

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

Chechen Car Bombs Explode Near Court-house

• Three car bombs in Chechnya's second largest city of Gudermes, the seat of the pro-Moscow administration, exploded nearly simultaneously at the courthouse and police station. Chechnya's prosecutor, Viktor DAKHNOV told *NTV* television that three people were killed, including one policeman, and up to 37 were injured. Sixteen of those injured were policemen. He noted that the attacks were part of a rebel campaign to paralyze the pro-Moscow Chechen police force. A military spokesman told *ORT* television that a fourth bomb was primed to go off later, but police disarmed it by firing at the car, where the device had been planted. *RIA* news agency quoted Russia's interior ministry as saying two men had been detained in connection with the blasts. Local prosecutors said the second and third blasts were aimed to strike at those helping to deal with the affects of the initial bombing. Russian forces are deployed through most of the territory, preventing large-scale rebel operations, but rebels have continued to unleash hit-and-run attacks that wound and kill federal servicemen every day, the Associated Press reported.

Putin-Lukashenko To Meet On Union

• Russian President Vladimir PUTIN will meet today in Moscow with Belarus President Alexander LUKASHENKO to discuss economic issues related to the creation of the Rus-Belarus Union and bilateral ties. LUKASHENKO said his visit will build upon the results of the last Commonwealth of Independent States (CIS) summit in Minsk. LUKASHENKO said he will meet his fellow citizens, high-profile Russian politicians and public figures including former Soviet Union President Mikhail GORBACHEV.

Rus. Bodyguards To Protect Bush?

• Chief of Russian President Vladimir PUTIN's bodyguard service Yevgeny MUROV believes that Saudi dissident Osama BIN LADEN could attack US President George W. BUSH at the Group of Eight (G-8) industrialized nations summit in Italy. He told *Itar-Tass*, "BIN LADEN is threatening the American president, but we know what international terrorism is today and therefore all the bodyguard units concerned are preparing for this." He added, "We view the threats as totally serious, but hope that with joint efforts we can solve all the problems." Some Genoa organizers, jittery after protesters ran riot at the European Union (EU) summit in Sweden last weekend, fear a possible assassination attempt and have said they might move the summit venue to a cruise liner offshore or military base, Reuters reported. MUROV said some of his men had flown to Genoa for consultations with other countries' bodyguard services. BIN LADEN has been indicted by the US for allegedly masterminding the 1998 bombings of US embassies in Nairobi and Dares Salaam, which killed more than 200 people. He has taken refuge in Afghanistan, where the ruling Taliban movement has refused to hand him over to Western powers. Russia says BIN LADEN has links to rebels it is fighting in its breakaway Chechnya region.

Economy

Russia-IMF Prepare For 2003

• Russian Deputy Prime Minister and Finance Minister Alexei KUDRIN, President Vladimir PUTIN and In-

ternational Monetary Fund (IMF) Deputy Managing Director Stanley FISCHER met on Monday to discuss a wide range of economic issues, including new financing assistance in 2003, Russia's peak year for servicing its foreign debt. Russia is due to pay \$18 billion to various foreign creditors in 2003, and the government has said it may need to seek refinancing though it would try to cover meet debt payments with its own resources. KUDRIN did not rule out new IMF loans in 2003. He noted that FISCHER and the Russian leadership discussed efforts to maintain Russian economic growth and the dangers to the Russian economy of a possible fall in high export prices. Today, FISCHER said he saw a growing, "sense of normalcy and confidence in Russia's economy." An IMF mission has been reviewing Russia's 2002 draft budget. This budget aims for Russia's first post-Soviet surplus. Earlier this year, Russia turned down the opportunity to sign a one-year stand-by arrangement with the IMF, but agreed with the Fund to continue monitoring the economy. A second IMF mission is expected to arrive in September to discuss joint economic policy of the government and the Central Bank.

<p>Ruble = 29.00/\$1.00 (NY rate) Ruble = 29.14/\$1.00 (CB rate) Ruble = 24.83/1 euro (CB rate)</p>
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Russian-US Trade Grew \$7 Billion+ In 2000

- Trade between Russia and the US rose 3 percent to more than \$7.31 billion last year, the Russian government said Friday. Russian exports to the US were worth \$4.63 billion in 2000, down 1.7 percent from 1999, while Russian imports from the US amounted to \$2.69 billion in 2000, up 12.5 percent, the Economic Development and Trade Ministry said. The US is one of Russia's main trading partners among industrialized countries, and accounts for 5.4 percent of Russia's total foreign trade, Interfax reported. The structure of Russian exports to the US remained unchanged in 2000, with raw materials and semi-finished goods making up about 80 percent of the cost of exports. The main Russian export items were precious stones and metals, aluminum and aluminum products, iron and steel, inorganic chemical goods and crude oil and oil products, the Associated Press reported.

Government Aims To Meet CPI Target

- Russian Finance Minister Alexei KUDRIN

Tuesday said steps by the government to counter growth in money supply will allow Russia to meet its target of 14 percent to 16 percent for annual inflation in 2001. "We must create the conditions for sterilizing the monetary supply and provide for basic macroeconomic indicators which are the roots of stabilizing the economic situation," he told an economic conference. "All the government's measures to sterilize the monetary supply will allow us meet 2001 targets —economic growth of four percent and inflation of 14 percent to 16 percent," he said.

Business

Gazprom Firmly Under Kremlin Control

- Russian President Vladimir PUTIN strongly criticized the former management of *Gazprom*, describing misspending as "enormous." Reuters reported that PUTIN, again targeted *Media Most* chairman Vladimir GUSINSKY, by stating, "He [GUSINSKY] received a billion [dollars] and does not intend to pay it back. He is running between Israel and Washington and feels good, and buys groups of influence in the United States to carry out actions against us." The President called on his handpicked chief executive and ally, Alexei MILLER, to sort out the company's finances and make it more transparent. "He has a tough task ahead of him. The first of these is to ensure the interests of the state in this company and to collect everything that belongs to the state, to make the company's work... absolutely transparent for all shareholders, including minority shareholders," PUTIN said. He noted that it was not MILLER's job to take action against the former management, but the Law enforcement agencies' responsibility. On Friday, *Gazprom* will receive the results of a *PricewaterhouseCoopers'* investigation into the links between *Gazprom* and *Itera*. Minority shareholders have criticized this relationship, claiming that *Itera* received favorable deals with *Gazprom*.

Consolidation of *Gazprom* control under the Kremlin was apparent in a series of board decisions on Tuesday. The board of directors of *Gazprom* voted not to renew the contracts of three of the company's most senior executives closely linked to former chief executive Rem VYAKHIREV. The three executives are: Vyacheslav SHEREMET, first deputy chairman and VYAKHIREV's number two; Alexander

PUSHKIN, deputy chairman for planning and investment; and Nikolai GUSLISTY, deputy chairman in charge of employee affairs, the *Financial Times* reported. These executives had been criticized by shareholders for severe mismanagement. The board also agreed that the employment contracts of other senior managers would be extended for a further five years. However, they reserved the right to cancel the contracts at any time. The board meeting was chaired by Dmitiri MEDVEDEV, a deputy head of the Kremlin administration. MILLER, who is not on the board of directors, was absent from the meeting. *Gazprom* shares have been rising since MILLER's appointment.

EUROPEAN REPUBLICS

Paksas Wants To Build New Gov't

- Lithuanian Prime Minister Rolandas PAKSAS, who rejected a request to resign and survived a near no-confidence vote on his administration, said that he wants to hold talks to form a new coalition government, following the resignation of six New Union Party ministers on Monday. He said, "The Liberals invite partners to revise the coalition agreement, but in fact everything can be up for discussion—the program, posts, aims, work and finally...the parliament speaker or prime minister." The walkout left the government with only 41 seats in the 141-seat parliament, including the 33 deputies of PAKSAS' center-right Liberal Union and some individual deputies. PAKSAS had said he would try to remain prime minister by cobbling together a new government, possibly with the right-wing Conservative Party, which has nine deputies, and others.

Lithuanian President Valdas ADAMKUS, who rushed back from a visit in the US, intended to meet with PAKSAS and New Union head Arturas PAULAUSKAS. He has been rushed to the hospital for immediate surgery on his appendix. Presidential adviser Darius KUOLYS said ADAMKUS, "couldn't meet due to acute appendicitis and was taken to hospital for immediate surgery." The Lithuanian President has accepted the resignation of the six New Union ministers, including the foreign and interior ministers. He has asked them to continue on in a temporary capacity.

Lebanon-Belarus Sign Economic Accords

- Lebanon and Belarus signed three economic and trade accords to boost bilateral relations. The accords, signed at the end of a meeting between Lebanese Prime Minister Rafik HARIRI and his Belarus counterpart Vladimir YERMOSHIN in Beirut Tuesday, provide for preventing double-taxation and encourage economic and trade cooperation. YERMOSHIN said the agreements were meant to push forward the economic ties between the two countries. The two leaders also discussed the situation in the Middle East, especially the Israeli aggression against the Palestinians in the West Bank and Gaza Strip. YERMOSHIN will meet the Lebanese President, Cabinet ministers, and businessmen, during his visit. According to information of the Belarus Foreign Ministry, turnover in trade with Lebanon totals \$2,641,000 over the first four months of this year, with Belarus exports accounting for \$2,640,000.

Ukraine Bans McDonald's Beef Products

- Ukraine's Agriculture Ministry has indefinitely banned imports of beef products from a Russian plant owned by global fast food giant *McDonald's Corp.* over fears of mad cow disease. Petro VERBYTSKY, head of the ministry's veterinary department, told Reuters an order to ban beef product imports had been already signed and would take effect immediately. "The ban is due to the fact that *McDonald's* plant in Russia is processing meat from countries where a danger of mad cow disease and other dangerous infections exists," he said. These countries include Belgium and the Netherlands. Oleg STREKAL, spokesman for *McDonald's Ukraine*, told Reuters the company had not received any official documents from the ministry yet. "*McDonald's* top priority is product quality and the safety of our clients. *McDonald's* does not import products which are banned by Ukrainian authorities," he said. *McDonald's* has 45 fast food restaurants in Ukraine and imports about 70 tons of beef products from Russia a month.

Ukraine CB To Curb Dollar Usage

- Ukraine's Central Bank on Monday called on exporters to sell all their hard currency revenues to cut the use of dollars in the nation. Central Bank Chairman Volodymyr STELMAKH urged parliament to speed up the adoption of a law requiring exporters to swap all their hard currency revenues into

Ukrainian hryvnias on the interbank market. Currently, exporters must sell 50 percent. STELMAKH told an investment conference, "The Central Bank's vision is this: introduce 100 percent hard currency sales, then the level of dollarization will fall and monetarization will grow." He said the current rule that exporters could retain 50 percent of their hard currency revenues was creating unequal conditions on the country's foreign exchange market. The hryvnia, launched at 1.7 to the dollar, is now at 5.4. The bank also wants to cut the use of cash dollars in the thriving unofficial shadow economy, estimated to be as large as the official economy. Ukraine imposed the currency measure in the wake of the 1998 economic crisis in a bid to prop up the falling hryvnia. STELMAKH said many sectors of Ukraine's economy, including real estate, tourism, and car sales, were concluding their payments in dollars. He said the new law could help change it. He said the legislation had been submitted to parliament and adopted at its first reading several years ago but deputies were delaying its final approval. "The attitude of those deputies who have hard currency in their hands is negative," said STELMAKH. "They want to keep the 50 percent sale rule or even to cancel obligatory sales because the hryvnia is appreciating," Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

BTC Feasibility Study Begins

- Shareholders in the Baku-Tbilisi-Ceyhan Main Export Pipeline (BTC) project endorsed the start of a \$150 million feasibility study today. *ENI* said it would be interested in participating in the detailed engineering study, which is planned as the last stage before construction. Wref DIGINGS, head of oil export development for *BP* in Azerbaijan told Reuters, "The pipeline partners have endorsed a significant increase in activity and expenditure for the next 12 months. This reflects their confidence that the BTC project is a credible business proposition to take forward." Head of *BP* John BROWN, during a visit to Tbilisi on Thursday, will brief

Georgian President Eduard SHEVARDNADZE on the progress of the project before flying to Baku. A basic engineering study completed last month raised the pipeline's price tag from initial estimates of \$2.4 billion to \$2.8-\$2.9 billion. The pipeline's partners believe there is enough discovered oil to make the line viable with the potential of the big Azeri-Chirag-Guneshli complex even greater than first thought. Production from the field, which is managed by the *BP*-led *Azerbaijan International Operating Company (AIOC)*, will be ramped up to 300,000 bpd by 2005 and to one million bpd in another five years.

US oil giant *Chevron* has also said it would like to join the project with a stake of about 10 percent. *Chevron* is eyeing the possibility of feeding Kazakh crude into the line. Kazakh oil companies plan to finish research on Aktau-Baku-Tbilisi-Ceyhan export route within six to eight months. Based on the results, Kazakhstan will decide whether to participate in the project or not. Kazakhstan believes the route will be profitable in five to seven years. On June 11th, Kazakh deputy director general of *National Oil and Gas Transit Company* Kairgeldi KABILDIN and US special advisor to the US President and Secretary of State on Caspian Energy Resources Steve MANN, representing the US Trade and Development Agency, signed a subsidizing agreement. According to the agreement, funds will be used for financing technical aid to Kazakhstan for the studying project of Aktau-Baku oil route.

The US has supported the Baku-Tbilisi-Ceyhan as one of multiple pipeline routes to ensure the stability of supplies and boost the independence of oil and gas-rich and transit nations. Today, Russian presidential envoy to the Caspian region Viktor KALYUZHNY said that Russia opposes one route for oil from the Caspian Sea. He said oil should flow through several pipelines. He said Russia, "wants to turn [the Caspian Sea] into a region of peace and stability and is ready for comprehensive cooperation to this end."

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