

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Putin's On-Line Interview: Chechnya, ABM

□ Russian President Vladimir PUTIN conducted his first on-line interview, answering questioners from Denmark to Texas. The topic ranged from serious topics such as Russia's military campaign in Chechnya and US-Russian relations to more mild questions such as hobbies and what his typical schedule is like. One question asked, "whether the Chechen people, who lost homes and family members during Russia's military campaign will ever regard Russia as a friend?" PUTIN first responded that the question shows the misunderstanding in the West over what happening in Russia, the Caucasus, and Chechnya. He said, "The Russian army and the Russian nation as a whole have never waged any kind of campaign against the Chechen nation... The Chechens themselves received nothing from their self-appointed rulers apart from robbery and fraud. And we think that the actions of the Russian army are aimed at the liberation of the Chechen people from the terrorists who have seized power there." He added, "Russia's army was forced to stand up to the challenge made by the extremists and international terrorists who attacked [the neighboring province of] Daghestan." Moscow is now in the 19th month of fighting with Chechen rebels, who claim independence and oppose the Kremlin's rule in the province.

PUTIN said that Washington's initiative to build its own nuclear missile shield could not endanger them as long as both side were ready to negotiate. "Should the decision to abandon the Anti-Ballistic Missile Treaty of 1972 [ABM] be taken unilaterally, it would entail the consequences that do not depend on Russia." PUTIN compared the ABM Treaty to an axis down which a number of other agreements and

treaties on international security have been strung. He warned, "The moment we take this axis out, the whole system automatically falls apart."

Committee Works On New Anti-Corruption Bill

□ The Russian State Duma's Committee on Security has developed a new anti-corruption bill, according to Chairman of the subcommittee on criminal, criminal procedure, and legislation process, law enforcement, and judicial activities Viktor ILYUKHIN. Former President Boris YELTSIN did not approve three previous bills on anti-corruption. ILYUKHIN's opinion is that, "the current legal acts aimed at fighting corruption are of isolated, subordinate-legislation nature and do not ensure effective efforts against corruption." According to the provisions of the new bill, a special parliamentary commission would be created to inquire into corruption-related offences committed by officials and an independent prosecutor would be appointed. He pointed out that when a citizen enters the civil service, he must discontinue activities in commercial entities and transfer his firm to a proxy. "Presidential advisers and aides, who under the current legislation are not listed as civil servants, will be reckoned such," under the suggested bill provisions, ILYUKHIN said.

Economy

RTS Index Rises More Than 11 Percent

□ The RTS index gained 5.7 percent to 178.17, making a rise of more than 11 percent in the last three trading session, the

Financial Times reported. Leading the rally were trades in national power utility *Unified Energy System (UES)*, gaining 7.2 percent to \$0.1096. Investors were buying shares ahead of Friday's deadline to join the share register, which will determine voting rights for *UES'* annual general meeting in April. Oil and gas company *Surgutneftegaz* was also heavily traded, rising 4.7 percent to \$0.25. *LUKoil* also rose 6.2 percent to \$10.25.

Ruble = 28.63/\$1.00 (NY rate)

Ruble = 28.67/\$1.00 (CB rate)

Ruble = 26.70/1 euro (CB rate)

Russia To Auction \$100M For Foreigners

□ Russia's Central Bank will hold an auction on March 22nd for \$100 million in hard currency to help foreigners repatriate rubles locked in special accounts since the 1998 financial crisis, the Central Bank said on Monday. The Central Bank has organized several previous foreign exchange auctions, where dollars have been snapped up by foreign investors seeking to remove from Russia funds from the so-called "S" accounts. The accounts hold ruble proceeds from GKO treasury bills that were restructured in the wake of the 1998 crisis. Central Bank hard currency auctions are a favorite way for foreign investors to repatriate their funds, although there are other limited investment opportunities.

Russia Ends Oil Export Restrictions

□ The Russian government this month dropped fuel oil export restrictions that were put in place as authorities tried to ensure fuel supplies to the nation's power utilities during the winter season, Kommersant Daily reported. Russian refineries were allowed only to export 20 percent of their total output in February and 15 percent share in January. Prime-Minister Mikhail KASYANOV signed the law abolishing the limits after producers agreed to keep in place current export duties on oil products. The government now levies 39 euros (\$36.4) a ton on gasoline and diesel exports and 31 euros a ton on fuel oil. Russia will cut export duties on crude by 54 percent to 22 euros a ton on March 17th. Brent crude for delivery in April fell 23 cents, or 0.9 percent, to \$26.48 per barrel in London Tuesday. Urals blend crude delivered to northwest Europe was unchanged at \$23.1 a barrel today.

Business

LUKoil To Reduce Subsidiaries

□ *LUKoil Holding* announced it will consolidate its more than 1000 subsidiaries into a smaller number of units over the next three years to cut costs and increase efficiency. *LUKoil* plans to set up six units that will take charge of crude production in Russia and overseas. Several more units will oversee refining and fuel-marketing operations. *LUKoil* Vice President Leonid FEDUN said, "We want to eliminate duplication in our subsidiaries' activities throughout the company. All the producing units will be part of one system." *LUKoil* has announced plans to acquire several oil producing companies and at least one refinery in Russia. It also plans to expand refining and marketing outside Russia, including the purchase of refineries and gas stations in the US and Canada. *LUKoil* plans to produce 79 million tons of crude oil this year (1.6 million barrels a day), 1.5 percent more than last year. *LUKoil* plans to increase overseas output fivefold to 10 million tons a year over the next five to seven years, FEDUN said. Leonid MIRZOYAN, an analyst at *Deutsche Bank* said, "This is a positive reorganization as some investors call *LUKoil* substance without form. Investors are concerned with management of *LUKoil* and it requires more transparency, while the company should provide definite figures on cost saving from the reorganization."

UES Shareholders Propose Board Candidates

□ Shareholders of *Unified Energy Systems (UES)* proposed 35 candidates for the company's 15-member board, Vedomosti reported. The company's board will draw up a list of candidates at its meeting today and shareholders will elect the board at an April 28th meeting. The Russian government, which owns 52 percent of the company, proposed 15 candidates, including President Vladimir PUTIN's Chief of Staff Alexander VOLOSHIN, the current board chairman, Economy Minister German GREF, Deputy Energy Minister Viktor KUDRYAVY, Anti-Monopoly Minister Ilya YUZHANOV, Finance Minister Alexei KUDRIN, *UES* CEO Anatoly CHUBAIS and six regional governors. If at least 90 percent of shareholders vote, the government can count on at least nine board seats, Vedomosti said. The government probably will be able to use votes of abstaining holders of *UES* shares traded abroad as American depositary receipts to get another two seats. Russia's Central Bank, which owns about 4.5 percent of *UES*, proposed three candidates,

including President Alexander LEBEDEV. *UES* foreign shareholders now represented by two board members proposed four candidates.

EUROPEAN REPUBLICS

Ukraine Remove Second Tent Camp

□ Approximately 30 Ukrainian authorities removed the second protest tent village set up in a park honoring 19th century poet Taras SHEVCHENKO, Ukraine's most powerful symbol of resistance against oppression. The tents were put up by students calling for President Leonid KUCHMA's resignation over allegations that he ordered the murder of Internet journalist Georgy GONGADZE. KUCHMA denies involvement and blames unidentified forces for trying to destabilize the country. Volodymyr CHEMERIS, a leader of the "Ukraine without KUCHMA" movement, said authorities had no court authority to dismantle the camp in the park. "It is an absolute violation of all the laws," CHEMERIS told Reuters. Last Thursday, police removed 50 tents from Kiev's main street, which were the focus of the protests against KUCHMA. KUCHMA is due to lay flowers at the park on Friday to commemorate SHEVCHENKO's birthday, an annual ritual in Ukraine's celebrations of independence from the former Soviet Union.

Kuchma Demands Ministers' Loyalty

□ In the mist of the biggest challenge to his position, Ukrainian President Leonid KUCHMA has demanded that all government officials declare their loyalty to him within one week or resign. "I invite every state servant starting with [Cabinet] ministers...In the course of a week, to decide either they resign from their jobs or publicly disassociate themselves from anti-state formations." The ultimatum put KUCHMA back on the offensive in a scandal over a murdered journalist, Georgy GONGADZE, which has sparked street protests and calls for his resignation. On Tuesday, he accused high-placed officials of backing efforts to oust him. Despite efforts by the authorities, there is little chance that the scandal and constant protests will go away. In addition, Prime minister Viktor YUSHCHENKO will be facing a no-confidence vote in the parliament in April. He has denounced the opposition, but many protestors have called on him to support their cause. Ukraine is suffering from criticism both internally and externally. The European Union (EU) and US have both expressed concern over Ukraine's problems,

particularly its record on press freedom and human rights, and have called for a thorough investigation of GONGADZE's murder. KUCHMA has pledged to make every effort to solve the GONGADZE case, and has called in the US Federal Bureau of Investigation (FBI) for help. This week, he said he had also put private detectives on the case.

Kuchma Dismisses Power Minister

□ Ukrainian President Leonid KUCHMA dismissed Fuel and Power Industry Minister Sergei YERMILOV, after Prime Minister Viktor YUSHCHENKO asked to replace him because of the slow pace in implementing reforms in the energy industry. KUCHMA replaced him with Stanislav STASHEVSKYI, *ICTV* reported. Prior to the appointment, STASHEVSKYI served as deputy Kiev mayor in charge of investment projects. STASHEVSKYI is the third energy minister in Ukraine's one-year old Cabinet. Earlier this week, KUCHMA fired Alexander HRIDASOV, head of the committee for electricity regulations, also at the request of YUSHCHENKO. In an address to the government on Tuesday, KUCHMA said the Cabinet should speed up reform in the power industry to make it profitable and more attractive for domestic and foreign investors. Since last year, Ukraine has barred barter transactions and some mutual debt offsets in its energy sector.

Belarus Introduces Russian Oil Export Duties

□ Belarus introduced Russian oil export duties on Thursday. A government resolution said 48 euro (instead of 20 euro) were to be paid for a ton of crude oil, 39 euro per ton of diesel fuel and 32 euro per ton of fuel oil. The Finance ministry said higher duties would not lead to decreased exports as exporters will get a compensation for value added tax (VAT), which they pay to Russia for export of its crude oil.

SOUTH CAUCASUS & CENTRAL ASIA

WB Considers Loan For Baku-Ceyhan Pipeline

□ The World Bank, through its private lender the International Finance Corporation (IFC), may allocate a \$2.4 billion loan to help finance plans to build the Baku-Tbilisi-Ceyhan pipeline. This route is supported by the US because it will provide more independence for these newly independent states and avoids routes through Russia and Iran. The

funds will be provided to cover expenses, if the governments of Azerbaijan or the US are not able to meet payments, Prime News Agency reported. To qualify for the loan, IFC representative in the oil and gas section Dimitris TSITSIRAGOS said that new oil reserves must be found during exploratory drilling in coming months. He said, "We're first going to have to make sure the project is commercially viable." *BP Amoco* officials believe that new discoveries of oil in the Caspian region are enough to justify building the pipeline. *BP* has also begun work on a gas pipeline along the same route. *Chevron* and other companies are also conducting exploration drilling. The companies are scheduled to complete a \$25 million engineering study of the route by May. More formal negotiations on IFC involvement will begin during the next two months, when top Azeri government officials and representatives from all the major participating oil companies, meet in Washington, Bloomberg News reported.

Kazakhstan Ready To Ship Oil

□ US special presidential advisor on the Caspian region Elizabeth JONES on Friday said that the government of Kazakhstan had pledged to ship oil via a new pipeline between Azerbaijan and Turkey, which the US considers strategically important. JONES said Kazakhstan President Nursultan NAZARBAYEV promised that the first oil produced in the Kashagan oil field would be shipped on the Baku-Tbilisi-Ceyhan pipeline, the Associated Press reported. This amount could be as much as 10 million tons of oil by the pipeline. *State Oil Company of Azerbaijan (Socar)* said that NAZARBAYEV confirmed this figure on Tuesday. Later, Kazakhstan plans to increase the volume of oil up to 20 million tons. The US has pushed for construction of the pipeline between Azerbaijan and Turkey as an alternative to shipping oil from the Caspian Sea region via Russia or Iran. An agreement on the \$2.7 billion project was signed last fall and preliminary engineering work is under way. Kazakhstan signed a memo Thursday indicating interest in shipping oil through the new pipeline, giving a boost to the

project.

Phillips To Bid For Kashagan Stake

□ *Phillips Petroleum* on Tuesday said it is considering whether or not to bid for *BP Amoco's* and *Statoil's* shares in a giant Kazakhstan oil field, Kashagan. The company said its bid is dependent on whether its rival *TotalFinaElf* reveals the details of its deal to buy the two stakes in Kashagan field. *Statoil* and *BP* said last month they agreed to selling their respective 4.76 percent and 9.5 percent stakes in *Offshore Kazakhstan International Operating Company (OKIOC)* consortium to French oil company *TotalFinaElf* which already holds 14.3 percent. The agreement, which would make the French firm the consortium's largest holder, was made in principle, but no value has been put on the deal. Reuters reports that other partners have preemptive rights, which mean they could outbid *TotalFinaElf* for the *BP* and *Statoil* stakes. *Phillips*, owner of a 7.14 percent stake, would triple its share if it makes a rival bid. *Shell* has already announced it plans to exercise its right to acquire a further stake in *OKIOC* when *BP* formalizes the sale of its share.

Ukraine Offers Mediation On Abkhaz Conflict

□ Georgian President Eduard SHEVARDNADZE and Ukrainian Foreign Minister Anatoly ZLENKO met today in Tbilisi to discuss the prospects of Ukrainian participation in the settlement of the Georgian-Abkhazian Conflict. He noted that Ukraine needed firsthand information about the conflict and ways of its settlement. SHEVARDNADZE stressed the importance on Ukraine's involvement, particularly because starting this month it chairs the UN Security Council. The President pointed out that a Georgian-Abkhazian confidence building meeting will be held in Yalta on March 15th to 16th, at the invitation and expense of Ukraine as well as under the aegis of the UN Mission in Georgia (UNOMIG). Following today's meeting, ZLENKO went to Sukumi to meet with other Abkhaz officials. He will not be meeting with Abkhazian leader Vladislav ARDZINBA

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