

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Moscow Subway Bomb Injures 15 Commuters

- A small bomb exploded at Moscow's Belarusskaya subway station during Monday's rush hour, injuring 15 commuters. Moscow Mayor Yuri LUZHKOVA suspects that the bomb was intended to go off after a train arrived causing the maximum damage. LUZHKOVA pronounced the blast a terrorist attack. Belarusskaya is one of the busiest stations on Moscow Ring line, which circles the city and is known for its stained glass, mosaics, and chandeliers. Interfax quoted Moscow police officials as saying it had been caused by a device hidden in a bag under a bench in one of the underground passages of the metro station. Russian authorities investigating the incident said it is too early to determine who was behind the 200 to 300 grams of TNT blast. The attack was the latest of several explosions in Moscow over the past five years, none of which have been solved.

Russian Funds Transferred To Chechnya

- The Russian government transferred about 3.8 billion rubles to Chechnya in 2000 to rebuild its economic and social systems. Almost 70 million rubles were earmarked for the restoration of the energy and gas sector, including 10 million rubles to rebuild the utilities and housing sector, the office of the presidential aide Sergei YASTRZHEMBSKY said on Monday. More than 1.29 billion rubles were provided from the Pension Fund to pay pensions in Chechnya. The Employment Fund transferred over 11 million rubles. Two hundred million rubles were allocated for the needs of forced migrants, and 17.6 million rubles were paid for repairs in medical institutions. The Federal Fund for the Restoration and Protection of Water Objects transferred five

million rubles to find sources of water contamination and areas along the rivers Terek and Sunzha. Many wonder what really happened to these funds.

Russia-Iran Expanding Ties

- Russian deputy Foreign Minister Alexander LOSYUKOV said in Tehran on Sunday that Russia is determined to expand ties with Iran in all fields. In a meeting with Iranian Foreign Minister Kamal KHARAZI, LOSYUKOV stressed that Russia has made the decision to expand ties with Iran independently. He added that the expansion of Tehran-Moscow ties is to the benefit of both sides. President Mohammad KHATAMI's will visit Russia on February 19th, opening a new chapter in bilateral ties, according to the Russian envoy. He and his Russian counterpart Vladimir PUTIN are expected to reach an agreement on how to divide the oil-rich Caspian Sea among the five littoral states. KHARAZI said the two countries have good potential to bolster bilateral, regional and international cooperation, Xinhua reported.

Economy

IMF Support Vital To Debt Rescheduling

- Russian Prime Minister Mikhail KASYANOV on Monday ordered the government to rework this year's budget to include payments to international creditors. He called for better tax discipline and raising of revenues to meet foreign debt obligations this year. KASYANOV's comments were made on the first day of International Monetary

Fund (IMF) talks in Moscow between the mission's leader Gerard BELANGER and Finance Minister Alexei KUDRIN. "We are not only concerned about this year but about the years 2002 and 2003, and that is why we shall ask the IMF to consider a medium-term program," KUDRIN said.

IMF officials said on Friday in Washington that Russia's finances were strong due to lucrative energy exports. Russia has paid 124.54 million in Special Drawing Rights (SDR) or \$162.5 million to the IMF ahead of a February 7th due date. Russia is scheduled to make two additional payments to the Fund this month: 89.86 million SDRs on February 11th and 19.47 million SDRs on February 25th. Russia must repay the IMF nearly \$2 billion (1.566 billion SDRs) in 2001. The government says it does not require new loans, but IMF support is vital to restart talks with the Paris Club of creditor nations on restructuring \$38.7 billion in Soviet-era debts. According to the Paris Club charter, Russia needs IMF approval for its economic policy before it can ask the club to reschedule the debt. Comment: Given the IMF's history with Russia and its tough requirements on former Soviet Union countries like Georgia and the Ukraine, it will be interesting to see if consistency rules its Russian policy.

Ruble = 28.44/\$1.00 (NY rate)
Ruble = 28.47/\$1.00 (CB rate)
Ruble = 26.56/1 euro (CB rate)

Russian Laws Weak On Money Laundering

• Named Thursday as the country not doing enough to combat money laundering, Russia is hindered by weak legislation. The Paris-based Financial Action Task Force (FATF), set up by the Group of Seven leading economic powers, left Russia on a blacklist of 15 banking centers that have yet to improve their methods of fighting money laundering. Sergei STEPASHIN, chairman of the Audit Chamber watchdog agency, said Russia was trying to clean up its act, but could not join the international convention on fighting money laundering because parliament had so far failed to pass a law to back it up. "I want to stress this does not mean Russia is not fighting the problem, especially since it is very topical for us... We have corresponding agreements with law-enforcement bodies, we are active in the work of Interpol," he said. The FATF blacklist included Russia, the Philippines, Lebanon, and a

string of more exotic islands or territories. FATF President Jose Maria ROLDAN said Russia had made a high-level political commitment to act on the matter. "We're waiting for this to be translated into action," he said.

Consumer Prices Rise In January

• Russian State Statistics Committee said consumer prices rose at a faster pace in January than in December, led by higher prices of meat and poultry and higher housing charges. Consumer prices rose 2.8 percent in January from December, after rising 1.6 percent in December from the previous month. The State Statistics Committee did not give inflation figures for January compared with January, 2000, when prices rose 2.3 percent on a monthly basis. Prices rose 20.2 percent last month from December, 1999. Meat and poultry prices rose 4.3 percent from the previous month, after a monthly increase of 2.8 percent in December. Housing charges rose 5.5 percent in January after rising 2 percent in December from the previous month. Russian inflation slowed in 2000, from 36.5 percent for the whole of 1999. The growing money supply has been the main factor influencing the rate of Russian consumer price growth in previous months, analysts said.

Business

Gazprom Fails To Cooperate In Audit

• Russian gas monopoly *Gazprom* has failed to respond to a *Deloitte & Touche* request for access to records to conduct an audit being commissioned by minority shareholders. The audit is aimed at investigating the relationship between *Gazprom* and *Itera Holding*. On Friday, *Gazprom* said that the shareholders' audit would be illegal. The company said that the audit conducted by *Gazprom's* existing auditor, *PricewaterhouseCoopers (PwC)*, should be sufficient. It commissioned that audit after the government and other shareholders alleged *Gazprom* let *Itera* buy gas and assets cheaply. *Gazprom* claims that it has normal business relations with *Itera*. According to a report by *United Financial Group* brokerage, the *Gazprom-Itera* relationship cut *Gazprom's* 2000 net income by \$700 million. *Deloitte & Touche* believes that *Gazprom's* non-response could be against the Civil Code. "*Gazprom* has always followed the principles of openness and acted within the law," the company

said. Shareholders owning a 10 percent stake in any company are eligible to demand an audit of the company independent from management under Russian legislation. In addition to the *PwC* and *Deloitte & Touche* investigations, the Russian Audit Chamber is conducting its own probe into *Gazprom's* relations with *Itera*.

EUROPEAN REPUBLICS

IMF Urges Ukraine To Speed Up Reforms

- Ukraine should use its current economic recovery and speed up structural reforms to sustain long-term growth, a senior International Monetary Fund (IMF) official said on Monday. John ODLING-SMEE, head of the IMF second European Department, praised Ukraine's economic policies over the last year, which has led to resumption of the IMF aid. He hailed government steps on banning barter deals, improving payment discipline, reforms in agriculture and better transparency in its policies. But he warned that further delays in implementing reforms were dangerous. "Abroad-based economic recovery is underway," he said, but "it will not be sustained if structural reforms are not accelerated."

Prime Minister Viktor YUSHCHENKO believes that the government will receive another tranche of a \$2.6 billion Extended Fund Facility Program. "We have a chance to prepare a letter of intention in three weeks and if we manage to convince (the IMF)...then we are very certain the board of directors will approve the decision," he said. According to Reuters, Ukraine recorded its first economic growth last year after almost a decade of recession. Gross domestic product rose six percent after a 0.4 percent decline in 1999 and was fuelled by stronger exports and a growth in the whole region. The IMF mission is working in Kiev until February 7th, but ODLING-SMEE said it is premature to comment on the results.

Russian Capital Infiltrating Ukraine

- Russian businessmen have taken an interest in Ukrainian privatizations, which could prove detrimental to Ukraine economically and politically. Ukrainian Labor Minister Sergei TYHYPKO said, "We are seeing the Russians come and compete successfully with us not due to corruption, but based on real objective standards created by our own state commissions. If there are no other competi-

tors, then Russian groups will completely legally win all these privatization tenders." He adds that, "The outcome of the privatization process is up to western investors to decide." Russian acquisitions are primarily in, but not limited to, the oil and gas sector. The following are acquisitions in 2000: *Ukranafta* by *Alfa-Nafta* (1999-2000), *Odessa Oil Refinery* by *LUK Sintez* (*LUKoil* 1999-2000), *Linos* by *Tyumen* (*Alfa Group* July, 2000), *Kherson Oil Refinery* by *Kazakhoil* (*Alliance Group* November, 2000), *Mykolaiv Alumina* by *Ukraine Alumina* (*Siberian Aluminum* – now *Russky Aluminy* 2000), *Pobuzhya Ferronickel Plant* by *Nikommed* (October, 2000), *Kyivinvestbank* by *Alfa Capital* (*Alfa Group* March, 2000), and *Kyiv Dairy 3* by *Wimm-Bill-Dann* (July, 2000). *Alfa Group* also controls Ukrainian television station, *Novi Kanal*, and radio station *Nashe FM*. It is also looking to expand into metals. Russian carmaker *AvtoVAZ* is in negotiations to purchase the *Zaporizhia Aluminum Plant*. Russian companies have also been acquiring stakes in companies in exchange for writing off debts. TYHYPKO said, "The risk is obvious. If any particular country owns too much of our economy, or dominates an important sector, then it will vary likely also involve itself in our politics." The *Financial Times* reported Ukrainians and Western diplomats have privately expressed fears that Russia may have hidden geo-political interests attached to their capital investments. This undoubtedly will increase Moscow's control over its former imperial subject. Some Russian analysts have begun openly talking about a Russian "sphere of influence" in the former Soviet Union, especially Ukraine and Georgia.

In an interview with Radio Liberty, the former head of Ukraine intelligence blamed the KUCHMA-Gate on Russian "active measures." Alexander SKIPALSKI said that the tape scandal, which alleges that Ukrainian President Leonid KUCHMA ordered the murder of journalist Gregory GONGADZE, was orchestrated by powerful foreign special services. He believes that both opposition leader Alexander MOROZ and Nikolai MELNICHENKO are simply performers in a greater play. This may in fact be part of a larger effort for greater influence and control of Ukraine's political and economic life. (See *Intercon* Special Feature in the February 2nd edition.)

SOUTH CAUCASUS & CENTRAL ASIA

Georgian-Ukrainian Defense Cooperation

• The Defense Ministries of Georgia and Ukraine are holding two-days of talks to develop a program of cooperation. The program will be signed as a result of the talks. Georgian Defense Minister Lieutenant-General David TEVZADZE and his Ukrainian counterpart Alexander KUZMUK discussed various aspects of revitalization of military cooperation between the two countries and their efforts to reform and build national armed forces. The Ukrainian delegation studied Georgia's proposal for Ukraine's participation in the resumption of the air defense system in Tbilisi. The two Defense Ministers signed a program on cooperation between the ministries for 2001. TEVZADZE met with Ukrainian President Leonid KUCHMA, Parliament Speaker Ivan PLYUSHCH, and Prime Minister Viktor YUSHCHENKO. KUCHMA expressed his desire to further strengthen bilateral ties and prospects of bilateral military and political cooperation especially in the Black Sea. YUSHCHENKO expressed interest in safety measures related to pipelines around the Black Sea to other European countries. TEVZADZE also thanked Ukraine for its assistance concerning the severe drought that Georgia experienced last year.

AIOC To Boost Azeri Oil Output

• The *BPA* *Amoco*-led group of international companies, *Azerbaijan International Operating Co. (AIOC)* said it will boost Azerbaijan's oil output by about 20 percent this year after completing modernization of its drilling rig in the Caspian Sea. *AIOC* plans to produce 6 million tons (120,000 barrels a day) of oil this year at its Chirag-1 platform, up from 5 million tons produced in 2000, according to *AIOC* President David WOODWARD. The *AIOC* will finish upgrading the drilling rig in the second quarter of this year. International oil companies are involved in 20 exploration ventures in oil-rich Azerbaijan and its part of the Caspian Sea. The producers are working on projects such as the Baku-Ceyhan pipeline project to enable them to export crude from the region to world markets. *AIOC* now ships

most of its output through the Baku-Suspa pipeline. *AIOC* plans to invest as much as \$629 million in the Azeri-Chirag-Guneshli project in the Caspian Sea this year, more than double from \$249 million invested last year. *AIOC* members include *Exxon Mobil Corp.*, *Devon Energy Corp.* and *Unocal Corp.*, as well as *LUKoil Holding*, Norway's *Statoil*, Turkey's *TPAO*, Japan's *Itochu Corp.*, and the Britain's *Ramco Energy* and *Delta Hess*.

Iran-Kazakhstan Boost Cooperation

• Iranian Foreign Minister Kamal KHARAZI and Kazakhstan counterpart Yerlan IDRISOV voiced readiness to accelerate bilateral cooperation. KHARAZI stressed at the meeting the need of taking serious and practical steps towards further cooperation, particularly in energy transfer, the Islamic Republic News Agency reported. Referring to common interests of all the Caspian Sea littoral states, he stressed the need to set up a comprehensive and durable regime within which interests of all member states could be protected. IDRISOV voiced his country's interests in promoting all-out ties with Tehran, particularly in the areas of economy and transfer of energy. The Kazakh Foreign Minister said that Astana believes the Iranian route is the most economical one for transferring Kazakh oil to international markets. Reza MAJEDI, director of the *National Iranian Oil Company* in Kazakhstan, said Iran was about to start moving Kazakh crude by pipeline from the port of Neka to Tehran, and would give Kazakhstan the same amount of crude at the Gulf in exchange. "We are looking for Kazakh crude for northern refineries by this swap procedure, and then we will deliver our crude in Iran. We will start this swap procedure very soon," he told Reuters. Kazakhstan aims to produce 795,000 barrels per day (bpd) this year, but Kazakh President NAZARBAYEV says it could produce up to eight million bpd. IDRISOV stressed the need to continue consultations among the littoral states to achieve a consensus on the Caspian Sea resources.

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