

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

China-Russia To Sign New Treaty

□ Chinese Foreign Minister TANG Jiaxuan announced that Chinese President JIANG Zemin and Russian President Vladimir PUTIN will sign a new friendship treaty during a Moscow visit in July. TANG stressed the treaty would not be a formal alliance like one that once existed between China and the former Soviet Union. "It is not an alliance nor targeted at any third country," he said. The treaty is meant to consummate already healthy cooperation between the two countries in trade, scientific exchanges and military technology. Nevertheless, the signing of the so-called Good Neighborly Treaty of Friendship and Cooperation will underline the growing warmth between the two nations based on mutual suspicion and resentment of US. PUTIN is scheduled to visit China twice this year.

Russia has been the leading foreign supplier to China of military equipment, including billions of dollars worth of submarines, destroyers, fighter jets and missiles. Many of the purchases are conducted off the books, so as not to be counted in China's official defense budget. The defense budget will balloon 17.7 percent this year, Finance Minister XIANG Huaicheng told the National People's Congress (NPC).

Rail Operating Company To Be Created

□ Russian Railways Minister Nikolai AKSYONENKO said he wanted to create a single state owned company in 2002 that would contain railway infrastructure, freight, and passenger traffic, while leaving the state in charge of regulatory matters, including tariffs and safety issues. This would allow the railways to raise private sector capital without the need for a state guarantee; provide greater

flexibility for employees and executives; and offer a clearer legislative framework. He also wants to introduce a private sector competition into rail maintenance and increase the proportion of freight trains owned by commercial operators from 21 percent to 60 percent over the next two to three years on conditions of equal access for all, the Financial Times reported. AKSYONENKO has ruled out the participation of private investors in buying shares in the new operating company. The Railways Minister and Economics Minister German GREF are working out how to restructure the railways ahead of an April 1st deadline. AKSYONENKO believes that reforms should not progress too quickly, while GREF favors a more rapid restructuring. GREF also supports creating several operating companies in an attempt to achieve greater transparency. The Railways made a profit of 52 billion rubles (\$1.8 billion) in 2000 on its freight activities, but suffered a loss of 26 billion rubles on its passenger network.

Economy

Urals Co. Implements Raw Material Program

□ Russia's second largest copper producer, *Urals Mining and Metals Company*, has launched a processing program to produce zinc, lead, tin and iron ore concentrate. Implementation of the comprehensive raw materials processing program will allow the holding company to produce around 310,000 tons of refined copper. Under the scheme, the company aims to make better use of ore and industrial waste,

producing 65,000 to 70,000 tons of zinc, 8,000 to 9,000 tons of lead, around 1,000 tons of tin and 250,000 tons of iron ore concentrates. The program envisages processing of industrial waste from the company's Sredneuralsk and Svyatogor copper smelters, as well as from Chelyabinsk Electrolytic Zinc plant and copper and zinc ores from Sverdlovsk and Orenburg regions in the Urals, Reuters reported. Last December, *Uralelectromed*, Russia's second largest copper plant and a core copper refining unit of *Urals Mining and Metals*, said it planned to raise its output to 330,000 to 340,000 tons in 2001 from around 300,000 in 2000.

Russian Forex, Gold Reserves Fell In March

□ Russian foreign currency and gold reserves shrank to \$28.3 billion in the week to March 2nd, falling for a fourth week after rising to a record last month, the Central Bank said. Reserves shrank \$400 million in the week to March 2nd, after falling \$200 million in the previous week. Russia's reserves rose to a post-Soviet record of \$29.5 billion in the week to February 2nd. Russia's money supply shrank to 494.7 billion rubles (\$17.3 billion) in the week to February 26th, the Central Bank said. The money supply, which includes cash currency in circulation plus required reserves, contracted by 2.2 billion rubles in the week to February 26th, after increasing by 3.6 billion rubles in the week to February 19th.

Ruble = 28.62/\$1.00 (NY rate)

Ruble = 28.67/\$1.00 (CB rate)

Ruble = 26.67/1 euro (CB rate)

Business

Gazprom Media On "Charm Offensive"

□ *Gazprom Media* head Alfred KOKH is visiting the US to talk with prospective buyers and pitch his side of the *Gazprom-Media Most* dispute as part of a "charm offensive." He is seeking reimbursement of \$271 million in loans made to *Media Most* and guaranteed by *Gazprom*. *Media Most* chairman Vladimir GUSINSKY, in exile in Spain, has dominated an international lobby to prevent his media group from falling into the hands of the Russian state. GUSINSKY claims that *Gazprom*, which is 38 percent controlled by the Russian state, is being used by the Kremlin to crush freedom of speech, in retaliation to critical media reports aired on *Media*

Most's television station, *NTV*. KOKH said that the dispute is not about press freedom, but about getting its money back. *Gazprom Media* owns 46 percent of *NTV*. KOKH said he has received interest from German and European groups to acquire stakes in *NTV* and other *Media Most* companies. The *Financial Times* reports that the consortium of *CNN* founder Ted TURNER and financier George SOROS could be having second thoughts in its plan to purchase *NTV*. The group last week submitted proposals to GUSINSKY. In the US, KOKH held meetings with the US National Security Council and the State Department. Richard BOUCHER, State Department spokesman, said earlier this year, "We believe that maintaining an independent media is very important for the future of Russia and for democracy. We know what's going on with *Media Most*. We're very concerned about it."

Amec Expected To Win Pipeline Contract

□ *Amec*, the third-biggest engineering-design company, expects to win a \$293 million contract to help improve a natural gas pipeline in Russia and the Ukraine. Japan's *Nippon Steel Corp.* and *Sumitomo Corp.* have hired *Amec* to survey a gas pipeline in the countries and assess the amount of carbon dioxide and methane leaking from the system. Ian THOMAS, business development director at *Amec*, said, "We'd then do all the design for the compressor stations," and *Spie*, the French engineering company 46 percent owned by *Amec*, will help build new pipes with material supplied by *Nippon Steel*. THOMAS added, "We've done all the pre-engineering work on the project for the last 2 years and have established long standing relationships with *Sumitomo* and *Nippon*." On Wednesday, *Amec* predicted a rise in demand this year, as oil industry demand recovers and governments spend more on infrastructure.

NAZ Creditors End Bankruptcy Case

□ Creditors of *Novokuznetsky Aluminiyevy Zavod* (NAZ), Russia's fifth-largest aluminum smelter, approved an amicable settlement to end bankruptcy proceedings that have lasted about one year, *Kommersant Daily* reported. The newspaper said that 50.7 percent of its creditors agreed to end the bankruptcy and start paying the more-than 4 billion rubles (\$140 million) in debts from 2021. *Sibirsky Aluminiy*, Russia's fourth aluminum producer, holds about 50 percent of the debts. NAZ was forced into

bankruptcy because it owed about 1.45 billion rubles to *Kuzbassenergo*, a subsidiary of *Unified Energy Systems (UES)*, for supplied electricity on March 20, 2000. At the same time, *Russky Alyuminy*, Russia's top aluminum producer, and *Sibirsky Alyuminy* are accused in a New York lawsuit of collaborating with Russian mobsters to monopolize the nation's aluminum industry. The alleged scheme culminated in a rigged bankruptcy of *NAZ*, Bloomberg News reported.

EUROPEAN REPUBLICS

Ukraine Delegation Meets IMF, WB, US Reps

□ A Ukrainian government delegation has arrived in Washington to discuss international lending institutions and the US government. Today, Ukraine's First Deputy Prime Minister and delegation's head Yuri YEKHANUROV will meet the World Bank Director for Ukraine and Belarus, Luca BARBONE, and World Bank President James WOLFENSOHN. The talks are expected to focus on Systemic Transformation Facility and loans to Ukraine to be spent on developing its finances, reforming the administrative and energy sector and on structural reorganization. On March 12th, the Ukrainian delegation is due to meet John ODLING-SMEE, director of the International Monetary Fund's (IMF) second European Department, and IMF Managing Director Horst KOEHLER. YEKHANUROV said, "We should agree our cooperation with these organizations until the end of the year. We are not so interested in the concrete amount of the loans. The question is more if our views on the current economic situation [in Ukraine] coincide." The government and the IMF failed to reach an agreement on a \$190 million installment due to be disbursed in March. The Fund said it was unsatisfied with the pace of Ukraine's reforms, including the delayed sale of controlling stakes in six of the country's 27 regional power distributing monopolies and a delayed cut in sunflower seeds export duty. YEKHANUROV said the government had met most of the conditions with only 10 percent of the issues still unresolved. He said the government and IMF experts planned to discuss reforms in the energy sector, the approaching privatization tenders in six power utilities and banking reform. IMF loans and support are vital to Ukraine to sustain its tentative economic recovery and help repay or restructure hundreds of millions of dollars in foreign debts. YEKHANUROV stressed that IMF involvement was crucial for the former Soviet state as many private investors see it as a

prerequisite for doing business. The delegation, which includes National Bank Chairman Volodymyr STELMAKH and Finance Minister Igor MITYUKOV will also meet representatives of the US business circles and hold talks at the US Department of the Treasury, before returning to Ukraine on March 15th.

Slavneft Secures Iraqi Exploration License

□ Rus-Belarus oil company *Slavneft* has secured a license to explore oil in the Subba field, in central Iraq. The field is expected to contain 105 million tons (770 million barrels) of oil reserves. A final agreement on the project could be signed within two months. "The sides have agreed on investments and time frames for the field project during three days of negotiations," aid *Slavneft* in a statement. *Slavneft* has been acquiring oil-producing assets mostly in Russia after posting an \$800 million profit last year because of 10- year high oil prices. It plans to produce 13.4 million tons of oil in 2001, up 9 percent from 12.3 million tons last year. Output rose 18.9 percent to 2.3 million tons in the first two months of the year, compared with the same period last year. *Slavneft* said it doesn't plan to violate UN sanctions that prohibit foreign companies from operating most type of business in Iraq after it invaded Kuwait in 1990. Washington and London want the UN sanctions committee on Iraq to limit operators purchasing Iraqi oil in a bid to stop alleged kickbacks to Baghdad. This could be difficult push that through the Security Council. "Russia will be very resistant, especially since a number of their own companies are on the current list of lifters," a diplomat said. The Russian companies include *Slavneft*, *Zarubezhneftegas*, *Rosneftimpex*, *Mashinoimport*, and *Sidanco*.

Estonia Meets With IMF Representatives

□ Estonian Prime Minister Mart LAAR met representatives of the International Monetary Fund (IMF) Wednesday. According to a statement, "The [IMF] mission's purpose it to get to know Estonia's tax system, its opportunities and problems, and how it fits into Estonia's integration into the European Union (EU)." In February, 2000, Estonia secured a new standby agreement with the IMF that opened up 29.34 million Special Drawing Rights (\$38.0 million). Estonia had no intention of drawing on the funds and in September the Finance Ministry said it could be the country's last such agreement. Estonia is among six front-runner countries hop-

ing to join the EU along with Poland, the Czech Republic, Hungary, Slovenia and Cyprus. It began membership talks in 1998.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Annuls Manganese Deal

□ Georgian Deputy State Property Minister Merab GABUNIA told Reuters earlier this week that a contract with Czech firm *Sagaprint*, signed in August, 1999, to raise production was annulled because conditions had not been met. Despite *Sagaprint's* investment, output at Georgia's largest manganese plant is at a virtual standstill. *Sagaprint* was to take a 75 percent stake in the *Chiaturmarganets Plant*, pay off the plant's debts, estimated at 10 million lari (\$5.5 million), and boost production to 200,000 tons a year. The company said it had already invested \$3 million in the plant, but Georgia's chronic energy crisis hampered efforts to boost production. Georgia has struggled to attract foreign investment because of a failing infrastructure, power blackouts and poor management. The government is expected to announce a new international tender soon for a controlling stake in *Chiaturmarganets*, which in Soviet times produced around five million tons of manganese ore per year.

Armenia Optimistic, Azerbaijan Pessimistic,

□ The outcome of peace talks in Paris, led by France, Russia and the US, was described by Azeri President Geidar ALIYEV in uncharacteristically negative terms. Officials of the Foreign Ministry of Azerbaijan described the talks as moving backward, not forward. One official described Armenia's position as seeking the maximum concessions, while offering nothing in return. This contrasted greatly with Armenian Foreign Minister Vardan OSKANYAN, who described the efforts to resolve the Nagorno-Karabakh Conflict with Azerbaijan as progressing, "...in the right direction." ALIYEV stated, "There were no concrete results and I do not believe that the Minsk group of the OSCE [Organization for Security and Cooperation in Europe]

is preparing new recommendations for us after the Paris meeting." Azerbaijan has rejected three proposals and said it wants to see new ones. ALIYEV said Azerbaijan "had no choice" but to continue the Minsk group talks. He added that Azerbaijan was at a disadvantage in talks because Armenian troops continue to occupy Nagorno-Karabakh and areas surrounding it. In effect members of the Foreign Ministry of Azerbaijan described Armenia's position as nothing short of total independence for Nagorno-Karabakh. This is completely unacceptable to Azerbaijan, which seeks to restore its sovereign integrity within the occupied territory.

Moody's May Raise Kazakhstan's Ratings

□ *Moody's Investors Service* on Wednesday placed Kazakhstan's foreign currency bonds and bank deposits on review for a possible upgrade as economic growth looks set to improve with prudent fiscal and monetary policies. *Moody's* rates Kazakhstan's bonds at B1, four notches away from investment grade. *Moody's* placed the B2 ratings for bank deposits of *Bank TuranAlem*, *Halyk Savings Bank of Kazakhstan*, and *Kazkommertsbank* on review for possible upgrade. "Given its production and export links with the Russian Federation... Kazakhstan has weathered the post-1998 Russian debacle well and is now poised for a period of improved economic performance, led by prudent fiscal and monetary policy, improving supervision and performance in the banking sector, and growing production and export capacity in the energy and nonferrous metallurgy sectors," *Moody's* said. The ratings review will focus on fiscal policy, exchange rate policy, and the pace of structural reform in non-energy sectors.

Russian Envoy Opposes Kazakh Participation

□ Viktor KALYUZHNY, Russia's Deputy Foreign Minister on the Caspian, stated on March 6th that he opposes Kazakh's plans to export oil via the Baku-Ceyhan pipeline. He called for a common transit policy with Russia.

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