

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Bomb Explodes At Daghestan Minister's Home

• Magomedsalikh GUSAYEV, Daghestan Minister in charge of national policy, information and foreign affairs, received multiple injuries when a bomb exploded at his home. He sustained a broken leg and is in good condition after surgery. According to earlier reports, the blast occurred when GUSAYEV was leaving his home in Makhachkala. The plastic bomb, with a yield of 300 to 400 grams of TNT, was planted under the threshold of his house. The attack came as Moscow's minister in charge of rebuilding Chechnya said Russia had to do more to protect its officials in the region, Reuters reported. Akhmad KADYROV, a former Muslim cleric appointed by the Kremlin to run Chechnya's civilian administration, said on Thursday police and officials were coming under constant attack, despite the massive Russian military presence. "I would not be surprised if tomorrow all administrative heads announced they were stepping down," KADYROV said. Three pro-Moscow leaders resigned this week after one of their colleagues was shot dead in Grozny.

Tobin's Jail Term Reduced; Release Imminent

• The Voronezh Regional Court has reduced a sentence for US student John TOBIN, who was convicted on drug charges, from 37 months to a year. TOBIN's case made headlines when Federal Security Service (FSB) officials accused him of being a spy in training. No espionage charges were filed. However, in a letter to his family, TOBIN said that he was framed because he refused to become a spy for Russia. It is likely that TOBIN will be freed under an amnesty before the first summit between Russian President Vladimir PUTIN and US President George W. BUSH scheduled for June 16th in

Slovakia. His lawyers have requested that TOBIN be considered under an amnesty planned for the 10th anniversary of Russia's Independence Day on June 12th. (According to a recent poll, 40 percent of Russians couldn't identify the purpose of the June 12th holiday.)

Economy

Russian-Turkey Talks Focus On Economic Ties

• Russian Foreign Minister Igor IVANOV held a series of meetings today with Turkish officials focusing on boosting economic ties. He met with Foreign Minister Ismail CEM, President Ahmet Necdet SEZER, and Prime Minister Bulent ECEVIT. The sides discussed the \$3.2 billion Blue Stream pipeline to transit gas under the Black Sea from Russia to Turkey. IVANOV said, "This project will be finished as scheduled and the shipment of Russian gas to Turkey will begin in 2002." The pipeline will carry 16 billion cubic meters of gas to Ankara. Russia and Turkey agreed that the rate of bilateral trade should be increased. Turkey sees Russia as a rich market and aims to restore trade weakened by recent economic turbulence.

CEM noted that the two sides discussed problems of smuggling and international terrorism. Concerns have grown following a Chechen-led hostage crisis in the *Swissotel* in Ankara and the high-jacking of a Russian airplane earlier this year. IVANOV said he

had accepted an invitation for President Vladimir PUTIN to visit Turkey; the date has yet to be set.

Gas Exports To Reach 200Bcm In 2010

- Russian gas exports are expected to grow 70 billion cubic meters by the year 2010 to reach 200 billion cubic meters (bcm) a year, *Gazprom* board of directors representative Alexander SEMENYAKA, said on Thursday. The company will need new export pipelines to increase gas supplies abroad. With that in view, it is considering two new routes: via Poland and across the Baltic Sea bottom to Western Europe. According to SEMENYAKA, *Gazprom* is deciding which pipeline is to be built first. The general director of *Lentransgaz* (*Gazprom*'s sister company), Sergei SERDYUKOV, said that the St. Petersburg *Giprospeftsgaz* design company was finishing a feasibility study of the project to build the pipeline across the bottom of the Baltic Sea.

Ruble = 29.16/\$1.00 (NY rate)

Ruble = 29.15/\$1.00 (CB rate)

Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

Business

Gazprom To Follow Old Line Or Reform?

- Newly installed *Gazprom* chief executive officer Alexei MILLER said Thursday that he would continue to follow the general policies of his predecessor. *Gazprom* deputy chief executive Vladimir REZUNENKO said, "We already had a discussion with Alexei MILLER and he confirmed

the adherence of the general line of *Gazprom* in all our projects." Many international organizations and industry analysts had hoped that with the change in management, *Gazprom* would initiate major reforms. MILLER, an ally of President Vladimir PUTIN, replaced Rem VYAKHIREV, a powerful tycoon accused of resisting reforms of Russia's biggest company. MILLER has made some reformist pledges. He said, "We will strive to raise the company's capitalization...make its expenditures more transparent...and we pledge to fulfill all our contract obligations." *Gazprom* controls 93 percent of the natural gas production in Russia and 25 percent of the world's reserves. *Gazprom* plans to allow the share of independent producers to rise to 75 percent of the market by 2010 from just 10 percent today. REZUNENKO said that interest in the domestic market is low because new participants in the gas market are interested in exports, which earn as much as 10 times more revenue than domestic sales, the Associated Press reported. *Gazprom*'s board of directors will meet on June 29th to discuss a *PricewaterhouseCoopers* report on the company's relationship with Itera. Critics assert that Itera has benefited from insider deals with *Gazprom* managers and is a tool for pressuring countries in the "near abroad."

Gazprom has for the first time released a report on the company's performance. Russia's gas giant previously made only its consolidated reports public. Andrei NYUPENKO, deputy head of the *Gazprom* accounting department, said *Gazprom*'s consolidated net profit was 60 billion rubles (about \$2.06 billion) and the net profit of the company was 48.5 billion rubles (about \$1.66 billion) in 2000. According to *Gazprom* executive board member Alexander SEMENYENKO, *Gazprom* will allocate 3 percent of its profit for dividend payments. Dividends to be paid this year will reach an all-time high of 30.3 rubles per share. Additionally, he stressed that the yield of *Gazprom* stock had increased 65 percent since January 1, 2001. SEMENYENKO said that *Gazprom* will issue corporate ruble bonds, with the approval process taking about 2 months.

EU Opposes Russian Mega Firms

- Alexander SCHAUB, European Commission director general for competition, said a new breed of mega-firms in Russia could curb long-term economic efficiency and damage growth prospects.

He predicted that a competition policy will need to pay a key role in Russia over the next decade as the economy continues to recover from the 1998 financial crisis. However, SCHAUB conceded that Russia's young competition officials faced a daunting task of introducing an element of healthy competition into natural monopolies like oil, gas and electricity production, transportation and telecommunications, Reuters reported. He praised their enthusiasm and willingness to swap ideas with the 15-nation European Union (EU). Following five days of talks, SCHAUB said, "It is an illusion to believe that companies which have not been trained in difficult competition in their home markets will be successful internationally in the long run." He said, "There is a strong link between introducing competition in the economy and economic development of the country," adding that it was vital that regional competition officials were genuinely free to implement free competition rules. Roland NASH, chief economist at Moscow's *Renaissance Capital* said, "I think this whole process of consolidation is Russia's latest lurch towards capitalism. The positive side of it [is that] instead of having Russian money just taken out of the country, it is now being invested in buying up Russian companies. The bad side is the danger that this economic power will be abused. Given Russia's brief history, I think it's a very real danger, but I would still say the benefits outweigh the costs."

EUROPEAN REPUBLICS

Ukraine CB Cuts Interest Rates

- Ukraine's Central Bank announced it will cut its main interest rate by two percentage points to 19 percent effective June 11th to reflect a gradual improvement in the economy. According to a bank statement, "Having analyzed the trends among macro-economic indicators and studied the situation on credit markets, the Central Bank has decided to cut the refinancing rate to 19 percent from 21 percent effective June 11th." The Central Bank has said it is prepared to adhere to a government plan to cut the refinancing rate to 18 percent by the end of this year if inflation keeps below 13.6 percent. Official figures show Ukraine's economy is recovering steadily from the 1998 Russian financial crisis. Monthly inflation dropped to 0.4 percent in May after 1.5 percent in April. Annual inflation is expected to fall to around 13 percent this year after more than 20 percent in 2000. The Central Bank last cut the

refinancing rate in early April, when it fell from 25 percent.

Debts To Gazprom

- Ukraine, Belarus, and Moldova owe *Gazprom* about \$3.5 billion with fines.
- Ukraine has failed to meet its payment obligations in an intergovernmental agreement.
- Belarus will restructure its small 1999 debt shortly.
- Moldova will pay \$500 million against its debts in the near future.

Alfa Bank Expands In Ukraine

- Senior Deputy Chief Executive Officer of *Alfa Bank* Yevgeny BERNSTAM said that bank will create a multifunctional bank in Ukraine on the basis of its subsidiary. He said that 20 branches of *Alfa Bank Ukraine* will open by the end of 2002. He noted that this decision is due to the fact that the bank owns a number of large blocks of assets in the Ukrainian industries. In particular, *Alfa Bank* owns an oil refinery, two energy utilities and a bank in Ukraine.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Arrests Separatist Fighters

- Georgian border guards have arrested a group of 13 men in the highland Mesti District in Western Georgia, who penetrated there from the Republic of Kabardino-Balkaria. Korneliy SALIYA, head of the National Border Guards, said they violated the border in a treacherous mountainous pass at the height of 3,200 meters. The depth of snow at this height is approximately 2 meters. He said that only well-trained fighters could make such a climb. They had gone nearly 2 kilometers before being stopped by Georgian forces. The fighters surrendered to authorities without any resistance. The fighters were armed with Kalashnikov machineguns. According to preliminary information, the gunmen intended to go to Chechnya from the Svaneti Region, across the highland areas of Georgia, to participate in combat operations with Chechen rebels. The Georgian border guards disarmed the gunmen and transported them to Tbilisi. They are being held for questioning at the State Security Ministry. Press secretary of the Russian Federal Border Guard Service Sergei IVANCHENKO praised the work of the Georgian

border guards in carrying out a quick and efficient operation to detain the border violators. "According to the information provided by our Georgian colleagues, they are Kabardins by nationality. Only two of them carried proper identification documents." Deputy Chair of the Russian State Duma Defense Committee Alexei ARBATOV declared that the borderline zone between Russia and Georgia is more secure than Western and Eastern borders of Chechnya, Prime News Agency reported. He said that information on massive penetration of Chechen gunmen to Georgia with military equipment and firearms does not correspond to the truth.

Socar Predicts \$9B investment For Azerbaijan

- President of *State Oil Company of Azerbaijan (Socar)* Natik ALIYEV predicts that Azerbaijan will attract at least \$9 billion in foreign oil and gas investments over the next three years. The investment will be aimed at completing four major projects to extract and transport Caspian oil and gas to world markets. He said, "Azerbaijan is on the threshold of a new oil boom and is beginning to step to a large-scale implementation of some major projects." An international oil consortium led by *BP* expects to ramp up production at the offshore Azeri-Chirag-Guneshli complex to 350,000 barrels per day by 2005 from current levels of 100,000-130,000 bpd. By that time the Baku-Ceyhan oil pipeline should be completed. Another *BP*-led consortium is near to completing a basic engineering study of a project to produce gas from the Caspian Shakh Deniz field and transport it to Turkey, which is facing a looming deficit in gas supplies. Azerbaijan has signed some \$50-billion worth of oil- and gas-related foreign contracts since 1994. But investments so far have totaled \$3.2 billion, ALIYEV said. Another senior official said Azerbaijan would realize the full extent of the investments over the next 30 years. "We will get \$45 billion from Azeri-Chirag-Guneshli project and \$7 billion from Shakh Deniz project implementation over 30 years," said Samir SHARIFOV, the head of the Azeri State Oil Fund.

Fire Destroys Ramstore In Baku

- Azerbaijan's Interior Ministry announced that the biggest foreign supermarket in Azerbaijan, Turkish-owned *Ramstore*, was completely destroyed in an overnight blaze. Head of the Interior Ministry fire security department Azad SAMEDOV said that the fire had caused millions of dollars in damage. "We don't yet know the reasons for the conflagration. It's strange that the anti-fire alarm system didn't work," SAMEDOV said. Experts were investigating the scene. The Azeri-Turkish insurance company *Anadolu*, which insured the *Ramstore*, is ready to pay out on a \$7 million insurance policy, the independent INS television company reported. The destroyed *Ramstore* was the biggest of six in the Azeri capital. The store, founded by the *Koc* conglomerate, opened in the mid 1990s. The *Koc* family also controls *Migros*, Turkey's leading supermarket chain, and owns *Arcelik* and *Beko*, regionally successful producers of white goods and other consumer durables, the *Financial Times* reported. There are eight stores in Moscow, with plans to build two more supermarkets.

Russia Pushes North-South Railway Lines

- Speaking at the Organization for Cooperation between Railways, an assembly of 27 European and Asian countries, Russian Railways Minister Nikolai AKSYONENKO said that railway line running north to south are best for international cooperation. He said that this topic would top his agenda during his visit in Baku, which includes a meeting with Azeri President Geidar ALIYEV. Azeri Railway Minister Ziya MAMEDOV said that discussions would focus on increasing freight turnover from Europe to South Asia and Persian Gulf states by transporting it through Russia, Azerbaijan and Iran. Currently, around one million tons of cargo goes in this direction every year but bypasses Azerbaijan. If lines ran through the country, southbound traffic would increase five or 15 times, bring in revenues of \$30 million per year for Azerbaijan, *Itar-Tass* reported.

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