

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russia Warns US Over ABM Withdrawal**

- Russian Defense Minister Sergei IVANOV warned Washington on Tuesday that it should not withdraw from the 1972 Anti-Ballistic Missile Treaty. After meeting with visiting Canadian Defense Minister Art EGLETON, he said, "If we assume that the ABM Treaty loses force, it's logical to assume that the subsequent treaties that were based on it will also lose force. That means we will enter a phase of total unpredictability in the sphere of global security." This warning comes ahead of the first US-Russian Summit between Russian President Vladimir PUTIN and US President George W. BUSH. The ABM Treaty prohibits a nationwide defense against ballistic missiles. The US has tried unsuccessfully to persuade Moscow to amend the treaty, allowing Washington to build a national missile defense system (NMD). IVANOV noted that consultations on NMD have been short on substance. The US has claimed that a NMD is necessary to protect it from attacks launched by rogue nations, such as Iran and North Korea. Russia has acknowledged that there are some new threats but argued that they must be dealt with without modifying the ABM Treaty. IVANOV said Russia and the US would form working groups to continue discussions, the Associated Press reported.

#### **Space Forces Reborn As Independent Branch**

- The Russian Space Forces were officially reborn as an independent branch of the military, as part of President Vladimir PUTIN's plan to streamline and modernize the armed forces. The Space Forces were established as a separate branch in 1982, but incorporated into the Strategic Rocket Forces in 1997. They regained independence under a military reform plan drafted by Defense Minister

Sergei IVANOV. Colonel General Anatoly PERMINOV, appointed to lead the Space Forces, said they became fully operational in their new status Friday, the Itar-Tass news agency reported. The Space Forces are in charge of rocket launch pads and a fleet of military satellites, which serve spy and communication purposes and track the launches of ballistic missiles. Russia has about 110 military and civilian satellites, but about 80 percent have already served their designated lifetime, and the cash-strapped government lacks money to quickly build replacements, the Associated Press reported. Russian Aerospace Agency chief Yuri KOPTEV has said building new navigation satellites for the military is his top priority.

### Economy

#### **Russia Runs At A May Budget Surplus**

- Russian Deputy Prime Minister and Finance Minister Alexei KUDRIN today said that Russia ran at a budget surplus of 3.7 percent of gross domestic product (GDP) in May. The Finance Ministry said last month that the budget surplus in April amounted to 5 percent of GDP. KUDRIN said May budget revenues were 133.5 billion rubles (\$4.58 billion), while spending amounted to 107.3 billion rubles. Russia paid 26.2 billion rubles in foreign debt last month. April budget revenues were 134.8 billion rubles and spending was 100.65 billion rubles. The budget surplus in the period from January to May was 54.6 billion rubles, or 1.7 percent of GDP, compared with a

surplus of 28.7 billion rubles in the first four months of this year.

<p><b>Ruble = 29.16/\$1.00 (NY rate)</b>  <b>Ruble = 29.18/\$1.00 (CB rate)</b>  <b>Ruble = 24.72/1 euro (CB rate)</b></p>
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## **Business**

### **TNK Competes With Itera For Rospan Assets**

- The sale of bankrupt *Rospan's* assets is pitting *Tyumen Oil Company (TNK)* and *Itera* in a head-to-head competition. *TNK* has expressed an interest in entering the gas market, *Kommersant Daily* reported. On Tuesday, it stated that it would insist that *Rospan's* business be sold in accordance with bankruptcy procedures. Roman BEZRUKOV working for the *TNK* legal department said, "We believe this is the time to try our hands in gas production. *Rospan's* business seems to be quite attractive, and we are tentatively interested in its acquisition." *Rospan* was established in 1995 for the development of the Novo-Urengoi and East-Urengoi gas fields. Initially, *Gazprom* held a 51 percent stake in *Rospan*, but it sold this stake to *Itera* at a nominal value of little more than 4,000 rubles in 1998. *Rospan* had already been in the red by the time it was sold to *Itera*. *Rospan's* subcontractors initiated bankruptcy proceedings, and court introduced external administration at *Rospan*. The newspaper notes that *Itera* has been fighting for control over this enterprise since then.

Meanwhile, *TNK* has won the American Society for Competitiveness' (ASC) Philip B. Crosby Medallion for Entrepreneurial Leadership. Robert LATTIMER, president of the ASC, announced that *TNK* will be recognized for its expansion into a Russian and regional oil and gas powerhouse. Last year, the company was presented with the award for leadership in developing globally competitive practices in an emerging economy, becoming the first Russian company to receive ASC recognition. *TNK* will receive the Crosby award for employing modern, transparent business practices to achieve dynamic growth over the past two years. The award will be presented on October 12<sup>th</sup> in Washington, DC.

### **Partizansk Darkened By \$3.4M Electricity Debt**

- Dalenergo* cut off service to the impoverished

mining town of Partizansk, leaving its 56,000 residents without water and electricity. Partizansk owes the utility \$3.4 million for electricity, the Associated Press reported. Power cut-offs are frequent in Russia's Far East due to lack of money and political tussles over who should pay. *Dalenergo* says it is owed about \$37 million by cities in the region. Many of Partizansk's residents are former miners who lost their jobs when the mine closed. Few have paying work and the cash to pay utility bills. The town's two hospitals had power, but suffered from the lack of running water. Irina ZHIRKOVA, chief doctor of City Hospital No.1, said, "We make reserves of water by filling up all kinds of tanks and buckets, but we need running, not bucket, water for our treatments." In an attempt to force payment, *Dalenergo* had been cutting off power to one of two intakes on the Partizansk River every day for the past week from morning until evening, *Itar-Tass* reported. But the company is now cutting off power to both intakes, meaning no water at all during the day.

### **Yukos Is Ready To Sell More Oil**

- Yukos Oil Company* chairman Mikhail KHODORKOVSKY said on Friday that his company was ready to put more oil on the world market through crude swaps via European countries. He said this would make it affordable to ship Russian oil to the US. However, he said European countries are reluctant to enter into the swap arrangements because they don't want to take more Russian oil. He also pointed out that the EU has environmental concerns about Russian oil because it contains high amounts of sulfur that pollutes the air. Russian oil production should average 7 million barrels per day (bpd) this year, up from 6.5 million bpd last year, and should reach 9 million bpd by 2005, KHODORKOVSKY said. He said he was disappointed that Russia was not included in the US BUSH administration's new national energy play as a potential strategic supplier of oil.

Separately, KHODORKOVSKY said he welcomed Russian President Vladimir PUTIN's move to replace the head of *Gazprom* with a reform-minded executive, Alexei MILLER. The change may make it easier to get the Russian parliament to pass legislation opening up the country's natural gas sector to competing companies, he said. "The liberalization of the gas market...will allow the costs of production

in the gas sector to decrease," he said. Reuters reports that *Yukos* wants to get into the natural gas business, hopefully producing between 15 billion and 20 billion cubic meters (bcm) of natural gas annually over the next five years. "This would only be possible of course if the gas market was liberalized," KHODORKOVSKY said.

### EUROPEAN REPUBLICS

#### Belarus Criticizes Russia, Turns To Libya

- Belarus President Alexander LUKASHENKO accused Moscow on Tuesday of failing to deliver on economic agreements, including a \$100 million loan intended to stabilize Belarus' currency. Belarus had earlier agreed to scrap its own currency by 2005 for full union with Russia's currency. Speaking at a Rus-Belarus Parliamentary Assembly, LUKASHENKO said, "How can we talk about a common currency if the agreements aren't in place. Is \$100 million a large amount? I have rejected this loan. You know who offered us this loan? The Libyans." He added that Russia was dragging its feet and causing complications in the merger of Russia and Belarus into a single Union. LUKASHENKO has strongly pushed for a full union. The Kremlin fears its Belarus would be a heavy burden for Russia's own struggling economy. The Belarus President said that the West was trying to pull Russia away from Belarus. He claimed Tuesday that unidentified US officials warned Russian Defense Minister Sergei IVANOV in Washington this week against the merger with Belarus, and he urged Moscow not to be swayed by such warnings. "Today Belarus is the only real, faithful and reliable ally of Russia... We succeeded in stopping attempts at isolating Russia politically, something which is all the more relevant due to the encroachment of NATO," he said. The Associated Press reported that LUKASHENKO bemoaned the breakdown of several joint economic programs and lambasted Russia for introducing customs tariffs without consulting Belarus.

#### Ukraine's Central Bank Reserves Reach \$1.8B

- Ukraine's Central Bank today released a report showing that its gross hard currency reserves had reached their highest point since Russia's financial crisis in 1998. The new level reached \$1.856 billion on June 1<sup>st</sup>, after \$1.814 billion in early May. Sergei YAREMENKO, head of the Central Bank's

currency regulation department, said liquid currency reserves rose to \$1.716 billion from \$1.669 billion. YAREMENKO said the Central Bank had purchased \$674 million since the beginning of the year. Ukraine's economy was hit hard by the Russian crisis, with reserves dropping to around \$700 million. They have grown steadily since, totaling \$1.628 billion at the end of last year.

### SOUTH CAUCASUS & CENTRAL ASIA

#### UK Grants Control Chamber Assistance

- The Chairman of the Georgian Control Chamber Sul Khan MOLASHVILI met with the British Ambassador to Georgia Deborah BARANS-JONES to discuss the project of technical assistance to the Control Chamber. TACIS and the European Expert Council developed the project, which will start later this month. BARANS-JONES stated that the British government favorably assessed the activities of the Georgian Control Chamber and will provide assistance. She also said that the World Bank and the International Monetary Fund (IMF) and other international financial institutions stressed the importance of the Control Chamber. According to BARANS-JONES, the British Embassy will be financing the reforms within the Chamber, including educational programs.

#### CanArgo-Georgia Agree To Expand Operations

- *CanArgo Energy Corporation* and the Georgian government on Monday agreed on a plan to expand *CanArgo's* refining operations in Central Georgia. Following positive meetings with the Georgian President, Eduard SHEVARDNADZE, the Georgian State Minister Gia ARSENISHVILI and the Chairman of the Georgian Parliament Zurab ZHVANIA, *CanArgo* received official approval to continue with plans for a 1.2 million to 1.5 million tons/year (25,000 to 30,000 bpd) refining plant located near Tbilisi. *CanArgo* already operates a refinery with a capacity of some 4,000 bpd (190,000 tons/year) outside the capital city. The Georgian parliament is reviewing further proposals that would increase operational margins at this plant by some 18 percent. The plant will supply gasoline to *CanArgo's* seven gasoline stations in Tbilisi. Thirteen more stations are under construction. The expansion of refining capacity is designed to supply a large proportion of the demand for light petroleum products in the

Tbilisi and Central Caucasus market and to build on *CanArgo's* position as the only integrated oil company operating in Georgia. According to a company press release, it is anticipated that the *Georgian State Oil Company, Georgian Oil*, together with other partners, including other Georgian investors, will participate in the project. Vincent MCDONNELL, Chief Commercial Officer for *CanArgo*, said, "I am very pleased we have reached agreement on this significant expansion of refining capacity. This is a very important project which should enable us to further develop our integrated business in Georgia, and further enhance the margins that our downstream business is achieving."

#### Georgian 1<sup>st</sup> Quarter Trade Turnover

- Internal trade turnover in Georgia for the first quarter of 2001 totaled \$330.2 million or 102.6 percent compared with the same period in 2000. Prime News reported that \$88.8 million comes from exports, while \$241.4 is accounted by imports. Prime News Agency reported that a negative trade balance equals \$152.5 million. A negative trade balance was reached with 71 countries, at this time with a deficit reaching \$163.6 million. The index on positive deficit is observed with 21 countries. According to statistical data, 32.9 percent of trade deficit falls on Commonwealth of Independent States (CIS) equaling \$119.7 million and for other countries reached \$210.5 million.

#### Abashidze For Georgian President?

- The leader of United Georgia, Giorgy TARGAMADZE, in an interview with Prime News Agency, said that the opposition might introduce the candidacy of Aslan ABASHIDZE, Chairman of the Adjarian Supreme Council, to participate in the 2005 Georgian Presidential elections. ABASHIDZE planned to participate in the 2000 Presidential elections, but withdrew two days before the election.

Meanwhile, Georgian parliamentary chairman of the Tax and Revenues Committee Vitaly KHAZARADZE expressed concern over a non-transfer

of 3,200,000 lari from Adjaria to the central budget. He said that the Treasury had transferred 800,000 lari to Adjaria. He said that those funds intended for secured articles in the budget, might be misused, Prime News Agency reported. In addition, the Adjarian government has abstained from announcing its position on the withdrawal of the Russian military base in Batumi. The government noted that its representatives do not participate in the Rus-Georgian negotiations on military issues. Russia is seeking to extend the deadline of withdrawal from Batumi and Akhalkalaki for 14 more years. This position is not acceptable to Georgia.

#### Chevron Seeks 10 Percent Stake In BTC

- Chevron* on Tuesday expressed an interest in acquiring a 10 percent stake in the Baku-Tbilisi-Ceyhan (BTC) pipeline to carry crude from the Caspian Sea to the Mediterranean. Moustafa HABIB, *Chevron* Eurasia's general manager, told Reuters in an interview during an oil and gas conference in Baku, "We are still waiting for an answer from SOCAR [*State Oil Company of Azerbaijan*] or the sponsor group...A range of 10 percent [of the stake] is definitely right." He said the company expected an answer from the sponsor group before the end of the year. *Chevron* wants to get the same rights and conditions in the project as the founder members have. *Chevron's* interest in BTC is a boost to the \$2.8-\$2.9 billion pipeline supported by the US and Turkish governments. Guy HOLLINGSWORTH, managing director of *Chevron* Eurasia said, "It's an excellent route for south Caspian crude and that's why we are interested in participation in this project." He added that *Chevron* will invest \$50 million this year in Azeri projects.

*Chevron* is waiting for results of drilling on the offshore Absheron block, Azeri President Geidar ALIYEV told the conference that gas reserves at Absheron were greater than at the offshore Shakh Deniz field, believed to contain one trillion cubic meters of gas.

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