

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Duma Passes Amendment To Tax Code

• The Russian State Duma, in a vote of 355 to 4 with no abstentions, today passed in its third, final, reading amendments to the Tax Code, which increased excise duty rates by 12 percent. The existing excise duty rates have remained the same only for jewelry and natural gas. The government has raised excise duty rates due to inflation. Excise rates will be increased 12 percent for all alcoholic drinks, while the initial bill envisaged their five-percent increase only for alcoholic beverages stronger than 25 volume percent. Producers of non-alcoholic beer will not have to pay excise duties at all. Excise rates will remain the same for jewelry (five percent), natural gas sold in Russia and former Soviet republics (15 percent), and natural gas exported to foreign countries (30 percent). Deputies rejected an amendment ensuring privileges for exports of the above-mentioned gas to Belarus.

Economy

Kasyanov On Russian Economy

• Russian Prime Minister Mikhail KASYANOV said today the country's balance of payments would be safe if the price for oil, its main export, was no lower than \$12 per barrel. "If we have an oil price of not lower than \$12 per barrel, I think we are OK with the balance of payments," KASYANOV told Reuters Television in an interview. He noted that Russia was seriously considering tapping international capital markets again from next year. "I can say that of course we are seriously considering such possibilities. I don't exclude that even next year Russia can re-access capital markets," KASYANOV told *Reuters Television* in an interview. He believes

international investors will once again find Russia attractive when parliament completes passage of key legislation. "I believe that our friends, investors will realize that Russia is on a permanent positive track. On that basis we would be seriously considering even next year to re-access capital markets," he said. Russian inflation this year will be below last year's figure of 20.2 percent, but slightly higher than the government's forecast of 14 percent. "The expectation was 14 percent, right now it is a little higher. Of course it will be lower than last year's result, but higher than we wanted to have, higher than 14 percent and lower than 20 percent," he said.

Ruble Gains Strength Following Intervention

• The Russian ruble ended several days of losses today, firming against the dollar on strong support from the Central Bank, Reuters reported. The ruble's weighted average for today's settlement rose to 29.2035 per dollar in a unified session of eight exchanges from 29.2336 per dollar on Tuesday. Based as usual on the results of the unified session, the Central Bank hiked its official next-day rate to 29.20 per dollar after 29.23 rubles per dollar on Tuesday. Dealers said the Central Bank had sold about \$100 million on the interbank market and \$50 million in the morning trading session at 29.25-29.21 rubles per dollar. "It was conscious behavior by the Central Bank in carrying out its monetary policy. We have not seen such active interference with the market for a long time. There are no other factors for the dollar

fall," said *Metallinvest* bank dealer Sergei ROMANCHUK. Banks are awash with rubles and their balances at the Central Bank, an indicator of liquidity, rose to 81.47 billion rubles today from 77.31 billion rubles Tuesday. Overnight ruble credit rates were also relatively low at four to seven percent. *Moscow Narodny Bank* dealer Vasily USHAKOV said the Central Bank seemed to have wanted to push the ruble up to buy hard currency earnings directly from exporters at a cheaper rate. "It (the Central Bank) acted quite unexpectedly. No one was expecting it to do so," he said.

Russia To Lobby US Over WTO Entry

- Russia intends to lobby senior US officials later this month, seeking their support for accession to the World Trade Organization (WTO). Russia is trying to secure support of the world's richest countries after the protracted talks stalled last week over additional requirements put forward by the WTO, Reuters reported. The WTO has demanded that Russia pass legislation in line with the organization's standards before talks could proceed further. A Russian source at the Rome meeting of Group of Seven (G7) nations said US Treasury Secretary Paul O'NEILL, Commerce Secretary Don EVANS and National Security Adviser Condoleezza RICE are expected to visit Russia at the end of July. Moscow plans to put the WTO accession issue high on the agenda. Russian Finance Minister and Deputy Prime Minister Alexei KUDRIN discussed the WTO with O'NEILL on Saturday. "O'Neill has supported Russia's drive to join the WTO as soon as possible," the source said. KUDRIN also said on Friday that Italian officials supported Russia's request for a transitional period needed to adjust legislation to the international standards. Russia put a bid to become part of the WTO in 1993 and hoped for quick accession. President Vladimir PUTIN said in an April that joining the WTO was a top priority for his administration, and set the end of 2001 as the deadline for joining the club.

<p>Ruble = 29.23/\$1.00 (NY rate) Ruble = 29.21/\$1.00 (CB rate) Ruble = 25.17/1 euro (CB rate)</p>
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Business

Changes To UES Restructuring Plans?

- Leading foreign financial institutions and

investors, in a letter to Russian Prime Minister Mikhail KASYANOV, tried to influence plans for the restructuring of *United Energy System (UES)*. Investors called for further safeguards to ensure minority shareholders would receive fair stakes in each of the regional subsidiaries of *UES*. Peter AVEN, of *Alfa Group*, warned that Russian business leaders were considering a legal case against the government, if the plan was not altered to protect minority shareholders' rights, the *Financial Times* reported. In addition, the Russian Union of Industrialists and Entrepreneurs called for changes to the restructuring plans. Chairman of the commission on restructuring electricity Viktor KRESS and Presidential Advisor on Economy Andrei ILLARIONOV have supported these concerns.

RusAl To Keep Output Steady, Receives Loan

- *Russian Aluminum (RusAl)* plans to keep its output steady in 2001 at around 2.45 million tons, the company's deputy chief executive officer, Alexander LIVSHITS, said today. He said the company would raise more debt this year with issues in rubles and on foreign markets, adding to borrowings of a total \$300 million since December last year. The company expects revenues this year to reach \$4.5 billion. "The revenues will be slightly higher than last year as we plan a 14 percent increase in alumina production and a 30 percent increase in aluminum products output," he told Reuters. *RusAl* produced 1.98 million tons of alumina, the raw material for aluminum smelting, and around 250,000 of rolled aluminum, foil and other products last year. LIVSHITS, former deputy prime minister and finance minister, was nominated to his post at *RusAl* last week. He is responsible for the company's international projects. LIVSHITS said the firm was implementing a five-year development plan, started this year. It needs around \$500 million in investments, \$150 million of which are planned for 2001. *RusAl* last week signed a loan of \$125 million from a consortium of Western banks to purchase raw materials and other inputs for aluminum production. The banks included *Societe General*, as agent, and *ING Bank*, *Natexis Banques Populaires*, *Standard Bank London Ltd*, and *Moscow Narodny Bank Ltd*, a London-based subsidiary of Russia's Central Bank. "This brings the volume of loans secured by the company under trade financing to over \$300 million. But this is not the limit for us this year," he pointed out said. He

said *RusAl* planned to issue bonds initially in Russia, then internationally, but declined to give details. *RusAl*, owned by the *Sibirsky Aluminum* group and shareholders in the *Sibneft* oil company, groups Russia's major smelters, Bratsk, Krasnoyarsk and Sayansk. It also controls Novokuznetsk smelter. The group also owns alumina plants, Achinsk in Russia and Mykolayivsky in Ukraine, as well as several processing plants.

EUROPEAN REPUBLICS

Slavneft To Begin Merger Talks

- *Slavneft* oil company will start negotiations on merging two Belarus oil and chemical companies after the presidential election in Belarus, *Slavneft* vice president Andrei SHTORKH reported in an interview with RBC. He noted that they had already conducted preliminary negotiations, which were postponed later in view of the upcoming election. SHTORKH stressed that *Slavneft* is interested in the development of the oil and chemical industry of Belarus. In its turn, the Belarus Property Ministry is interested in collaboration with *Slavneft*. SHTORKH noted that there is enough oil deposits for all Russian companies that want to work in Belarus and *Slavneft* is not afraid of any serious competition with other Russian companies, in particular, *Sibur*.

Rus-Ukrainian Power Talks Deadlocked

- The Russian-Ukrainian talks over parallel operation of their power grids deadlocked, after Kiev said it was not ready to discuss the lifting of restrictions on Russian electricity supplies and commercial terms of their transit through Ukraine to third countries, an official told Itar-Tass on Tuesday. The necessity to resolve these issues was stipulated during the recent Russian-Ukrainian negotiations in Moscow at the level of deputy prime ministers, said Yuri SHAROV, head of the exports department of the Russian *Unified Energy Systems (UES)*, who led the Russian delegation at the latest talks in Kiev last week. The restoration of parallel operation of the Russian and Ukrainian energy systems depends on guaranteed payments for Russian electricity supplies to Ukraine, and coordination of commercial terms of their transit via Ukraine to third countries, the *UES* official said.

Russia Grants Ukraine Humanitarian Aid

- Russian Prime Minister Mikhail KASYANOV signed an order about granting humanitarian aid to Ukrainian regions that suffered from natural calamities in November to December, 2000 and in March, 2001. The Finance Ministry was entrusted to allocated about 19.1 million rubles (\$654,000) to the Emergencies Ministry for purchasing and delivering humanitarian aid to Ukraine. Part of these assets will be allocated from the government reserve fund and the other part, about \$39,200 will be allocated from the federal budget as it is stipulated in the item on international activities aimed at economic and humanitarian aid to other countries.

Ukraine's Industrial Output Grows

- Ukraine's industrial output rose by 18.5 percent in the first six months of the year from the same period a year ago, the government press service reported. The government said in a statement that growth was fuelled by a 23.3 percent rise in the processing industry and by a 22 percent growth in the food sector. Official figures show Ukraine's economy is recovering after almost a decade of recession. In the first six months of last year, industrial output grew by 11 percent from a year earlier, albeit from a small base. The government expects industrial production to grow by 10.7 percent this year after a 12.9 percent rise in 2000.

SOUTH CAUCASUS & CENTRAL ASIA

Red Cross Warns Of Georgian Health Crisis

- The International Committee of the Red Cross (ICRC) is urgently appealing for funds to provide food and medicine to Georgia to fight a public health crisis. The humanitarian agency said Georgia was battling a tuberculosis epidemic as well as separatism in the breakaway regions of Abkhazia and South Ossetia. In a letter appealing to donors for aid, it said, "The specter of a major public health catastrophe looms as water and sewage systems are nearing breakdown, especially in urban areas. Given the reduction in foreign investment and Russia's increasing pressure on Georgia to abandon its pro-Western orientation, notably in relation to the Caspian oil transit, the country may well sink even deeper into the present quagmire before...reversing the trend of instability." According to ICRC spokesman Vincent LUSSER, donors have contributed only 10 percent of the 26.9 million Swiss francs

(\$15.09 million) sought this year by the ICRC for the three southern Caucasus republics, Georgia, Armenia, and Azerbaijan. Georgia was to receive the lion's share, 15.3 million Swiss francs, under the appeal launched last December. Mary WERNTZ, who spent two years as ICRC's deputy chief of delegation in Georgia, said, "There are still urgent humanitarian needs. There is an ongoing energy crisis affecting everyone. Elderly people can't heat their homes or cook." The ICRC provides food and clothing to 22,000 people in Georgia's breakaway Abkhazia region.

Rus-Chechen Talks To Be Held In Tbilisi?

- General representative of Chechnya in Georgia, Khizri ALDAMOV, believes negotiations between Moscow and Chechen President Aslan MASKHADOV for ending the Chechen conflict are inevitable. He believes the talks should be held in Tbilisi. He told Prime News Agency, "The recent dismissal from post of the first deputy had of Russian General Staff Valery MANILOV, one of the main military ideologists of Russia confirms that the Kremlin is finally understanding that the information received from Chechnya is wrong." ALDAMOV has said that Tbilisi is the best location for the talks both geographically and politically.

GWS To Double Exports To Japan

- The *Georgian Wines and Spirits (GWS)* producer plans to double its export to Japan within a few months, a company spokesman told journalists on Saturday. The GWS has sold more than 35,000 bottles of red Georgian wine over the past few years, which are expensive in Tokyo's bars and restaurants. The company's products were promoted at an exhibition held in the Japanese capital in late June to attract investment into the Southern Caucasus. GWS Commercial Director Aleksii CHIKOVANI said that within two months an official from the *Mitsubishi Trade House* will visit Baku and select the assortment of wines to be traded in Japan. He added, "For the last several years GWS has been cooperating with the *Rokadaya*

company - distributor of the Georgian company's produce in Japan," the Black Sea Press reported. CHIKOVANI noted, "The Japanese market is one of the world's most complicated and it is going to take plenty of time before we master it."

The Caspian Great Game Gets Hot

- Competition for Caspian export routes of oil and gas is expected to heat up in August, when the first oil from the 1,500-kilometer Tengiz-Novorossiisk route begins flowing. The *Caspian Pipeline Consortium (CPC)* line is the first major new pipe built to export oil from a region with estimated hydrocarbon reserves of up to 250 billion barrels. The pipeline will have an initial capacity of 560,000 barrels per day (bpd), rising to 1.35 million barrels a day. Participating in the CPC project are *Chevron*, the Russian, Kazakh and Oman governments, *LUKoil*, *Rosneft-Shell Caspian Ventures*, *Mobil*, *Agip*, *BG Kazakhstan Pipeline Ventures* and *Oryx*.

Kazakh oil is currently being exported through the Atyrau-Samara pipeline. It goes from the Tengiz field to Samara in Russia and then to the Druzhba pipeline system, with a capacity of around 200,000 bpd. Alternative export routes are headed towards construction.

The US backed, Baku-Tbilisi-Ceyhan 1,700 kilometer route, is expected to cost \$2.8 billion to \$2.9 billion. *BP* leads the sponsor group, which plans to build the one million bpd capacity pipeline by 2005. The pipeline study has now entered its second phase. Another *BP*-led consortium plans to build a link to feed gas from Azerbaijan's 15 trillion cubic feet Shakh Deniz gas field into Turkey. *TotalFinaElf* is supporting a study of a pipeline from Kashagan across the Caspian to the Iranian border. A further pipeline could then be built to pipe Kazakh crude across Iran to Tehran's Gulf Export Terminals, Reuters reported.

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