

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia-India Sign Long Term Military Accord

• Russian Deputy Prime Minister Ilya KLEBANOV and Indian Defense Minister Jaswant SINGH on Wednesday signed a 10-year military accord. Moscow will supply India with the latest Russian-developed submarine and other advanced military hardware. The agreement will help India build the "newest submarine" developed by Russia and the two countries will jointly develop a new generation of fighter aircraft. KLEBANOV said the Russian government has also offered to sell an integrated air defense system to India and the Indian government has expressed interest in the Russian proposal. The air defense system is expected to integrate India's surface-to-air Akash missiles and the Rajendra radar system with elements of a "non-strategic missile shield" Russia has reportedly offered to Europe as an alternative to a space-based missile shield proposed by the US, Kyodo News reported. Russia has also reportedly agreed to sell A-50 airborne warning and control systems (AWACS) aircraft to India. Russia is likely to seal a contract with India for the sale of a Russian-made aircraft carrier, carrier-borne fighters and the training of carrier-based pilots during Indian Prime Minister Atal Behari VAJPAYEE's visit later this year. Russia has promised to sell the light, 45,000-ton aircraft carrier Admiral GORSHKOV to India along with carrier-based MiG-29K fighters and prepare a lease for four Russian Tu-22 M3 Backfire bombers. About a third of all Russian arms exports, which totaled nearly \$4 billion last year, went to New Delhi. The series of arms deals between Russia and India is likely to heat up an arms race between India and Pakistan and affect the military balance in the Indian Ocean.

Chechen Official Calls For Army Withdrawal

• Moscow-appointed Prime minister of Chechnya's pro-Moscow government Stanislav ILYASOV told a news conference that the army had to "withdraw gradually" from Chechnya, adding, "This war is over." He said that the army should withdrawal so that normality can be restored under peacetime. The official line that Chechnya is under Russian control suffered a blow when three local leaders quit, saying they had no guarantees of protection against separatist guerrillas. Their action followed the burial of a fourth leader, shot dead this week by fighters south of Grozny. One leader, Shakhid DZHAMALDAYEV, said no one had stepped forward to take on the duties of the three departing officials. Liberal parliament deputy Alexei ARBATOV said that the army's presence, and recurring excesses, were turning local people against Moscow. "The situation is a paradox. The mass presence of federal authority is a factor generating negative feeling among residents and pushing them to side with the fighters. But pulling out troops now could turn into a catastrophe." He noted that he was surprised that federal troops were having difficulty controlling the region and are the targets of constant attacks. An attempt in April to move the pro-Moscow administration back to Grozny from Chechnya's second city of Gudermes was quickly abandoned in the face of rebel assaults. Human rights groups say troops have committed many abuses. Russia's top military man in the region, General Genady TROSHEV, was criticized this week by the Interior Ministry,

for advocating the public execution of Chechen rebels, Reuters reported.

Economy

Russia To Borrow \$500M In 2002

- A senior Finance Ministry official has said that Russia could borrow as much as \$500 million on international markets in 2002 to help balance its budget and make foreign debt repayments, Reuters reported. The source said that borrowing could only take place if market conditions were favorable. "We need terms better even than we had in 1997," the source said. This would be the first time that Russia borrowed on the international market since the financial collapse and ruble devaluation of 1998, which undermined investor confidence and led to cuts in credit ratings. The source said Russia had borrowed at 12-13 percent annually in 1997 and if it secured a rate of 9-10 percent a trail deal could be carried out to prepare for bigger borrowings in the future. The source said the government would not count on restructuring their debt in 2002 to 2003, but did not rule out the possibility of asking for a restructure if international oil prices fell below \$17 per barrel. "We have built a scenario of carrying forward with reforms without a restructure. The problem of balancing the budget [without restructuring] is solvable," he said.

- The Russian Finance Ministry will repay \$25.1 million to the International Monetary Fund (IMF) on June 8th.

- The Russian government endorsed the main parameters of the 2002 draft federal budget.

- Deputy Prime Minister and Finance Minister Alexei KUDRIN said if oil prices remain at \$17 per barrel, Russia would be able to fully service its foreign debt in 2002.

- Russia has raised its inflation target from 12 to 14 percent to 14 to 16 percent for 2001.

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| <p>Ruble = 29.16/\$1.00 (NY rate) Ruble = 29.17/\$1.00 (CB rate) Ruble = 24.84/1 euro (CB rate)</p> |
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Business

FSC Approves Lenenergo ADR

- Russia's Federal Securities Commission (FSC) approved an American Depositary Receipt (ADR) issue by St. Petersburg utility *Lenenergo* on Wednesday. The FSC said it would allow *Lenenergo* to carry out plans to convert up to 10 percent of its charter capital into ADRs. The *Lenenergo* board of directors approved the ADR program last November, which has been hailed by analysts who said that it would increase the liquidity of the utility's paper. One *Lenenergo* ADR will represent 80 common shares. The company has hired *JP Morgan* to handle the issue.

Russian Aluminum Receives \$47M Loan

- A Russian subsidiary of *Raffaelsenbank Zentralbank* has organized a \$47 million syndicated loan for Russia's biggest aluminum group *Russian Aluminum*. The one-year loan is to be used for production development and exports of primary aluminum and alloys, *Russian Aluminum* said in a statement. In addition to Moscow-based *Raffaelsenbank Austria*, the credit syndicate includes Russian banks *Mosnarbank*, *Russian Development Bank* and *Khanty-Mansiysky Bank*. *Russian Aluminum* attracted \$150 million worth of credits in 2000 and the beginning of 2001.

Gazprom To Request Price Hikes

- Russian gas giant *Gazprom* said Wednesday it would ask regulators to nearly double wholesale gas prices for domestic industrial consumers, bringing them closer to the prices paid by foreign customers. The move came less than a week after the *Gazprom* shareholders voted to replace the company's chief executive, Rem VYAKHIREV, with Alexei MILLER, an ally of President Vladimir PUTIN. *Gazprom* sells to domestic industrial consumers at \$17 per 1,000 cubic meters, or less than a tenth of the price the company gets on foreign markets for the same gas, said Yelena KARPEL, head of the company's pricing department. She explains, "It's only because of exports and credits that we can keep going... There is no link between domestic and export prices." In July, *Gazprom* will propose to the Federal Energy Commission a series of steep annual increases that will bring the price to \$30 per 1,000 cubic meters by 2005, KARPEL said. *Gazprom* already won an 18 percent price increase for industrial consumers in January. She says it has no plan to increase the wholesale gas price for home heating and hot water

beyond a 25 percent increase in March.

Bateman To Build Siberian Oil Complex

- *Bateman Project Holdings Ltd.*, a South African construction company, will build a \$900 million oil drilling and refining complex in eastern Siberia, Business Day reported, citing Chief Executive John HERSELMAN. *Bateman* will be the lead contractor developing an oil field and refinery with capacity of 7 million barrels a year in the Sakha autonomous region. HERSELMAN did not discuss *Bateman's* fee. While the refinery's products will at first be sold locally, its intended market is China. This will be *Bateman's* fourth contract in Sakha, which besides oil holds most of Russia's diamonds. The *Boksburg*, South Africa-based company has built two processing plants for *Almazy Rossii-Sakha*, Russia's biggest diamond miner, and is working on a third worth \$190 million, according to Business Day.

EUROPEAN REPUBLICS

Estonia Approves 100M Eurobond

- The Estonian parliament late on Wednesday night, in a vote of 55 to 1, with 45 abstentions, approved government plans for a 100 million euro (\$85.40 million) five-year eurobond issue. "The purpose of the bond issue is to refinance loans taken by the Estonian government, to diversify the financial risks of those loans and to finance the purchase of a long-distance radar system," parliament's press office said in a statement. They added an initial offering of the bonds will be made no later than December 31st. The Finance Ministry said in March the exact interest rate for the eurobond will be determined at the moment of issue and the state will not set a rate. Officials have said the eurobond will be cheaper than other methods of raising funds to refinance loans taken from sources including the World Bank in 1992 and 1993, Reuters reported. It will be Estonia's third bond issue but its first public eurobond issue if the country decides to go that route. One motivating factor behind the issue is to eliminate some unfavorable currency structures in past debt which includes SDRs, US dollars and Japanese yen.

SOUTH CAUCASUS & CENTRAL ASIA

GUAM Fails To Agree On Free Trade Zones

- At the conclusion of the summit of GUUAM nations (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova), the member countries today signed a charter formalizing their alliance. A signed joint declaration expressed their assurance to take joint decisions in all aspects of mutual interest to the GUUAM members. Georgian President Eduard SHEVARDNADZE said the grouping would promote economic, transport and security cooperation among the five countries. The alliance played down suggestions that the economic grouping could pose a political challenge to the Commonwealth of Independent States (CIS). Moldovan President Vladimir VORONIN told reporters, "I would not want this organization in any way to oppose the CIS." Ukrainian President Leonid KUCHMA said, "We will never work against Russian interests." The summit failed to reach an agreement on forming a free trade zone. Uzbekistan President Islam KARIMOV said that it is too early to establish a free trade zone within GUUAM. The member states, which seek access to regional and international markets, are expected to focus their cooperation on the energy sector. "Not only does the competitiveness of a state's economy depend upon the energy sector, but its political and economic stability also," KUCHMA said.

SHEVARDNADZE believes that economic as well as geographic integration into the European Union (EU) must be a major component of the development of GUUAM. He emphasized the role of the EU in the development of the GUUAM regional structure. The EU's global projects TRACECA and the Great Silk Route were the unifying elements of the GUUAM members. The GUUAM Presidents also discussed the transportation system between GUUAM, its effective functioning, and the security of its infrastructure. This includes the transport corridor, which is Europe-Caucasus-Asia (TRACECA). Heads of states stressed the importance of signing an agreement, which establishes the free economic zone. The states agreed to hold an intergovernmental economic forum of GUUAM nations and other international organizations this year in Uzbekistan. The next GUUAM summit will be held in Yalta in 2002. SHEVARDNADZE voiced hope that other states will join it in the future.

US Under Secretary of State Richard ARMITAGE told Prime News Agency that he can clearly see good perspectives of prospects for cooperation between the US and GUUAM. He said that the summit was devoted to a "closer coordination" of the GUUAM members. He met with the Ambassadors of GUUAM nations to the US and said that they can rely on "very positive" development cooperation from the US. He stressed that the US does not consider GUUAM as an anti-Russian structure. He believes that the GUUAM members are more interested in the development of regional business ties, development of telecommunications, and the cooperation in customs and other aspects of their relations.

Lebanese Businessman Kidnapped In Tbilisi

- Lebanese businessman Shardel BESHARA ANU was kidnapped early this morning by men wielding machineguns on Kindmaraulskaya Street in Tbilisi. BERSHARAANU, 34 years old, has lived in Tbilisi for five years and serves as deputy manager for *Agrotechnika*. According to the information provided by the prosecutor general's office, the businessman was kidnapped when he was driving his Niva car to the warehouse of *Agrotechnika*, a US business. In front of the building, he was stopped by the armed kidnapers, who smashed his windshield and forced him at gunpoint to enter their car. Some of the attackers broke into his car and drove it away. Later, BESHARAANU's car was found abandoned on the road near the airport. Law enforcement agencies do not have any leads on the case, but they suspect that kidnapers may be holding him for ransom. The kidnapers have not contacted either police or *Agrotechnika*, which imports chicken and bananas. The prosecutor generals' office believes that an investigation will be completed soon because there are witnesses. The US embassy has expressed concern.

Economic Indicators Of CIS Countries

- Production of industrial production in Georgia decreased by 9 percent since January, according to a report published by International Statistics Committee of the Commonwealth of Independent States (CIS). Ukraine topped the CIS states with industrial growth reaching 18.4 percent. Tajikistan placed second with 14 percent growth and Kyrgyzstan with 11.6 percent growth. Russian growth

equaled 3.8 percent. Belarus inflation reached 16.8 percent, while Russia reached 9 percent. Azerbaijan had the lowest rate of inflation at 1.4 percent.

Turkmen Closes Azeri Embassy

- The Turkmen Foreign Ministry said the country has closed its embassy in Azerbaijan. According to a note sent to Azeri authorities on Monday, the Turkmen Foreign Ministry said that, "the transfer of the residence of the Turkmen extraordinary and plenipotentiary ambassador from Baku to Ashkhabad is conditioned with temporary financial difficulties...Turkmenistan believes that this decision will be understood by the Azerbaijani side." Turkmenistan opened its embassy in Baku in the summer of 1999. The problem of opening an Azeri Embassy in Ashgabat remains unsolved. Relations between Turkmenistan and Azerbaijan have become complicated due to disputes over oil deposits in the Caspian Sea. Consortiums with Azeri approval have proceeded with drilling wells on disputed sites, while the littoral states continue to negotiate the Caspian Sea status. In May, Turkmenistan warned the Azerbaijani Foreign Ministry that it has the right to address the international arbitration court to settle territorial disagreements.

OSCE Chairman Visits Tajikistan

- Chairman of the Organization for Security and Cooperation in Europe (OSCE) Mircea GIOANE arrived in Tajikistan for a two-day working visit on Wednesday. He said Tajikistan is a, "significant country for ensuring stability in the whole Central Asian region." He plans to discuss with Tajik leaders regional security, "because security in the Euro-Atlantic space depends on it." The talks will also focus on economic issues in light of "a successful meeting of the consultative donor group on Tajikistan in Tokyo," the development of democratic and human rights, he said. Today, GIOANE will meet with leaders of both houses of Tajik parliament, the prime minister, heads of political parties and movements and will be received by Tajik President Emomali RAKHMONOV. On Wednesday evening, GIOANE met with Tajik First Deputy Foreign Minister Erkin RAKHMATULLAYEV.

Berezovsky Changes Newspaper's Aim, Tretyakov Resigns As Editor

• On Wednesday, long-serving editor of Nezavisimaya Gazeta, Vitaly TRETAKOV, said he was forced to resign over political differences with its owner Boris BEREZOVSKY. The business tycoon denies that TRETAKOV was fired for political reasons. TRETAKOV was offered a position as chairman of the board of directors, but refused the change, claiming that it would have no real power. TRETAKOV also cited his differences on the new focus of the magazine. He said that BEREZOVSKY wanted to change the focus of the newspaper to take a more critical stance of Russian President Vladimir PUTIN. BEREZOVSKY has accused the President of orchestrating an authoritarian regime and fears arrest if he returns to his native Russia. He said, "I think that Nezavisimaya Gazeta should have another niche [in the market], orientated toward the more active part of today's Russia, those who have started to live independently, the middle class. I believe a new leadership of the company could represent the interests of this section [of the population] in the media." TRETAKOV meanwhile said in an interview on NTV that there is no conflict between readership of Kommersant Daily and Nezavisimaya Gazeta. He said that initially in 1995, BEREZOVSKY claimed that the two newspapers, "occupy different niches and they have different readerships."

BEREZOVSKY is one of the oligarchs who have fallen out of favor with PUTIN. Through his television station and newspapers, BEREZOVSKY was instrumental in raising PUTIN's stature from an obscure ex-KGB staff officer to ultimately the President of Russia. Once in power, PUTIN turned his back on the oligarchs and strongly urged them to stay out of politics. BEREZOVSKY had played an influential role in Kremlin politics under former President Boris YELTSIN. In April, BEREZOVSKY angered the state by providing jobs at his TV6 for dissident journalists who quit NTV, in protest at the independent channel's takeover by a subsidiary of the state-dominated gas company, *Gazprom*. It now appears that BEREZOVSKY aims to use his media outlets and now restricted influence to launch a political party to oppose PUTIN in the next election. In May, he announced that he will finance a new political party dedicated to "liberalism." He said, "The reason I want to return to Russia is politics. Now after one year of PUTIN's presidency, we have all the necessary conditions to form a real opposition...PUTIN is really destroying what we created in the last 10 years." TRETAKOV has said, "Undoubtedly, I am not ready to work in a party newspaper, any party newspaper...it is clear to me that this will be a newspaper with a much more clearly pronounced political and party orientation, which has every right to exist."

In an interview with NTV television, BEREZOVSKY declined to say who would replace TRETAKOV, but said that the future management would reflect the newspaper's independent reporting. Interfax news cited Tatyana KOSHKAREVA and Rustam NARZIKULOV as possible candidates for TRETAKOV's replacement. TRETAKOV added, "I have no claims against him [BEREZOVSKY] in this matter. From this point of view at least, I see the situation as absolutely normal. I only regret that Nezavisimaya Gazeta will never again be the way it has been and the way I meant it to be from the start." However some careful followers of the newspaper including former intelligence officers have remarked that the character of the paper had changed. During the last five years, articles would appear that had the mark of a Federal Security Service (FSB) media placement operation. Most recently, the number of critical articles concerning the government had dramatically declined and much of its credibility has been lost. One **Intercon** source remarked that when the newspaper encountered financial problems years ago, it appeared that the special services took advantage of the situation to insert their articles with financial inducements. When asked what he would pursue next, TRETAKOV responded, "I shall try to set up a new publishing group which would carry on in the spirit of Nezavisimaya Gazeta." The question is which spirit will be followed?

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