group of politicians and public figures, including TYMOSHENKO, have joined forces in the so-called National Salvation Forum to seek KUCHMA's resignation. Last week, OBYKHOD said that his office found a "direct link" between TYMOSHENKO and the GONGADZE scandal being investigated, the *Financial Times* reported. TYMOSHENKO also denies any link to the GONGADZE murder.

### **Gongadze Surgeon Seeks Political Asylum**

- Ukrainian surgeon Valery IVASIUK is seeking political asylum in Britain after receiving death threats in Ukraine for his involvement in the investigation of web journalist Georgy GONGADZE. Friends and relatives say a decapitated corpse found outside the capital in November was GONGADZE's body. *The Independent* said IVASIUK had been threatened after calling news conferences in Ukraine to rebut claims by the prosecutor general that DNA tests on the body were inconclusive. The tests indicated with 99.6 percent certainty that the body was GONGADZE's. The US and European Union (EU) have called for a full inquiry into the case while the Organization for Security and Cooperation in



Europe (OSCE) said the official one had been, "extremely unprofessional."

**Ukraine Posts Trade Surplus In 2000**

- Ukraine posted its first trade surplus of the last five years in 2000, totaling \$616.5 million compared to a deficit of \$264.5 million in 1999, the State Statistics Committee said on Tuesday. Exports totaled \$14.572 billion, while imports totaled \$13.956 billion. The committee said Russia remained Ukraine's main trading partner last year accounting for 24.1 percent of exports and 41.7 percent of imports.

**Lithuanian Consumer Price Index Fall**

- The Lithuanian Statistics Department on Monday said that the consumer price index (CPI) declined by 0.2 percent last month and by 0.3 percent compared to January, 2000. This was mostly influenced by falls in the prices of diesel fuel (10.8 percent), gasoline (10 percent), liquefied gas (6.7 percent), and the reduction of the value added tax (VAT) on residential heating from 18 percent to 10 percent. Prices of beverages and tobacco declined in January by 0.4 percent, clothing and footwear by 0.3 percent, while the costs of communications rose by 6.3 percent, and foodstuffs and soft drinks by 0.5 percent, RFE\RL Newsline reported.

**Lith-Russian Trade Turnover Increased In 2000**

- An official report issued by the Lithuania's Statistical Service shows that trade turnover between Lithuania and Russia increased in the year 2000. Last year's export of Lithuanian products to Russia grew by 28.8 percent and import by 56.3 percent as compared with 1999. However, Lithuania's balance of trade with Russia in 2000 remained negative and reached more than \$1 billion. Russia ranks the fourth in the export of Lithuanian commodities after Latvia, Germany and Britain and the first one in import. The Statistical Service of Lithuania emphasizes that normalization of the Russian economy was the main reason for expansion of trade contacts

with that country.

**SOUTH CAUCASUS & CENTRAL ASIA**

**Tengiz-Novorossiisk Line Operable Mid-Year**

- Chevron's executive director of the Euro-Asian division Guy HOLLINGSWORTH announced on Tuesday that the company expects the Tengiz-Novorossiisk oil pipeline will be completed and operational by mid-year. Chevron is pushing for a merger with another oil company, Texaco. According to Hollingsworth, as soon as US authorities give "the green light" to the merger, the corporation will examine prospects for boosting its activities in Kazakhstan and Russia. Chevron has also announced its support for the construction of the Baku-Tbilisi-Ceyhan pipeline. Chevron's approach to the \$2.7 billion Azerbaijan-Turkey line marks rare oil company support for a venture long touted by the US and Turkish governments, but unpopular with oil firms concerned about the line's high price tag. In HOLLINGSWORTH's opinion, a wealth of Caspian oil deposits will eventually justify various routes of its transportation. He noted, however, that Chevron's participation in the project will depend on the results of the Apsheron Peninsula strike and whether construction of the pipeline can be considered commercially profitable.

**Kazakh State Debt Totals \$3.8 Billion**

- Kazakhstan's state debt was little changed on January 1<sup>st</sup> this year, totaling \$3.877 billion compared to \$3.885 billion on the same date last year. According to a Kazakh Finance Ministry statement, the country's external debt was \$3.272 billion, while domestic debt amounted to \$605.0 million. The World Bank and the Asian Development Bank lead the list of creditors with \$1.12 billion and \$328.4 million respectively. Foreign commercial banks are owed a total of \$294 million.

**The Daily Report on Russia and FSU will not be published on February 19<sup>th</sup>**

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*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.

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