

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russian State Duma Approves Law On Parties

• The Russian State Duma today gave its final approval, in a vote of 238 to 164, to a law reducing the number of political parties participating in elections. The law, sponsored by Russian President Vladimir PUTIN, allows only political parties to nominate candidates in the election. Further provisions state that political parties must have a minimum of 10,000 members living in at least 50 of Russia's 89 regions. PUTIN has suggested that Russia needs only two or three big parties, as in many Western countries. Initially, many parties accused the Kremlin of trying to exert greater control over political activity. Smaller parties have protested against the move, but some have anticipated the bill's passage by regrouping into larger bodies. The law provides state financing for parties clearing the five percent minimum required to enter the Duma as well as for those scoring between three and five percent and others electing 12 or more members in constituencies not linked to party lists. It also allows individuals to make annual cash contributions up to the equivalent of \$30 to political parties. Non-cash contributions can reach the equivalent of \$30,000 for individuals or \$300,000 for companies, Reuters reported.

In second readings, the Duma passed a law to implement a trial by jury starting 2003 and curb prosecutors' powers. The bill is part of a shake-up of the legal system. Dmitry KOZAK, the official in PUTIN's administration who has been charged with getting the legal changes through parliament, said, "A historic step has been taken. This will increase guarantees for citizens who have fallen into the legal system." The bill give the courts the

right to issue arrest or search warrants rather than prosecutors. This will be introduced in 2004. It also lets defendants admit their guilt and avoid a court case, whereas currently hearings have to be held in all cases. The Duma voted down in its second reading a law limiting foreign interests in Russia's main television stations. The legislation was proposed by a group of parliamentarians during a prolonged struggle for financial control of Russia's independent NTV television station. The rejected bill would have barred foreigners from establishing Russian television stations broadcasting to more than half of Russian territory and limited stakes held by foreigners, stateless persons, or those with dual nationality to 50 percent. The text approved on first reading in April applied the restrictions to all outlets, including radio stations, magazines and newspapers. Communist deputies and their allies rejected the bill on grounds that its provisions should be extended to other media and tightened to limit foreign participation to 30 percent. Liberal members said the rules were too restrictive and would impose restraints on programs with foreign content. The bill will now be turned over to a Duma committee for redrafting.

Economy

Russian Energy Strategy Costs

• First Deputy Energy Minister Gurami AVALISHVILI announced at the 10th Moscow Oil and Gas international conference today that the implementation of Russia's en-

ergy strategy will require from \$550 to \$700 billion including from \$480 to \$600 billion for the development of the fuel and energy sector over the next 20 years. According to him, oil production is expected to rise to 335 million tons by 2010 and to 360 million tons by 2020. In his opinion, a larger oil production growth is unlikely. AVALISHVILI forecasted that the output of Russia's refineries would reach 220 million tons this year. Additionally, he said that domestic gas prices would increase by 3.5 times by 2005.

Norilsk To Raise Metal Output

- Russian metals producer *Norilsk Nickel* plans to increase its output substantially by 2005, its First Deputy chief executive Dmitry ZELENIN said on Wednesday. "The implementation of an investment program to develop the raw materials base will help us raise nickel output by 16 percent, copper by 18 percent and platinum group metals (PGMs) by 31 percent by 2005 from volumes planned for 2001," he said. *Norilsk* accounts for around 20 percent of the world's output of nickel and around three percent of copper. The company, however, never discloses absolute figures, which are considered a state secret in Russia. It also accounts for over 60 percent of world supplies of palladium, a PGM used mainly in auto catalysts, and for around 20 percent of platinum supplies. ZELENIN said that in the first quarter of this year *Norilsk's* sales value amounted to \$1.3 billion, five percent more than in the corresponding period of last year. "But the strengthening of the real value of the ruble leads to higher expenses and lower profits. As a result net profits fell by 25 percent to \$511 million in the first quarter," he said. ZELENIN said *Norilsk's* sales of precious metals including PGMs in the first quarter were worth \$600 million and \$680 million in the second quarter, compared with \$2.3 billion in the whole of 2000.

<p>Ruble = 29.14/\$1.00 (NY rate) Ruble = 29.18/\$1.00 (CB rate) Ruble = 24.96/1 euro (CB rate)</p>

Business

TNK-Ukraine Receives Addition Financing

- TNK-Ukraine*, a fully owned subsidiary of *Tyumen Oil Company*, and *Westdeutsche Landesbank Girozentrale (WestLB)* on Wednesday signed an agreement that will expand a \$50 million revolving credit facility by an additional \$25 million. The additional financing will be used to fund a stable supply of crude oil to *Tyumen Oil's* Lishichansk (LiNOS) refinery in Ukraine, the country's leading producer of refined products. Under a February 12, 2001, agreement, *WestLB* structured, arranged and syndicated a \$50 million financing package to *TNK-Ukraine* in order for the refinery to stabilize and increase production, which had been limited in recent years by shortages of crude oil. That financing package was the largest loan ever arranged for a private Ukrainian company without a sovereign guarantee. *WestLB* intends to syndicate the additional \$25 million in financing to other international financial institutions. *Tyumen Oil*, through its subsidiary *TNK-Ukraine*, acquired 78 percent of LiNOS' shares on October 31, 2000, marking the company's first acquisition outside Russia and a key initiative in *Tyumen Oil's* strategy to expand in selected markets, according to a company press release. The company is carrying out a five-year program to modernize the refinery and exceed the design capacity of 132 million barrels per year of crude oil processing. In 2000, the refinery processed 17.8 million barrels of crude oil, compared to 3.9 million barrels in 1999, and plans to process approximately 35 million barrels of crude oil in 2001. The LiNOS refinery is currently producing over 3 million barrels per month of refined products, including gasoline, diesel, fuel oil, polypropylene, ethylene and other chemicals.

Tyumen Oil President and chief executive officer Simon KUKES said, "We are gratified that, once again, an institution of *WestLB's* stature is helping us fund our rapid growth. We intend to use our position as the operator of the leading refinery in Ukraine as a platform to take advantage of the huge market potential and become the No. 1 distributor and retailer in the country within three years."

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Minority Shareholders Threaten Svyazinvest

- Minority investors led by *ICFI*, a Cyprus-based company linked to Vladimir POTANIN's *Interros Group*, has withdrawn a threat to break up *Svyazinvest* so long as their concerns were addressed. *ICFI* said it impeded plans to renew an alliance pact because foreign investors failed to "engage in meaningful negotiations and respect the rights of minorities." These accusations were directed

against the Soros Fund Management (SFM), a consortium of foreign investors led by financier George SOROS. SFM could stand to lose \$2 billion if the alliance is dissolved and a restructuring agreement falls through. On Monday, *ICFI* and *Brice Management* blocked a plan to extend for four years the live of *Mustcom*, a company through which investors own a minority-blocking stake in *Svyazinvest*, the Financial Times reported. If no agreement is reached by August 11th, *Mustcom* will be dissolved. *ICFI* claims that SFM, which controls just over 50 percent of *Mustcom*, behaved "arrogantly" and was attempting to gain full voting rights in preparation for selling off its stake. The company also claimed that prior to this week's actions, SFM tried to buy out their stake at 16 cents in the dollar, which *ICFI* considered too low. A reciprocal offer for *ICFI* to buy SFM's majority stake at the same price was rejected by SFM.

EUROPEAN REPUBLICS

US Grants Two Belarus Political Asylum

- Belarus citizens Dmitry PETRUSHKEVICH and Oleg SLUCHAK have been granted political asylum in the US, after accusing the government of President Alexander LUKASHENKO of creating a special "death squad" charged with killing critics. Yuri SIVAKOV, deputy head of LUKASHENKO's administration, called the accusations absurd. Human rights activist Oleg VOLCHEK, the head of a committee searching for missing politicians and journalists, said Wednesday that PETRUSHKEVICH and SLUCHAK feared for their lives after three sudden deaths of two investigators looking into the disappearance of Russian cameraman Dmitry ZAVADSKY, and of a witness in the case, the Associated Press reported. PETRUSHKEVICH, a state investigator, served on the official unit looking into the cameraman's disappearance. In Washington on Tuesday, State Department spokesman Richard BOUCHER said the investigators' claims, "give further urgency to the need to clear up the fate of the disappeared and to bring those responsible to justice...The Belarusian authorities need to account for these people in order to dispel the current climate of fear and to create an atmosphere conducive to free and fair presidential elections on September 9th."

Lithuanian PM Resigns Amid Political Con-

flict

- Lithuanian Prime Minister Rolandas PAKSAS resigned late Wednesday after a key member of his year-old coalition government withdrew its support. The move was widely expected after the center-left New Union, which formed the core of the government's center-right Liberal Union, on Monday called on PAKSAS to resign, saying it opposed his plans to cut taxes and quickly privatize the Lithuania's giant utilities. When, PAKSAS refused to resign, six New Union ministers, including the foreign and interior ministers, withdrew from the Cabinet. The government, which included the small Center Union and Modern Christian Democratic Union, had just 71 seats in the 141-seat parliament. Without the New Union's 29 seats, it would fall below a parliamentary majority. The opposition Social Democrats, led by the country's Soviet-era Communist Party boss Algirdas BRAZAUSKAS, have been ardent critics of Paksas and look likely to form an alliance with the New Union. The two left-leaning parties have held informal talks this week, though the New Union was still holding out the possibility that the same coalition could be stitched back together with a new prime minister, the Baltic News Service reported. A coalition between the New Union and Social Democratic would control 77 seats, more than enough to form a government. Lithuanian President Valdas ADAMKUS, suffering from an inflamed appendix, accepted the Prime Minister's resignation. He appointed Economy Minister Eugenijus GENTVILAS acting prime minister until a new government is formed. GENTVILAS is a member of PAKSAS' Liberal Union party. Any new government would likely maintain Lithuania's pro-West and generally pro-reform course. All the main parties say they back the country's bid to join the European Union and the NATO alliance.

SOUTH CAUCASUS & CENTRAL ASIA

Jehovah's Witnesses Beaten During Prayers

- A group of intruders burst into a prayer hall in Tbilisi and savagely beat a group of Jehovah's Witnesses. The police said that a dozen men and women physically assaulted the group, vandalized the building, breaking furniture and windows, Agence France Presse reported. The intruders also set fire to religious objects before escaping. Two of the victims were seriously injured in the attack. The police have launched an investigation.

Customs Receives Turkish Computers

- Ambassador Extraordinary and Plenipotentiary of Turkey to Georgia Burac GURCEL donated 13 state-of-the-art computers to the Georgian Customs Department, Prime News Agency reported. On Wednesday, GURCEL told Customs Department Chairman Badri ABZIANIDZE that the Turkish State Minister's plans to visit Georgia. GURCEL and ABZIANIDZE discussed the need to open the Kartsakhi Customs checkpoint to simplify and activate cargo turnover between the two countries.

Armenia Receives \$14.3M WB Installment

- The World Bank has released to Armenia the first \$14.3 million installment of a new lending program that will help the country cover a budget deficit, Finance and Economy Minister Vardan KHACHATRYAN announced. He said, "This is a new program aimed at supporting Armenia's state budget and its main part will be used for covering the budget deficit." A Structural Adjustment Credit (SAC-4) totaling \$50 million was agreed upon by the World Bank and the Armenian government in February, 2001.

KHACHATRYAN said the government expected to receive a second installment of about \$15 million in September. The last installment under SAC-4 will be allocated after the completion of the privatization of Armenia's main electricity distribution nets. The Finance and Economy Minister said other conditions included improving Armenia's investment environment, and further reform in the banking sector, healthcare, and education.

Six Armenian Massacre Suspects Freed

- Six of 12 suspects on trial for the 1999 massacre of the Armenia's prime minister were set free Wednesday under a sweeping amnesty declared last week by parliament, the Associated Press reported. The amnesty, in honor of this year's celebrations marking the 1,700th anniversary of the country's conversion to Christianity, applies to more than 2,000 inmates, primarily first-time offenders. In

the 1999 massacre, attackers who said they were saving Armenia from disintegration and government corruption stormed the parliament and killed Prime Minister Vazgen SARKISYAN, Parliament Speaker Karen DEMIRCHYAN and six others. Their trial began in February, but has been repeatedly delayed. Those set free were two policemen on duty at the parliament entrance on the day of the shooting, three men who were allegedly aware of plans for the attack and didn't notify the authorities, and one other suspect. The four accused organizers of the attack and two others still face various charges, including treason and membership in a terrorist organization. Judge Samvel UZUNIA said that the freed suspects cannot be tried again for the crime, but will be summoned to the court as witnesses.

BTC: Devon Withdraws, Others Interested

- An Azeri representative for the US *Devon Energy Corporation*, one of eight members of the Baku-Tbilisi-Ceyhan Main Export Pipeline sponsor group, announced it will withdraw from the project. *Devon's* 0.6 percent stake will be split among the remaining sponsor companies. These include *State Oil Company of Azerbaijan* (50 percent), *BP* (25.72 percent), *Unocal* (7.74 percent), *Statoil* (6.45 percent), *TPAO* (5.08 percent), *Itochu* (2.96 percent), and *Delta Hess* (2.05 percent). *Devon's* withdrawal is not expected to harm the \$2.8 billion pipeline project. *ENI* has expressed interest in joining the engineering feasibility study launched on Wednesday. *Chevron*, *Texaco*, *Conoco*, *Canadian Alberta Energy*, *Royal/Dutch Shell*, and *TotalFinaElf* may join the project within a year. 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. *BP* President John BROWN is holding meetings in Tbilisi today with Georgian President Eduard SHEVARDNADZE. Other *BP* representatives will meet with *Georgian International Oil Corporation* and *BP Georgia* throughout the week.

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