

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

Unity Against No-Confidence Vote

□ Unity Party, the Pro-PUTIN bloc, today has decided against supporting a government no-confidence vote. The Unity Party's decision almost certainly means the failure of the vote in the State Duma on Wednesday. The vote was initially proposed by the Communist Party, but later gained the support of Yabloko. Last week, Unity claimed that it would support the measure. It believed that Russian President Vladimir PUTIN would choose to dissolve the Duma and call early elections rather than sack the government. If early elections were called Unity expected to win more seats, according to a new opinion poll placing its ratings higher than the Communist Party. Ahead of the vote, PUTIN has started a two-day vacation to the Khakassia region in southern Siberia. During his vacation, PUTIN will be working on his annual address to the Duma and Federation Council, which will be made at the end of March.

Rus-Iran On Caspian Status

□ Iranian President Mohammed KHATAMI and President Vladimir PUTIN on Monday signed a joint statement on the status of the Caspian Sea. The decree said, "No borders in the sea will be recognized until an official legal framework exists." It added that any agreement on the Caspian's status would have legal force only if it had been approved by all five states, reiterating a 1998 statement from Russia and Iran. Existing agreements, signed by Iran and the Soviet Union in 1921 and 1941, remain in force. Iran said that Russia's policy toward the Caspian Sea has been "misleading and disappointing." KALYUZHNY has said that negotiations with Iran are at an "impasse." He said, "Iran's position is somewhat surprising, unfortunately, because it

wants the sea to be divided into equal parts." This would give each of the five littoral states (Russia, Azerbaijan, Iran, Turkmenistan, and Kazakhstan) with 20 percent of the Caspian Sea's resources. Russia, however, has already signed bilateral deals with Kazakhstan and Azerbaijan according to a "modified median line" principle that would leave Iran with only 13 percent. This section is also believed to hold the least oil and gas reserves. Russian officials have been proposing moving those dividing lines to slightly increase Iran's share at the expense of Turkmenistan and Azerbaijan. Yuri FEDOROV of the Moscow State Institute for International Relations, said, "The issue of Iran's share is not a question for Russia and Iran, but for Iran and its neighbors: Turkmenistan and Azerbaijan," the *Financial Times* reported. The settlement of the sea status is further complicated by other disputes on claims.

Russia's special presidential representative on the Caspian Sea, Viktor KALYUZHNY, will arrive in the Kazakh capital Astana today for talks. KALUZHNY said Russia will not accept Iran's equal section proposal. He said, "it is possible to understand Iran's concerns. But at the same time the variant Iran proposes of 20 percent sectors [for each of the littoral states] raises many problems, and does not offer a solution." A summit of the five littoral states was due to be held last week in the Turkmen port of Turkmenbashi, but was postponed at Iran's request. Turkmen President Saparmurat NIYAZOV said the meeting may be rescheduled for April although

no firm date has been set. In the meantime, KALYUZHNY will lobby each of the states in separate visits: Azerbaijan March 20th- 21st, Turkmenistan March 25th- 27th, and Iran later in March.

Iran, however, is not waiting for the Sea's status to be resolved. On Friday, Iran's *Sadra Marine Structures Company* and the Swedish company GVA signed a contract of oil exploration in the Caspian Sea worth \$226 million. The project, which will take 32 months to complete, involves building an oilrig on a submersible platform in Iran's northern town of Neka. It is said to create 2,000 job opportunities. Iranian Oil Minister Bijan Namdar ZANGANEH said, "We had to start oil exploration activities because others have started and we don't want to be left behind."

Moscow Justice Chief Murdered

□ The chief of the Moscow Justice Department, Yuri VLASOV, and his driver, Dmitry GRUZDEV, were found strangled in VLASOV's apartment early Sunday, *NTV Television* reported. Both men had been strangled with a kitchen towel, and GRUZDEV also had been stabbed four times. Police have said that two suspects have been arrested. No details on the suspects were immediately reported. Police did not comment on the killings or the method in which the two were killed. An investigation has been launched. The murders looked like the work of hitmen.

Economy

Ruble = 28.67/\$1.00 (NY rate)

Ruble = 28.67/\$1.00 (CB rate)

Ruble = 26.29/1 euro (CB rate)

WB Sees No Need For Russian Loan

□ Johannes LINN, the World Bank's vice president for Europe and Central Asia, said Russia had no great financial needs for a new adjustment loan requested late last year. LINN said, "If the government is willing to move forward without a loan, so much the better. But if they ultimately ask for a loan, we would be ready to consider it provided the IMF program is on track and provided there is enough progress in terms of reforms." Higher oil and commodity prices, as well as the boost from the ruble devaluation in 1998, have replenished the state's coffers, but the government is negotiating

a precautionary loan pact with the International Monetary Fund (IMF) so it can restructure \$40 billion in Soviet-era debt it owes to the Paris Club of creditor nations, Reuters reported. LINN said Russia's promising economic outlook gave it a window of opportunity to make badly needed structural reforms in a host of areas including the climate for foreign investment and small enterprises, public-sector administration and strengthening the social safety net. "We're ready to assist but the extent of our assistance will depend on the implementation of reforms," he said.

Russia Approves Platinum Exports

□ The Russian government has signed quotas allowing platinum and rhodium exports to resume this year and palladium shipments to increase, according to a source close to the state precious metals and gems reserve. Russia, which supplies 70 percent of the world's palladium and about 20 percent of its platinum, restricts supplies through annual quotas for most exporters. The metals are exported by the state reserve, known as Gokhran, the Central Bank and *Norilsk Nickel*, the world's top palladium producer. *Norilsk* has been shipping palladium under a 10-year quota granted in 1999. The quotas were signed in early March. *Norilsk* required platinum and rhodium export permissions. The Central Bank and Gokhran required export quotas for all three metals.

Business

Explosion Damages Gas Pipeline Branch

□ One of the four branches of the main gas pipeline Torzhok-Minsk-Ivatsevichi used for gas exports to Europe has been damaged Monday night as a result of an explosion followed by a fire. The incident occurred in the Tver region in the northwest of Russia, Itar-Tass was told by *Lentransgas* personnel. The fire destroyed around 70 meters of the gas pipeline, inflicting gas loss of five million cubic meters. First reports said the accident was presumably caused by environmental factors. Repairs are under way on the site of the accident. It will take at least two days to restore the damaged pipe. *Lentransgas*, which is a branch of *Gazprom*, has guaranteed that the accident will not entail cuts in gas exports to Belarus and European countries.

Sibneft Issues Shares In Consolidation

□ *Sibneft*, Russia's sixth oil producer, issuing new

shares in three units that will be offered to shareholders in a forced swap for existing equity as part of a consolidation, according to the Federal Securities Commission. The commission registered for *Sibneft-Noyabrskneftegaz* an issue of 75 ordinary shares, with a face value of 82.6 million rubles (\$2.9 million) for each share, and 25 preferred shares at face value of 47.1 million rubles each. It also registered issues for *Sibneft-Omsknefteprodukt* of 71 ordinary shares at face value of 6,504 rubles each and 20 preferred shares at face value of 7,696 rubles a share and for *Sibneft-Omsk Oil Refinery* of 55 ordinary shares at face value of 35.2 million rubles a share and 17 preferred shares at 37,939 rubles each. Shareholders in the units will have to swap their existing shares for the new shares at ratios ranging from 1.4 million existing *Noyabrskneftegaz* common shares for one existing common shares to 32,520 existing *Omsknefteprodukt* shares for one new share, the paper reported. Investors lacking sufficient shares to make such a swap will be forced to sell their shares, Bloomberg News reported. *Sibneft* holds 97 percent of oil producer *Sibneft-Noyabrskneftegaz*, 94.8 percent of marketing company *Sibneft-Omsknefteprodukt* and 87.4 percent of *Sibneft-Omsk Oil Refinery*.

Rosneft Signs Exploration Agreement

□ Russia's *Rosneft* and *Nigerian National Petroleum Corp.* signed an agreement to explore for oil and gas at some fields in Nigeria, *Kommersant Daily* reported. The companies will sign a final agreement after an evaluation of reserves at some fields in the African country, which holds 22 billion barrels of crude reserves and produces 2 million barrels a day, the paper said. *Rosneft*'s 2000 pretax profit more than doubled to 31.5 billion rubles (\$1.1 billion), compared with 1999. Its revenue reached 82 billion rubles in 2000. The Russian company produced 1.1 million tons of oil in January, of which 496,100 tons were exported. *Rosneft* invested 656.9 million rubles in its projects in January.

EUROPEAN REPUBLICS

Lithuania Approves Changes To CB Law

□ The Lithuanian parliament today, in a vote of 80 to 1 with eight abstentions, adopted a law that

brings the Central Bank's policies closer in line with the European Central Bank, as Lithuania aspires to join the European Union (EU). The law changes the Central Bank's monetary policy focus to keeping inflation in control, rather than keeping the litas stable against the dollar. It provides the Central Bank more independence and allows it more freedom to shape its monetary policy. Central Bank Chairman Reinoldijus SARKINAS said, "The new law more clearly defines major positions, the bank's independence, its relations with the government. The law fully corresponds to the European Union's requirements for the central bank law." The bill states, "When implementing the goals set by this law and carrying out its functions...the Bank of Lithuania is independent from state institutions and enterprises of the Lithuanian Republic as well as other companies, enterprises or organizations."

Another law, which would change the lita's peg from the dollar to the euro, has been submitted to parliament, with the view that after EU membership, the country would eventually adopt the euro. The law could be approved in April, with the date and procedures for re-pegging the currency to be announced by July. The most likely date for the switchover is in the beginning of 2002, SARKINAS said. President Valdas ADAMKUS must sign the bill before it becomes law.

WB To Release Loan To Ukraine

□ The World Bank plans to release a \$60 million loan to Ukraine to streamline government bureaucracy, World Bank President James WOLFensohn told Ukrainian First Deputy Prime Minister Yuri YEKHANUROV last week, Bloomberg News reported. The Bank also may approve a \$750 million loan that it would release in three payments in 2001-2003. It plans to lend money to develop Internet projects in Ukraine. Since 1993, the World Bank approved \$2.1 billion in loans to Ukraine, \$570 million of which the Bank has yet to release. The loans from the Bank help the government to cover its budget deficit and support its balance of payment. A Ukrainian government team, led by YEKHANUROV, is in Washington for talks with the World Bank and International Monetary Fund (IMF) until March 15th. The World Bank resumed lending to Ukraine last October, a year after freezing the loans in 1999.

SOUTH CAUCASUS & CENTRAL ASIA**Georgia Seeks NATO And EU Membership**

□ Georgian Foreign Minister Irakly MENAGARISHVILI in an interview with the Japanese newspaper Sankei Shimbun said that Georgia doesn't want to preserve neutrality. He said that the nation is making preparations to join NATO and the European Union (EU) as soon as possible. This he said was the nation's main strategic aim. Georgian President Eduard SHEVARDNADZE has said in the past that the Georgia will knock on NATO's door in five years seeking membership. MENAGARISHVILI said Georgia and NATO will open political consultations on strengthening security cooperation in Brussels on March 30th. During the talks, the two sides will discuss issues on Georgia's participation in the NATO Partnership for Peace program and the possibility of increasing NATO aid to Georgia. MENAGARISHVILI pointed out that one major step toward those goals was the membership in the Parliamentary Assembly of the Council of Europe in 1999. He noted that Georgia is working to remove Russian troops from the four bases Russia maintains on Georgian territory. He said Russian troops will be withdrawn from two of them in the first half of the year, and Georgia "would like to reach an agreement on the withdrawal of troops from other two bases." Meanwhile, Georgian Defense Minister David TEVZADZE arrived in the US on Monday for a five-day high-level working visit to discuss enhancing the military cooperation.

Armenia Defense Min. On Nagorno-Karabakh

□ Speaking at a meeting with members of the Academic Council of Yerevan State University (YSU), Armenian Defense Minister Serge SARKISYAN said he believes that, "a resumption of combat operations in the Nagorno-Karabakh conflict area is unlikely." He pointed out that military exercises are being held in Armenia, which started on Monday and will last until March 17th with the participation of reserve servicemen. He said that the Defense Ministry has been tackling upgrading the combat

training of personnel of the republic's armed forces and holding military exercises. SARKISYAN's comments follow a week after the Armenian and Azeri Presidents met in Paris to discuss resolving the Nagorno-Karabakh conflict.

Aliyev Rejects Opposition Peace Plan

□ Azeri President Geydar ALIYEV Monday dismissed a Nagorno-Karabakh peace proposal submitted by 10 opposition parties, calling for the phased withdrawal of Armenian forces from Nagorno-Karabakh. He said that this proposal had been rejected by Armenia several years ago and was "far from a solution to the conflict." The proposal also calls for the retaking of Nagorno-Karabakh by force if Armenian forces did not pull out. ALIYEV blamed Armenia's "unconstructive position" for the impasse and said a military solution would never be ruled out. ALIYEV said, "We should always be ready for war...Our army increases its strength every day. However, to talk about war or waging war is not easy. Whoever is now talking about war is pursuing private goals," Reuters reported. He made an appeal in Azerbaijan's parliament last month for new ideas to end the deadlock in negotiations. ALIYEV also expressed disappointment that no new proposals were ready to present at last week's Paris meeting with Armenian President Robert KOCHARYAN.

Kazakh Parliament Reduces Taxes

□ Kazakhstan's parliament today approved at a second reading a new tax code reducing a number of taxes because of booming revenues. The new code cuts the rate of Value Added Tax (VAT) from 20 percent to 16 percent, and the social tax from 26 percent to 21 percent. President Nursultan NAZARBAYEV called for these rates to be introduced starting July 1st. He pointed out that the country was enjoying a windfall from higher than expected revenues from exports of energy and other raw materials. The draft will now be sent to the upper house for approval and then on to NAZARBAYEV for signature.

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