

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Duma Rejects No-Confidence Vote

□ A Communist-backed motion of no-confidence in the Cabinet failed to muster enough votes in the Russian State Duma today after a pro-Kremlin Unity Party abandoned its support for the measure on Tuesday. Only 127 deputies voted for the motion in the 450-member Duma, where 226 votes were needed for passage. Voting against it were 76 deputies and five abstained. A no-confidence vote could have disrupted the political stability that has prevailed, despite rumors of a Cabinet reshuffle, since President Vladimir PUTIN was elected last year. If the Duma votes no confidence twice in three months, the president must either fire the prime minister and the Cabinet or dissolve the Duma for new elections, the Associated Press reported. The Communists said they were ready for new elections, even though a new public opinion poll places the Unity Party ahead of the Communist Party in popularity. Prime Minister Mikhail KASYANOV declined the deputies' request to appear for questioning before today's scheduled vote. The Communist Party issued the no-confidence motion because it claims the government isn't paying enough attention to social welfare and is instead spending excess budget funds on paying foreign debt. Communist Party leader Gennady ZUGANOV said KASYANOV's ministers were incapable of resolving economic problems after President Boris YELTSIN's eight years in office.

Federation Council Passes Amendments

□ Russia' Federation Council today approved amendments to the 2001 budget, aiming to allow the government to service due debt to the Paris Club this year. The government, hoping to restructure the \$40 billion Soviet-era debt, had initially provided

for just \$1.3 billion for foreign debt payments in the 2001 budget. Russia has failed to reach a restructuring agreement with the Paris Club, which is due to receive \$3.8 billion from Moscow this year. The Federation Council approved government's amendments, which say that Russia would get an additional 165 billion rubles (\$5.5 billion at the expected 2001 average rate of 30 rubles per dollar) from exports of energy and metals. The first 41 billion rubles of the extra revenue will go towards foreign debt repayment, while the remaining 124 billion rubles will be split in half between foreign debt and social programs, Reuters reported. "The government has reached a necessary compromise on the foreign debt issue as well as the prospects of regions' social development," Deputy Prime Minister and Finance Minister Alexei KUDRIN told the Federation Council.

Chechen Rebel Arrested At Azeri Checkpoint

□ Saburali DIBIROV, an active member of an illegal Chechen rebel gang, was arrested at the Yarag-Kazmalyar checkpoint on the Daghestan-Azerbaijan border on Monday. During the first Chechen campaign he was a field commander, who directed about 50 men. In May, 1999, DIBIROV's detachment surrounded a group of Russian State Duma deputies, including Telman GDLYAN and Dmitri ROGOZIN, who visited Chechnya to negotiate a hostage release. The legislators and the journalists were held for several hours and threatened with kidnapping. In the period between the two Chechen cam-

paigns DIBIROV and his gang specialized exclusively in the kidnapping. His criminal record includes 15 episodes, connected with the taking and forcible keeping of hostages. This is the second case during the past ten days, when an influential Chechen field commander has been arrested during an attempt to cross the border with Azerbaijan, Itar-Tass reported.

Economy

<p>Ruble = 28.65/\$1.00 (NY rate) Ruble = 28.67/\$1.00 (CB rate) Ruble = 26.13/1 euro (CB rate)</p>
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Russian Reviews Oil Exports

□ Russia may cut crude oil exports by 5.9 percent in the second quarter of this year, compared with the first quarter, while maintaining output at the same level, Deputy Energy Minister Ivan MATLASHOV said. Russia will export 35 million tons in the three months to June (2.8 million barrels a day), down from planned exports of 37.2 million tons in the first quarter. Its oil companies plan to ship 26 million tons outside the Commonwealth of Independent States (CIS) in the second quarter, MATLASHOV said, Interfax news agency reported. The country expects to produce 81 million tons of crude in the second quarter, of which 46 million tons will be refined. Russia planned to produce 81.2 million tons and refine 44 million tons in the first quarter of this year. Russia's oil output rose to 323.3 million tons (6.5 million barrels a day) last year, up 6.1 percent from 304.8 million tons produced in 1999, according to government estimates. Brent crude for delivery in April fell as much as 23 cents, 0.9 percent, to \$26.10 per barrel.

Russian February Budget Deficit

□ Russia ran a budget deficit in February of 20.1 billion rubles (\$702.3 million), or 3.4 percent of gross domestic product (GDP), compared to a surplus of 1.3 percent of GDP in January, the Finance Ministry said on Sunday. In a statement, the ministry said it estimated Russia posted a federal budget deficit of 14.5 billion rubles, or 1.2 percent of GDP, in the first two months of 2001. February budget revenues amounted to 105.9 billion rubles, six percent above target for the month, while spending amounted to 126.0 billion rubles, or 87.4 percent of planned spending. Revenues were 73.4 billion

rubles in February, 2000. Tax revenues last month amounted to 62.8 billion rubles, or 10.7 percent of GDP, up from 45 billion rubles, or 9.8 percent of GDP, in February, 2000. Customs collections amounted to 38.4 billion rubles, or 6.5 percent of GDP, up from 25.8 billion rubles, or 5.6 percent of GDP, in February, 2000, Reuters reported. The government spent 43.99 billion rubles on external debt servicing in February, 2001, compared to 12.2 billion rubles in January. It spent 2.81 billion rubles to service internal debts in February, compared to 6.6 billion rubles in January. The government's spending in the first two months of 2001 amounted to 214.4 billion rubles, with revenues of 199.9 billion rubles, the ministry said.

Business

Gazprom-Itera Managing Partners Memo

□ The Financial Times has obtained a document confirming the link between Russian gas monopoly *Gazprom* and *Itera*. Shareholders have long suspected that a link between the two entities existed to provide for transactions which would transfer assets from *Gazprom* to *Itera* without shareholders' approval. A number of investigations have been launched to investigate the alleged links. The uncovered document shows that *Itera International Energy Limited Liability Company* (LLC), the *Itera* group's principal operating company was established in May, 1996, with *Gazprom* and what the document describes *Itera Group of Ireland* as its joint "members" or managing partners, the newspaper reported. *Itera* has confirmed the memorandum is genuine, but *Itera's* general counsel Steven KOEGLER said the document was made in error. He said *Gazprom* and *Itera* had held talks in 1996 and 1997 to set up a joint partnership, in which *Gazprom* would take a 20 percent share in *Itera*. However, these talks allegedly broke down. KOEGLER said that the memorandum must have been prepared "in error" by a clerk who thought the deal would be concluded. He added that it must then have been submitted to Theodoros KAVALIEROS, vice president of *Itera International Energy Corporation*, who "would not have read" the document before approving it. *IIEC* controls *Itera International Energy LLC*. KOEGLER further explains that no one in the company discovered the mistake, the memorandum was sent out for certification by the Russian consul in Washington, DC, and distributed abroad

to register *Itera* branch offices worldwide.

Gazprom and *Itera* have strongly denied any links between the two. In a March 7th letter to the editor in The Wall Street Journal responding to a January article about the *Itera-Gazprom* audits, *Itera* President Igor MAKAROV expressed concerns over accusations of special treatment to a company lacking transparency. He said, "only 10 percent of our business is with *Gazprom*." He also noted that *Itera* compensates for *Gazprom's* reduced gas production, thus allowing Europe to receive its constant supply of energy. MAKAROV points out that the company is taking steps, "to maintain corporate transparency to the media and international business community." MAKAROV touts the company's successes, especially "emerging as the only gas trader in the Commonwealth of Independent states (CIS) marketplace." He said, "no other energy companies would risk entering these markets because of unstable economic conditions and unfamiliarity with the new situation." *Itera's* President further distorts reality by claiming to have, "rescued the entire energy industry of the Republic of Georgia by providing gas after the republic's supply was on the verge of being cut off." **Intercon** reported in January that the Russian government acting on the request of the Energy Ministry forced *Inneftegazstoy* to cut gas supplies to AES power units in Georgia. AES had already paid in advance for January supplies. This forced Georgia to negotiate supplies with *Itera* at much higher rates. Prior to these talks, Georgian Fuel and Energy Minister David MIRTSKHULAVA said with regret, "At this moment, I have no alternative but to negotiate with *Itera*." Many believe that this is another example of how the Russian government interferes in international commercial transactions for political purposes. In this case, Georgia was pressured to accept the Russia's proposal to extend military bases for an additional 15-year period. With the help of international support, Georgia has so far successfully refused this offer.

EUROPEAN REPUBLICS

Kuchma Building A Totalitarian State

□ In a powerfully worded letter to the editor of the Financial Times today, former Deputy Prime

Minister Julia TYMOSHENKO lashed out against President Leonid KUCHMA's actions to block reforms and anti-corruption programs and warned that the President was changing Ukraine's democracy into a totalitarian state. She said, "he has blocked all of the reforms and anti-corruption efforts that the Ukrainian government has attempted in the energy sector." This program she explained was aimed at eliminating shadow schemes in the coal industry. The letter further states, "The President routinely ignored requests from my office to investigate and prosecute individuals involved in stealing large amounts of money from this mostly state-owned industry. Rather the President has actively engaged in covering up the crimes of those responsible, as they are members of his political and economic circle." TYMOSHENKO added that the President stifled her efforts to privatize Ukraine's energy sector, while he was, "readying agreement to hand these enterprises over to Russia in exchange for political support for his regime." She extrapolated that this would provide Russia the means to manipulate the internal and external affairs of Ukraine. Her further claims include the President's efforts to destroy the free press and control the law enforcement agencies and courts. TYMOSHENKO states, "he [KUCHMA] has conclusively demonstrated that he wants neither democracy nor reform in Ukraine. He is consciously building a totalitarian system."

Today, nearly 2,000 protesters marched through the streets of Kiev to the Ukrainian Parliament building and the prosecutor general's office. They demanded the dismissal of President Leonid KUCHMA and Interior Minister Yuri KRAVCHENKO. They also called for the release of students arrested in last week's demonstrations. Last Friday's protest was the first in the campaign to turn violent and also the largest, with up to 10,000 to 18,000 participating. The US and European Union (EU) have expressed concern over the GONGADZE case. Washington has linked future financial aid to resolving the turmoil.

Ukraine's Tyhipko On Murder, Reforms

□ On Tuesday at an RFE/RL briefing, Chairman of Ukraine's Labor Party Sergei TYHIPKO said that the current political process in Ukraine cannot be resolved until the murder of Internet journalist Georgy GONGADZE is fully investigated with the help of the FBI. He said that "crucial mistakes" had

been made in the GONGADZE case. He said that law enforcement organizations need to become more accountable for their actions. If Ukrainian President Leonid KUCHMA is found not to have been involved in the murder, TYHIPKO said that the President should serve out his term. The Chairman stressed that it is extremely important for the media to operate freely in Ukraine. He admitted that there had been some interference with the media, but that there is no censorship.

TYHIPKO also called for more cooperation between the parliament, President and Cabinet on political and economic reforms. He called for the government of Prime Minister Viktor YUSHCHENKO to be reformed to include a broader representation of parties. The Labor Party is the second biggest faction in the Ukrainian parliament. TYHIPKO resigned from the post of Economics Minister in the Cabinet in July, 2000. He said, "I went to politics rather than executive branch because I know that the most important initiatives submitted to the Cabinet of ministers must be passed by the Rada [Ukraine's parliament]." The Chairman supported a continued orientation with Europe as well as Russia. He said it is important that Ukraine not change its foreign policy. Ukraine is still somewhat economically connected to Russia. Over 40 percent of Ukraine exports go to Russia and 60 percent of imports are from Russia. TYHIPKO said that Ukraine must press ahead with economic reforms more rapidly than Russia. He said, "we are behind Russia and our pace of reforms are too weak and slow. We need to push the country economically and we cannot do this without democracy." TYHIPKO came to Washington on Tuesday to familiarize himself with the US position on Ukraine and promote the US involvement in Ukraine. He will hold meetings with the US State Department, the National Security Council, and Congressional representatives.

SOUTH CAUCASUS & CENTRAL ASIA

Silent Coup Plot Revealed

□ In Georgian President Eduard SHEVARDNADZE's national radio address on Monday, he revealed that Georgia had yet again survived a plot to undermine the power of his government. The President explained that if Georgia refused ratification of the zero variant agreement with Russia, the Paris Club would have postponed re-scheduling Georgia's external debts and other international financial institutions, such as the International Monetary Fund (IMF) and World Bank, would have stopped assisting Georgia. As **Intercon** reported, the IMF and World Bank position supported the Russian demand for zero option approval. The suspension of cooperation programs would have forced Georgia, "to pay hundreds of millions of dollars already this year or declare a default; that is complete insolvency...They [certain forces] intended to make the most of the country's complete collapse in order to deliver an ultimatum to the country's authorities, the President in particular, and gain seats in a new coalition government... after the country's bankruptcy...[the plotters] gaining seats in the government would have not saved the country because the result would have been the complete collapse of the state. It would not have been the collapse or the default of the authorities or personally, the President," but of the state itself, SHEVARDNADZE said. He would not reveal who masterminded the "treacherous anti-national plan and where this plan was devised." SHEVARDNADZE pointed out that members of the parliament are not to blame as they "sincerely believed that they had been defending the right position." He thanked Chairman Zurab ZHVANIA for giving a convincing argument which allowed the zero variant to pass. Earlier, the Paris Club decided to re-schedule Georgia's external debts for 20 years. SHEVARDNADZE called this re-scheduling a historic event. In the first two years Georgia will not pay interest on servicing the debt.

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