

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

By Land And By Sea: Topol-M Missile Test

- Russian armed forces test-launched two Topol-M intercontinental ballistic missiles Friday: one from a land-based silo in northwestern Russia and the other from a nuclear-powered submarine in the Barents Sea. The near-simultaneous launches came just two days after Russian warplanes, including nuclear-capable bombers, staged unannounced exercises near Japan and Norway amid a row with the US over weapons proliferation and plans for a national missile defense shield (NMD). Russia has said it will counter proposed US defenses by beefing up its land, sea and air nuclear deterrents. Northern Fleet spokesman Igor DYGALO said the underwater test was, "yet another confirmation of the effectiveness of the system of the military administration, and also the reliability of the naval strategic nuclear forces." The Topol is expected to be the main component of Russia's long-range missile forces. Most of Russia's other long-range missiles are either past their service lifetime or will have to be dismantled under the START-II arms reduction treaty, which both Russia and the US have ratified but which has not yet gone into effect, the Associate Press reported.

Russia Backtracks On Airspace Violation

- Russian deputy foreign minister in charge of the Asia-Pacific region Alexander LOSYUKOV was forced to backtrack on the Kremlin's complete denial that Russian bombers twice violated Japanese airspace on Wednesday. Russian Defense Minister Igor SERGEYEV flatly denied any intrusion had taken place. He said, "It is difficult to verify whether Russian war planes entered Japanese airspace. Two Russian Tu-22 bombers accompanied by two Sukhoi Su-27s retreated from Japanese airspace

after Japanese military jet scrambled to respond. LOSYUKOV acknowledged that the Russian planes were conducting training exercises near Japanese air space, but emphasized that Russia bears no ill will toward Japan. "There is no basis for concern on the Japanese side," he said. Russian bombers also flew in international airspace along the border of Norway's northern coast on the same day.

Spain Arrests Two Russian Gang Members

- A joint undercover operation involving Spanish police, Interpol and Russian agents seized Sergei BUTORIN, head of Orekhovo group a Russian mafia gang, and his right hand man Marat POLYANSKY after a scuffle in a brothel near Barcelona. The men are wanted in Russia on charges of murder, robbery, arson and extortion. BUTORIN is accused of ordering or carrying out 29 killings, while POLYANSKY is wanted for six killings. Of those murdered, six were police officers and another was an investigative magistrate. Both men were carrying guns, ammunition and false papers when undercover Russian agents identified them. A Spanish police spokeswoman said, "They will be tried in Spain on charges of holding arms and false documents," Reuters reported. A High Court in Madrid will decide whether they will be extradited to Russia.

Meanwhile, the High Court rejected a bid to send Russian media magnate Vladimir GUSINSKY back to prison, allowing him to remain under effective house arrest during extradition hearings. GUSINSKY

spent a few days in jail after being arrested in December on an international arrest warrant. He was released several days later after posting bail of \$5.46 million. GUSINSKY with fraud, but he says the charges are an attempt to silence *Media Most*, Russia's leading independent media group that is owned by GUSINSKY and critical of the Kremlin. A Russian court Wednesday delayed a hearing on a decisive 19 percent stake in *NTV*, the country's only independent television station, until October 3rd.

Duma To Vote Against Budget Changes

- The Russian State Duma's budget committee advised deputies today to vote against government amendments to the 2001 budget on February 22nd needed to raise billions of dollars to pay foreign debt. Deputy Prime Minister Alexei KUDRIN told the committee that the government would support an alternative plan proposed by the Duma if some changes were introduced before the vote. "If some conditions are met, the government will support the Duma's bill. If these conditions are not met than the government will oppose the bill, and the result is neither plan will be approved," KUDRIN said. The government and Duma are haggling over how to allocate extra budget revenues after Russia was pressed by creditors to meet foreign debt obligations that were not accounted for in the 2001 budget. The 2001 budget, hailed as the first post-Soviet balanced budget, is short of 182 billion rubles (\$6.3 billion) needed to pay foreign debts, including some \$3.8 billion to the Paris Club. Russia wants to launch talks on restructuring the \$38.7 billion in Soviet-era debt owed to the Paris Club. The government wants 80 billion rubles of extra revenues to go towards debt payment. Deputies suggested directing the first 41 billion rubles in extra revenues to pay foreign debt and distributing further additional revenues evenly between debt payment and domestic needs, Reuters reported. Under the current budget, possible extra revenues of up to 70 billion rubles are distributed evenly between debt payment and other spending. Any additional revenues are to be split 30 percent to 70 percent in favor of debt payment.

FSB Director Visits Dniester

- Russian Federal Security Service (FSB) Director Nikolai PATRUSHEV on Wednesday traveled to the self-proclaimed Dniester Republic as part of his working visit to Moldova. He met with Dniester

leader Igor SMIRNOV to discuss joint measures to fight terrorism and organized crime. Special attention at the talks was paid to illegal migration and the security of borders. PATRUSHEV also met Dniester law enforcement people and the commanders of Russian troops stationed in the region. He said that the FSB does not have information about Chechen rebel camps in Moldova. His comments respond to allegations that Chechen rebels maintain bases in Moldova and receive weapons from the region.

Economy

<p>Ruble = 28.68/\$1.00 (NY rate) Ruble = 28.67/\$1.00 (CB rate) Ruble = 26.27/1 euro (CB rate)</p>

Investors Call For More Economic Reforms

- Russian business leaders were warned at an economic conference on Wednesday that President Vladimir PUTIN must accelerate economic reforms. President of the American Chamber of Commerce in Russia Andrew SOMERS praised reforms passed by parliament last year, but said that PUTIN's reform drive was in danger of running out of steam. SOMERS said, "Investors are waiting for further developments on a very fast track. There is a sense that there's a certain amount of momentum in reforms has been lost in the last two to three months...Russia does not have a lot of time to achieve what it wants to achieve — to become integrated into the global economy." He pointed out that production sharing agreements designed to spur foreign investment in the energy sector were approved in 1999 but are still pending as are further tax reforms. SOMERS welcomed Russia's announcement that joining the World Trade Organization (WTO) was a priority. US Ambassador James COLLINS said Washington would support Russian efforts to join the WTO, Reuters reported. **Comment:** This support should come with something in return.

CPI Rise Alarms Government

- Russian Prime Minister Mikhail KASYANOV said January's rise in consumer prices of 2.8 percent raised concern in the government that it may lose control over inflation. This is the biggest monthly jump since July, 1999. He said the government should take necessary measures to rein in money supply: "Otherwise inflation would be out of control

as early as the second quarter." Analysts have said high January inflation, largely fuelled by money supply increases, could endanger the government's annual inflation target, Reuters reported. KASYANOV said the annual inflation target for this year was 12.4 percent. Consumer prices rose 20.2 percent in 2000.

Special Status For Kaliningrad?

- Former deputy prime minister and current Russian State Duma deputy Boris NEMSTOV has called on the government to grant Kaliningrad a special status, giving it a high degree of economic and administrative independence." He said that Russia should, "do with Kaliningrad what the Chinese have done with Hong Kong." He believes that Kaliningrad's location provides the opportunity for it to become a "window to European success." NEMSTOV points out that Kaliningrad could suffer as the European Union (EU) prepares to expand. The expansion plans could include Kaliningrad's neighbors Poland and Lithuania. When these countries join the EU and adopt EU visa and trade regimes, there is a risk that Kaliningrad could become more isolated. Conservatives argue that Kaliningrad's special status would threaten Russia's territorial integrity and set a dangerous example to other regions, the Financial Times reported.

Business

Gazprom To Review Itera Links

- *Gazprom's* board of directors held a meeting Wednesday to review the company links with *Itera Holding*. The board, which is responsible for general policy, will tell management to improve financial reporting amid allegations from the government and other shareholders that *Gazprom* let *Itera* buy gas and assets cheaply. The board was also scheduled to consider boosting output by 1.3 percent to 530 billion cubic meters of gas after the past two years' declines. *Gazprom*, which analysts expect to report \$17 billion revenue for 2000, wants to invest in production and pipelines and halve to \$600 million spending on operations not directly connected to gas production, though analysts said the company has a poor record on investments. The company's debts rose by about 60 percent to about \$11 billion in the two years ago, of which \$2.5 billion comes due this year, said Dmitry AVDEEV, an analyst at *United Financial Group*. "*Gazprom* seems not to

consider profitability when it makes decisions on investments," he added.

Rosneft Sells A Stake To Indian ONGC Videsh

- *Rosneft*, Russia's state-owned oil producer, sold a stake in an offshore exploration venture to India's *ONGC Videsh* for \$315 million. *ONGC Videsh* will invest as much as \$2 billion in the Okhotsk Sea project in which it will own a 20 percent stake. *Rosneft* and its producing subsidiary, *Rosneft-Sakhalinmorneftegaz*, each sold half of their respective 17 percent and 23 percent stakes to *ONGC Videsh*. According to *Rosneft* president Sergei BOGDANCHIKOV, *ONGC Videsh*, "will receive oil, while we receive a strategic partner." *Exxon Mobil* and *Sodeco* of Japan each hold 30 percent stakes in the project, which has oil reserves totaling 341.1 million tons (2.5 billion barrels), equal to Russia's annual output. It also has 425 billion cubic meters of gas, Bloomberg News reported.

Sibneft- Tyumen To Sake Marketing Assets

- *Tyumen Oil Co.* and *Sibneft* will share the Sverdlovsk regional market through stakes in two local marketing units, Vedomosti reported, citing company officials. *Sibneft* is acquiring controlling shares in *Sverdlovnefteprodukt* and *Yekaterinburg Refined Products Co.*, which supply, through 132 retail outlets, about half of the 1.3 million tons of fuel a year consumed in the region of 4.7 million people, Russia's third-largest petroleum products market. At the same time, *Tyumen Oil* formed *Uralskaya Oil Co.* with the regional administration and will hold a controlling stake. *Uralskaya Oil* holds 51 percent of *Uralnefteprodukt*, a regional retail company that holds 37 percent in *Sverdlovnefteprodukt* and 40 percent in *Yekaterinburg Refined Products*. At the same time, both *Sibneft*-controlled marketing companies each hold 25 percent stakes in *Uralnefteprodukt*. *Sibneft* already has experience in the joint operation of marketing subsidiaries at regional markets.

CSFB Fired As Advisor To LUKoil Sale

- Russia fired *Credit Suisse First Boston (CSFB)* as adviser to the government's sale of a 6 percent stake in *LUKoil* because a conflict of interest, the Financial Times reported. The Federal Property Fund said it cancelled the contract because *CSFB* signed a similar contract with *BP Amoco*, which is selling its 7 percent stake in the Russian oil

producer. *CSFB* was co-adviser to the sale with *Morgan Stanley Dean Witter*. *CSFB* declined to comment. Russia plans to sell stakes in about 30 companies, including *LUKoil*, to raise more than 18 billion rubles (\$630 million).

LUKoil To Invest \$403M In Ukraine

- *LUKoil Holding* plans to invest \$403 million to modernize its Ukrainian refineries and build new filling stations through 2003, according to company official Ravil SAFIN. The company plans to build 150 new retail outlets at a cost of as much as \$400,000 each during the next three years. *LUKoil* plans to spend \$300 million on the project and may also develop a franchising network. *LUKoil-Ukraine* now operates 44 stations across the country. *LUKoil* plans to invest \$100 million to improve equipment at Ukrainian petrochemicals company *Oriana* in the same period. It also plans to spend \$3 million to upgrade the *Odessa Oil Refinery*, by the end of March. *LUKoil* owns about 96 percent of the *Odessa refinery*. Russia's largest oil company plans to expand its marketing operations and boost investments in Croatia, Hungary, Serbia, and Slovakia.

EUROPEAN REPUBLICS

Lithuania Appoints New Economics Min.

- Lithuanian President Valdas ADAMKUS on Thursday appointed reformist Eugenijus GENTVILAS as Economic Minister and he pledged to speed up energy sector reform and stimulate investment. The appointment will be effective on March 2nd. Prime Minister Rolandas PAKSAS said he had picked GENTVILAS because of his strong credentials as a liberal reformer during two terms as mayor of the port town of Klaipeda. GENTVILAS is a leading member of the Liberal Union party, which PAKSAS heads, and will replace Eugenijus MALDEIKIS. MALDEIKIS resigned last week over criticism stemming from a trip to visit executives of Gazprom in Moscow.

Latvian Central Bank Reserves Decline

- The Latvian Central Bank said on Thursday its end-January gold and foreign exchange reserves totaled 649.3 million lats (\$1.05 billion), down from 669.6 million lats at the end of December. The Bank

said in a statement the three percent fall was due to the Bank selling more currency than buying as well as making payments for lats borrowed from banks in lat/dollar swap deals. The Central Bank said its end-January foreign liabilities fell 4.8 percent from end-December to 123.3 million lats due to the change in lat-value of derivative financial instruments. Local assets increased 8.4 percent to 155 million lats as outstanding loans to commercial banks increased, but outstanding transit loans declined as the Bank paid out 1.3 million lats on its foreign loans. The Central Bank said local liabilities at the end of January rose 8.9 percent to 162.4 million lats as government deposits with the bank increased and the bank's liabilities to commercial banks declined. "Mainly due to the above mentioned reasons lats in circulation fell 3.3 percent," the Bank said in a statement. Money in circulation totaled 466.2 million lats. The Bank's assets came to 804.3 million lats and its capital and reserves amounted to 52.5 million lats.

Latvia Narrows Bidders For Shipping Co.

- The Latvian government narrowed its list of bidders for the sale of a majority stake in *Latvijas Kugnieciba*, the region's largest shipping company. It hopes to select a winner on May 11th. The government said it picked the three best preliminary offers from a field of six investors seeking the 68 percent stake. It didn't disclose the names of the finalists. The three contenders will have to pay a \$5,000 fee for the bidding documents and sign a confidentiality agreement within 10 days. They will also have to pay a \$5 million security deposit to receive additional information on the shipping company and to take part in the auction. Binding offers are expected within 21 days after the companies receive the documents. *Latvijas Kugnieciba* reported net income of \$1.15 million in 1999, up from \$854,000 in 1998. It posted a nine-month profit of \$4 million.

Belarus Candidate's Son Arrested

- Belarus authorities on Sunday arrested the son of former prime minister Mikhail CHIGIR who plans to run against President Alexander LUKASHENKO in the presidential election this year. The Interior Ministry said Alexander CHIGIR was arrested with two other people on suspicion of selling spare parts from stolen cars. His father told reporters he believed the arrest was politically motivated

and stemmed from his plans to challenge LUKASHENKO. "My son has become a hostage to his father's political activity," CHIGIR said, adding that he would not be deterred from running for president. Other presidential candidates include, former defense minister General Pavel KOZLOVSKY, former provincial governor Semyon DOMASH, and trade union leader Vladimir GONCHARIK. CHIGIR spent seven months on remand in 1999 on corruption charges that prosecutors were unable subsequently to prove in court. A delegation of officials from the European Parliament, the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE) last week expressed concern about Belarus' human rights record and the disappearance of several leading opposition politicians. Two politicians, a businessman and a reporter have disappeared in Belarus. Police investigations have so far failed to find them.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Adopt Int'l Accounting Standards

- TACIS project for adopting international accounting standards by 27 commercial banks in Georgia has been completed. The given 900,000 euro project was being implemented by the European Union (EU) contraction, British company *Development Partnerships Oxford* during the last two years. Company representative Henry HITE said today the project will promote the development of a national banking system and attracting foreign investment, Prime News Agency reported.

Itera To Buy Turkmenistan Gas

- Itera Holding*, Russia's controversial gas producer, agreed to buy 10 billion cubic meters of gas this year from Turkmenistan. *Itera* would not say how much the gas cost. Last year, it agreed to buy 10 billion cubic meters of gas at \$38 per 1,000 cubic meters. Turkmenistan has only supplied 6 billion cubic meters of that amount as of January. *Itera* spokesman Nikolai SEMENENKO noted that Turkmenistan is asking \$40 per 1,000

cubic meters for gas supplies this year. *Itera* sold 90 billion cubic meters of gas within the former Soviet Union last year, 49 percent more than in 1999. The company more than doubled output to 16 billion cubic meters in 2000 from 6.6 billion cubic meters a year earlier and plans to increase gas production to 25 billion cubic meters this year. *Itera* will buy gas from *Turkmenneftegaz*, the state-owned gas producer in Turkmenistan. The two already have contracts for sales of more than 40 billion cubic meters of gas this year. *Itera* transports 30 billion cubic meters of gas from Turkmenistan to Ukraine, across Kazakhstan and Uzbekistan. The company also is buying a combined 10 billion cubic meters of gas from Kazakhstan and Uzbekistan, SEMENENKO said. Turkmenistan produced 47.2 billion cubic meters of gas in 2000, of which 33.7 billion cubic meters were exported. The Commonwealth of Independent States (CIS) customers received 31 billion cubic meters of Turkmen gas with 2.7 billion exported to Iran, according to *Itera*.

Kazakhstan Forms Emergency Military Unit

- Kazakhstan is forming a mobile force to provide emergency military assistance to other countries in times of need. This process is almost complete. First deputy commander of the force Adilbek ALD-ABERGENOV said the force consists of an airborne contingent of commandos and a battalion of peacekeepers. The force is to be expanded in the future. Kazakhstan, which is a member of the Collective Security Pact of the Commonwealth of Independent States (CIS) and has also acceded to a treaty on security in Central Asia, is obliged to offer military assistance to other member states when they face a security threat, Xinhua reported.

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