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

Daily intelligence briefing on the former Soviet Union

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Russian Federation

Politics

Swedish Police Arrest ABB Worker For Spying

• Jan DANIELSSON, head of the Swedish security police Sapo, confirmed on Tuesday that authorities had arrested an *ABB* employee Monday suspected of industrial espionage. This is the nation's first big spy scandal in nearly 20 years. The man is alleged to have passed engineering industrial information rather than military secrets to unnamed Russian organizations. Swedish television said that the nation's defense had not been compromised. *ABB*, a Swiss-Swedish engineering group, confirmed that the employee was a Swedish citizen and worked in central Sweden. The charge of "gross espionage" carries a maximum sentence of life imprisonment. Gudrun SCHYMAN, leader of the Left Party, told *SVT* television's "Aktuellt" program that Russia was behind the spying. The report comes a month before Russian President Vladimir PUTIN visits Sweden for the first time, in connection with a European Union (EU) summit. Swedish Prime Minister Goran PERSSON has made closer EU relations with Russia a focal point of Sweden's six-month EU presidency and the Stockholm summit meeting. The Swedish arrest coincides with the US arrest of Robert Philip HANSSEN, an FBI agent accused of spying for the USSR and Russia for over 15 years.

Russian Fishing Ship Makes Mysterious Trip

• A Russian fishing boat, which took refuge in a Japanese port after coming under fire by Russian military jets, has refused to leave the Japanese port, Reuters reported. The boat's mysterious journey began on Tuesday when it put up a Japanese flag in Russian territorial waters and then raised a Russian flag in Japanese waters near the northernmost island of Hokkaido. The Japanese Coast Guard inspected the vessel and questioned its captain, Sergey STEPANOV. The boat was identified as the Russian fishing boat STM-17, with 13 Russian crewmembers on board. It was carrying a small cargo of frozen cod and herring. The Coast Guard had asked the boat to leave, citing the lack of a legitimate reason for it to be in harbor —such as an emergency. The captain had refused. He claims that the ship had been ordered by Russian border guard vessels to halt but refused, saying the authorities often demanded large fines without a reason. Russian fishing vessels have been used in the past as a cover for intelligence gathering. This latest intrusion comes just after two airspace violations on February 14th by six Russian bombers.

Economy

Duma To Vote On Debt Payments

• The Russian State Duma is scheduled Thursday to vote on amending the 2001 federal budget to allocate money for servicing the foreign debt. The government had suggested earmarking 80 billion rubles, but it has accepted a Duma proposal to earmark only the first 41 billions of additional revenues for debt servicing with the rest being split between debt servicing and social spending. The government has acquiesced most of its own proposals in favor of bills put forward by the Duma's Budgetary Committee. The federal budget now provides \$2.5 billion less than what Russia needs to service its foreign debt obligations in full. The Communist Party is likely to oppose the bill. Communist Gennady ZYUGANOV said the government was "not hearing the voice of the people," when it gave debt-servicing equal priority to social spending.

Smuggling Crackdown Causes Big Delays

• The smuggling crackdown ordered by Moscow on January 3rd, in which custom officers are required to inspect every box and create being shipped into cities throughout Russia, has caused long delays and halved the flow of imported goods. A decree last week called for all customs employees to work multiple shifts. This has done little to alleviate the lines of trucks waiting for inspection. Customs clearance in the past had only taken around two hours to complete, now takes one to two weeks. Russian Central Customs Department spokesman Viktor SOKOLOV defended the measure, insisting that no truck had been forced to wait more than the 10 days allowed for in Russia's 1993 customs code. He further claimed that the 50 to 75 percent drop in good was part of the seasonal December-January pattern. SOKOLOV said the regulations were not aimed at contraband, but rather at rooting out attempts to evade import duties, the Financial Times reported. He pointed out that since the smuggling crackdown had stated against gray imports, the average custom tariff collected per truck container had risen from $6,069 in December to $7,426 in January.

Ruble = 28.69/$1.00 (NY rate)
Ruble = 28.68/$1.00 (CB rate)
Ruble = 26.22/1 euro (CB rate)

Business

Crown Resources Buys Marc Rich Investment

• *Crown Resources*, a Russian-owned energy trading company controlled by *Alfa Group*, has agreed to acquire *Marc Rich Investment (MRI),* the Swiss-based commodities operation set up by the controversial Marc RICH in 1996. Under the proposed deal, RICH's holding company will retain an interest in the newly enlarged commodities business, which *Crown* will buy out at a later date, the Financial Times reported. The financial details of the deal have not been released to the public. The purchase of *MRI* is expected to be completed in 60 days, after a process of due diligence. Thomas FRUTIG, CEO of *MRI*, said that the merger would, "create a new commodity trading powerhouse." Mikhail FRIEDMAN and Peter AVEN run *Crown's* parent company *Alfa Group*, a conglomerate of retail, banking, and industry. *Crown* sells Russian oil for *Tyumen*, an *Alfa* oil subsidiary. *Crown Resources'* share capital is a mere SFr 200,000 ($120,000), while *MRI* had an estimated turnover of $9 billion.

Investors Vote On Norilsk Mining Share Issue

• *Norilsk Mining Company* is holding an extraordinary general meeting to vote on the controversial restructuring of *Norilsk Nickel* and the ensuing share issue. Restructuring, which began last April, was intended to complicate any future attempts by the government to renationalize *Norilsk Nickel*. This threat has mostly faded. The vote is on the issue of 135 million new shares in *Norilsk Mining*, which would later be swapped for shares in *Norilsk Nickel*. *Norilsk Mining* would take over from *Norilsk Nickel* as the controlling company of the group. Russia's Federal Securities Commission opposes the restructuring and has filed a lawsuit in Moscow to stop it. The Commission believes that the company has not obtained shareholder approval required by law. While some outside shareholders fear the restructuring would dilute their shares, many analysts believe that the benefits of the restructuring will outweigh these effects. Shareholders will gain a direct claim on the main productive assets of the company and dividends will only be taxed once at the *Norilsk Mining's* earnings and not twice as is now the case at the *Norilsk Mining* and the *Norilsk Nickel* levels, Financial Times reported.

Norilsk To Produce More Platinum Metals

• Dzhonson KHAGAZHEYEV, appointed CEO of *Norilsk Mining Company (NGK)* in early February announced that in seven to 10 years, *Norilsk Nickel's* output will be 55 and 58 percent in platinum group metals. He said that the change is linked to the increase in production of cheaper, lateritic nickel against which *Norilsk* could not compete. KHAGAZHEYEV said he was not worried by car manufacturers' statements that they were searching for alternative materials to platinum and palladium to put in auto catalysts, used for cleaning noxious exhaust fumes. "They've scared us with this before but there were and are no alternatives to platinum and palladium in auto catalysts. I think we can work confidently for a few more decades." *Norilsk* will invest $570-$580 million in production infrastructure this year. More than half of the sum will go to new mining facilities. The rest will be split between the Talnakh ore enrichment plant, smelting facilities at the copper plant, and prospecting in the

European Republics

Latvian Cabinet Approves IMF Agreement

• The Latvian Cabinet on Tuesday approved a new memorandum with the International Monetary Fund, (IMF), pledging not to raise the 2001 budget deficit ceiling and to limit the 2002 gap to one percent of gross domestic product (GDP). The IMF agreement, expected to run until the end of 2002, opens the door for the continued use of $120 million in World Bank structural adjustment loans of which one $40 million installment has already been taken. The IMF said then it expected to have the memorandum signed by April, after both sides approve it. Finance Ministry secretary of state Inguna Sudraba told Reuters, "The Cabinet approved the memorandum and entrusted the Finance Ministry to coordinate with the IMF on pension law amendment issues in three weeks time." Latvia agrees to stick to targets with the 2001 budget with a fiscal deficit of 1.7 percent of GDP and set an upper limit of 1.75 percent of GDP. The Latvian government had been seeking to increase the deficit limit for 2001 and 2002. Latvia also agreed in the memorandum to push ahead with selling off several large companies still in state hands, including *Latvian Shipping* and *Ventspils Nafta*, by the end of this year. The memorandum forecasts Latvian gross domestic product (GDP) will grow at 6.0 percent in 2001 with end-year inflation at 3.0 and current account gap at 6.3 percent of GDP.

Lithuania Backs Litas Re-pegging Amendment

• The Lithuanian government today approved and sent to parliament an amendment aimed at shifting the litas currency's peg from the dollar to the euro with no devaluation. Currently, the litas is pegged four to one to the dollar, but the Central Bank has for several years planned to shift the peg to include at least some weighting of European currencies. In January, Lithuania's Central Bank said it was looking to shift the peg on or about one month after January 1, 2002, as Lithuania seeks closer ties to the European Union (EU) to ease its transition to the bloc. Lithuania hopes to join the EU in 2004. The Central Bank had said the shift could be officially announced in May or June, if parliament makes the necessary amendments to the Litas Credibility Law, Reuters reported.

South Caucasus & Central Asia

Georgian Ratifies Zero Variant

• In a vote of 127 to one on Friday, the Georgian parliament agreed to renounce Georgia's claims on Soviet Union assets in exchange for the restructuring of its debts with Russia. Approximately 30 deputies opposing the "zero variant" stormed out of the chamber ahead of the vote. Heated debates about the document lasted for more than five hours. The debt deal is essential for Georgia to approach the Paris Club for the rescheduling of its $1.5 billion debt to the Club. At the Paris Club session planned for March 5th, Georgia plans to put the issue of reconstruction of $500 million from the total sum of its foreign debts. Georgia will forfeit its claim to its 1.62 percent share of assets and liabilities dating from the Soviet era, and secure a rescheduling deal from Russia covering $158 million in separate debts. Georgian Finance Minister Zurab NOGAIDELI warned deputies that if the agreement was rejected, two-thirds of the impoverished country's 2001 budget would be swallowed up in debt servicing. Georgian President Eduard SHEVARDNADZE had warned the previous day that refusal to ratify the "zero option" would lead to economic collapse. The International Monetary Fund (IMF) also backed ratification of the deal, as it did not want Tbilisi to use loan installments. It has recently resumed disbursing to pay off Georgia's foreign debt.

BP Believes MEP Is Economically Viable

• European Bank for Reconstruction and Development (EBRD) first vice president Charles FRANK said that *BP Amoco* believes that Baku-Tbilisi-Ceyhan pipeline will be economically viable. Revised engineering estimates have reassured *BP* that the $2.7 billion line can be profitable. The EBRD may help finance the line if *BP* can convince the bank of its case. FRANK said at New York's

Columbia University, "We're having discussions with *BP* and we may get involved in Baku-Ceyhan." The proposed pipeline would transport one million barrels per day of Caspian oil about 1,000 miles from the Azerbaijan capital of Baku through Georgia to the Turkish port of Ceyhan on the Mediterranean Sea. The US and Turkey have long been pushing for a pipeline that would bypass Russia and Iran, but poor drilling results in the region have made oil companies skeptical of the line's high price tag. *BP's* backing marks a second boost for the project this month after *Chevron's* announcement that it is interested in participating in a $100 million detailed engineering study. The EBRD's participation in the project hinges on whether transporting Caspian oil through the Baku-Ceyhan line proves to be cheaper than routes through the Black Sea, FRANK said. He added, that like the US, the EBRD supports a multiple pipeline policy for the Caspian region. A group of companies interested in the Baku-Ceyhan pipeline formed the Main Export Pipeline Company (MEPCO), led by *Azerbaijan State oil company (Socar)* with a 50 percent share. Other members are *BP* (25.41 percent), *Unocal* (7.48 percent), Norway's *Statoil* (6.37 percent), *Turkish Petroleum* (5.02 percent), Japan's *Itochu* (2.92 percent), Britain's *Ramco* (1.55 percent) and *Delta Hess* (1.25 percent).

USDA Grants $10M Credit To Azerbaijan

• The US Department of Agriculture (USDA) on Thursday allocated $10 million in export credit guarantees to Azerbaijan for purchases of American agricultural products. The fiscal 2001 allocations included $5 million in GSM-102 short-term credit guarantees and $5 million under the supplier credit program.

Kazakh Sell-offs, Trade Surplus

• Kazakhstan's budget received just over 22 billion tenge ($151.4 million) from privatization auctions in 2000. This figure fell far below planned revenues of 60 billion tenge, the State Statistics Agency. The state budget received 21.06 billion tenge from the sales last year, while local budgets got 991.9 million tenge. Kazakhstan received a total of 36.6 billion tenge from cash sell-offs in 1999. The state budget for this year targets privatization revenues of 44 billion tenge.

Meanwhile, Kazakhstan posted a foreign trade surplus of $4.09 billion last year, up sharply from a surplus of $1.91 billion registered in 1999. The State Statistics Agency said exports grew by 63 percent to $9.14 billion last year, while imports rose 37 percent to $5.05 billion. "A favorable situation on the world energy resources market was the main factor behind higher exports," the agency said. Oil is Kazakhstan's main export commodity and accounted for half of all sales abroad last year. Kazakhstan is also an important exporter of non-ferrous metals and grain.

Kyrgyz To Meet IMF Conditions

• Kyrgyzstan's Prime Minister Kurmanbek BAKIYEV assured the visiting head of an International Monetary Fund (IMF) mission on Wednesday that his nation would meet the strict terms agreed to with the Fund. "I know the conditions are severe. We understand and will use all our resources to fulfill all those conditions," BAKIYEV said. The Finance Ministry predicted that this year gross domestic product (GDP) must grow by 5 percent, inflation must fall to 7 to 8 percent from 9.6 percent, and the budget deficit must be cut to 5.9 percent from 8.6 percent. Finance Minister Temirbek AKMATALIYEV said that in order to guarantee Kyrgyzstan would repay its foreign debt, the IMF had recommended moving proceeds from the privatization of several monopolies to a special account. The companies to be privatized are telecoms operator *Kyrgyztelekom*, power generator *Kyrgyzenergo*, gas company *Kyrgyzgaz* and national airline *Kyrgyzstan Aba Zholdoru*. AKMATALIYEV said this year the country will pay $105.6 million in debt. Kyrgyzstan is working with Russia and Turkey to restructure its debts, which total $150 million to Russia, with $41 million

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