

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

Daily intelligence briefing on the
former Soviet Union

Thursday, July 12, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Rus-China Head For Turning Point Summit

• Russian and Chinese officials are gearing up for this weekend summit between Russian President Vladimir PUTIN and Chinese President JIANG Zemin. The highlight of the summit will be the signing of the Friendship and Cooperation Treaty. JIANG said the new treaty will proclaim Russia and China as, "good neighbors, good partners, and true friends for all time." PUTIN called it, "the treaty of the new century." Following talks in April, PUTIN pointed out that, "Russia and China have practically no irritants in their relationship." This is a far cry from the constant border demarcation debates, which in 1969 almost resulted in war. In 1997, Russia's Defense Minister Igor SERGEYEV referred to China publicly as one of his country's, "main potential enemies." Russia and China have since joined forces on several issues in the security and foreign policy fields. They both oppose the US plan for a national missile defense system and support efforts to strengthen the UN as a counter weight to US influence, the Financial Times reported.

At a Center for Strategic and International Studies (CSIS) seminar on Wednesday, Zbigniew BRZEZINSKI, US National Security Advisor under President Jimmy CARTER and CSIS trustee, said that the agreement will be seen as a major turning point in Russian-Chinese relations, whereby Russia is turning toward the East and China's influence is expanding. The agreement, he pointed out, is also legitimatising China as a key world player. He believes that in time Russia will view the agreement as an accommodation that was not favorable to Russia. He further pointed out that the possibility of a duopoly in Central Asia is unlikely to occur because it is, "inherently unstable." RFE/RL Director

of Communications Paul GOBLE noted that Russia and China both see the agreement as achieving their own goals. Russia hopes the agreement will boost economic relations, while China seeks greater political respect. Trade between Russia and China in 2000 was a mere \$8 billion, a tenth of China's trade with the US. The two governments had agreed in principle that China would buy oil and gas from Russian fields in Siberia. But the necessary pipelines have not been built, the newspaper reported. Russia further would like China to order new Tupolev Tu-204 and Tu-214 models, during the visit. China also represents a quarter of Russian foreign arms sales, about \$1 billion. Russian commercial businesses also want access to China's market, but Russian products are inferior to Chinese goods and the Chinese prefer Western goods.

Despite PUTIN's statement on bilateral relations, Russia has concerns over its large neighbor. Russia specifically noted the immigration of Chinese into the Russian Far East. Last year in Siberia, PUTIN warned, "If we do not make a real effort, even the indigenous population will soon speak mostly Japanese, Chinese, and Korean."

Economy

Russia Posts First Half Surplus

• The Russian Finance Ministry on Monday said Russia posted a budget surplus of 1.5 percent of gross domestic product (GDP) in the first half of the year. The primary surplus, which excludes

debt servicing, amounted to 187.5 billion rubles (\$6.42 billion), or 4.6 percent of GDP, the ministry said. Russia's January-June revenues amounted to 712.8 billion rubles or 59.7 percent of the year target, while spending was 653.7 billion rubles, or 54.8 percent of the target. For the month of June, Russia achieved a surplus of 0.6 percent of GDP with revenues of 127.5 billion rubles and spending of 122.7 billion rubles. Analysts have pointed to a good fiscal performance by Russia as one of the signs of a return of economic stability to a country, which has been wracked by financial convulsions since the collapse of the Soviet Union. President Vladimir PUTIN has cut tax rates, but his officials say this means more people will be encouraged to come into the tax net. They have also insisted Russia will have enough money to repay its huge foreign debts. The 2002 budget has been drawn up with a surplus of 1.26 percent of GDP.

<p>Ruble = 29.20/\$1.00 (NY rate) Ruble = 29.21/\$1.00 (CB rate) Ruble = 24.90/1 euro (CB rate)</p>

Business

Gazprom Hands Over Radio Stake To Nemts-ov

- *Gazprom Media* on Wednesday agreed to hand over a 9.5 percent stake in *Ekho Moskvyy* to former Russian deputy prime minister and leader of the Union of Right Forces (SPS) Boris NEMTSOV. The stake had been part of failed negotiations between *Gazprom Media* and the radio station's journalists. *Gazprom* said it made the offer to NEMTSOV to allay fears that it would acquire a majority, controlling stake of the radio station, following an earlier court decision granting *Gazprom* 52 percent of the shares, the *Financial Times* reported. Chief editor of *Ekho Moskvyy* Alexei VENEDIKTOV criticized *Gazprom's* decision, saying it risked leaving the radio station under partly state and partly political control. *Gazprom* says it wants *Ekho Moskvyy* to stay on air, but the station's staff has vowed to quit en masse if *Gazprom* keeps control. *Ekho Moskvyy's* General Director Yuri FEDUTINOV told Reuters that, "NEMTSOV has been sucked into a very dirty trick. I think NEMTSOV just doesn't understand corporate transactions. It's not his field. But it does not speak well that NEMTSOV did not seek advice from the employees of *Ekho Moskvyy* who appealed

to him for help." NEMTSOV said he hoped to save the nation's last independent media outlet, which was once part of the *Media Most* empire.

Gazprom Reforms To Split Functions

- Russian Prime Minister Mikhail KASYANOV said on Wednesday that one of the targets while restructuring gas monopoly *Gazprom* would be to split the company's gas production and transportation arms. "Once we have full information and just like for other monopolies, we plan to divide the transportation from production to make it more transparent and effective," KASYANOV told Reuters television. He also said the government would liberalize access to gas pipelines for other gas producers. He added, "The target is to make [*Gazprom*] more transparent and effective, and to create proper access to any producer of associated to the gas transportation system." *Vedomosti* quoted the plan as saying the gas transport unit would be spun off into a separate, fully-state owned firm, which would own pipelines and dispatcher units. The state owns 38.37 percent of *Gazprom*, foreign investors hold around 11 percent, and individual investors have nearly 20 percent, while Russian companies have 31.5 percent. The Trade and Economic Ministry plans to introduce unified tariffs for gas transportation inside and outside the country. Currently, domestic gas transportation and gas prices are much lower than in most developed countries. The government also plans to hike internal gas prices.

Alrosa To Tap International Bond Markets

- Russian diamond producer *Alrosa* will raise \$600 million in capital from external sources in order to finance its \$2.6 billion capital spending plans over 2001 to 2005, company President Vyacheslav SHTYROV said. He said, "We will have to borrow about \$600 million. This year the company is preparing for the (Eurobond) issue and it will most likely be in the beginning of next year." The company said the first offering would be a \$300 million offering up to five years and priced at 75 basis points over Russian debt. It could be either in euros or dollars. It expects that net sales will rise from \$1.55 billion in 2000 to \$1.7 billion in 2001 and \$2.05 billion in 2005 aided by an increase in diamond sales, steadily rising prices and an increase in margins. *Alrosa's* recent expansion into Africa with the purchase of a stake in a diamond mining venture called *Catoca* has brought it into the controversial issue of conflict

diamonds. With plans to expand investment there, SHYTROV said. *Alrosa* had been involved in talks on halting the spread of conflict diamonds, stones which are used to fund wars mainly in Africa.

Aeroflot Announces 2000 Profits

- Russian airlines *Aeroflot* on Tuesday released a report according to International Accounting Standards, calculating the company's net profit for 2000 at \$8.6 million. The profit, on turnover of \$1.4 billion, contrasted with losses of \$59.6 million in 1999 on turnover of \$1.2 billion. *Aton* brokerage transport analyst Yelena SAKHANOVA said the numbers were better than expected, although she noted *Aeroflot* had shown a profit based on an accounting adjustment. "It is important to note they are not making a loss for passenger and cargo transport as they were before...They have shown a profit by writing off reserves that in the past had been put aside to pay off debts. But it bodes well for the company and the steps it has taken to improve its financial position. Most analysts, including myself, had expected the company to be only at the break-even point," SAKHANOVA said. *Aeroflot* noted its rising expenses were primarily due to higher oil prices. Its fuel and lubricants costs jumped to \$335 million from \$200 million. The company added it expected financial result to continue to improve in 2001. *Aeroflot* reported passenger numbers in the first half of 2001 up 21.8 percent year-on-year at 2.7 million. The airline also said cargo volume was 49,100 tons, but did not give a comparative figure.

EUROPEAN REPUBLICS

Slavneft Makes Oil Find In Siberia

- *Slavneft*, controlled by the Russian and Belarus governments, announced on Wednesday that it made a new oil find in eastern Siberian field of Kuyumbinsky, with an estimated recovery of 365 million tons (2.5 billion barrels). *Slavneft* Vice President Andrei SHTORKH told a news conference, "This well [#217] indicates that Eastern Siberia could be one of the areas which holds the future of the Russian oil industry." The field, comparable in size to the largest UK North Sea fields, is located in Siberia's Krasnoyarsk region, bordering China. Officials noted that China would be the ideal export destination when crude production ultimately starts.

Slavneft said it was now in talks with Russian and foreign companies to create a consortium to develop the field and build export infrastructure. *Yukos* has already expressed interest in becoming a partner. SHTORKH said, "We estimate that about \$1.5 billion in investments will be required to develop this field." *Slavneft* said the site was distant from any pipeline routes and at least \$500 million would be needed to connect it to existing infrastructure. Officials said they also planned to develop the field's gas reserves, estimated at close to 200 billion cubic meters. *Slavneft* also holds licenses to explore several other fields in Eastern Siberia and said preliminary studies showed that the region contained about 1.5 billion tons of oil, a trillion cubic meters of gas and up to 70 million tons of condensate. *Slavneft*, currently a moderately-sized company, should see output skyrocket once output starts at Kuyumbinsky. Last year, it produced 12 million tons of oil but is involved in several projects including in the northern Yamal-Nenets province where it estimates total reserves at 150 million tons of oil, Reuters reported.

Russia Warns Ukraine Against Neutrality

- Russian Ambassador to Ukraine Viktor CHERNOMYRDIN warned Ukraine against a policy of neutrality. He expressed his displeasure at any Ukrainian attempts to distance itself from Russia's influence. He said, "The neutral status of a state such as Ukraine can clearly undermine its strategic interests." CHERNOMYRDIN's comments follow a visit last week of NATO Secretary General Lord ROBERTSON, who held several closed-door meetings with Ukraine's top officials. Furthermore, Ukraine this week is hosting NATO exercises involving 13 countries under the Partnership for Peace program. Ukraine has more and more become torn between the West and Russia for geopolitical competition in Eastern Europe. The *Financial Times* noted that the Kremlin unofficially considers Ukraine to be within its self-declared, "sphere of influence" and thus off-limits to rival military alliances.

SOUTH CAUCASUS & CENTRAL ASIA

Georgian Unemployment Figures For June

- According to a Georgia Employment Service report, as of June 1st there were 127,000 Georgian looking for work. Of that figure, 95.9 percent of them are unemployed. According to the State Statistics

Office, this figure is 15.6 percent higher than the same time period in 2000 and 1.3 percent higher than in May, 2001. Of Georgians under 30 years old, 22.9 percent are unemployed. Of Georgians who are over 50 years old, 22.9 percent are unemployed. Of the registered unemployed population, 29.3 percent hold university degrees; 26.7 percent hold professional technical education degrees; and 39.8 hold high school degrees. The number of jobs has declined by 33 percent since the same period last year. In the first five months of this year, 3,320 people found jobs, but 15.8 percent of them received only temporary jobs.

BP Turns Pipeline Into Commercial Venture

- *British Petroleum (BP)* has outlined plans to build an oil pipeline from Azerbaijan to Turkey, turning the pipeline political diplomacy into a commercial venture to unlock the Caspian energy resources. One oil analyst told Reuters, “BP had enough of being bullied by US diplomats and decided to move from being a pawn to being a player. This is not a diplomacy pipeline any more, it is a commercial venture and BP is dictating the terms.” First, the pipeline’s capacity will be matched with output at the Azeri-Chirag-Guneshli (ACG) fields—a world-class complex under development by the BP-led consortium *Azerbaijan International Operating Company (AIOC)*. Production is set to rise to almost 500,000 barrels per day (bpd) by 2005 and 1 million bpd by 2008. The plan is geared towards production at its own fields off the Azeri coast, including a phased build-up for the pipeline synchronized with production from the field. The pipeline sponsor group has offered a fixed rate of return to investors who will also enjoy a preferential tariff for oil they ship through the line. This is an unusual commercial arrangement for major oil pipelines, which more commonly operate under a fixed tariff and a fluctuating rate of return. Wref DIGINGS, *BP* Vice President for Oil Export Development in Azerbaijan, told Reuters that the tariff plan is designed to fit the circumstances of the project and the region. He added, “Somebody had to make a move to get this

moving and that’s what we negotiated.” Analysts say the initiative has effectively shifted risk from the pipeline to the upstream and has made the \$2.8 billion to \$2.9 billion line viable on the basis of *AIOC*’s volumes alone.

Helsinki Commission Denounces Uzbek Death

- The US Helsinki Commission Co-Chairman Representative Christopher H. SMITH (NJ-Rep.) Wednesday condemned the death-in-detention of former Uzbek parliamentarian Shovriq RUSIMORODOV, an activist with the Human Rights Society of Uzbekistan. RUSIMORODOV was elected to the Uzbek parliament in 1990. After joining the Birlilik (Unity) party, he was arrested three times for his opposition activities (1991, 1998, and 2001). SMITH explained, “The death of Shovriq RUSIMORODOV was a preventable tragedy that shames the Uzbek Government. On June 15th, Uzbek authorities arrested RUSIMORODOV—again—in violation of due process and the rule of law. He was held incommunicado until his death, cut off from lawyers, independent medical assistance, and his family. Less than a month later, on July 7th, his body was delivered to his grieving family.” He noted that the death in prison illustrates that concerns are valid for those who are being imprisoned or tortured in Uzbekistan. SMITH has introduced a resolution at the OSCE’s Parliamentary Assembly called for the complete ban of incommunicado detention. “Incommunicado detention is the hand-maiden of torturers everywhere, helping them to engage in their nefarious practices by stealth. It must be stopped.” Uzbekistan adopted the OSCE Charter in 1999, which states, “We are committed to eradicating torture and cruel, inhumane or degrading treatment or punishment throughout the OSCE area. To this end, we will promote legislation to provide procedural and substantive safeguards and remedies to combat these practices. We will assist victims and co-operate with relevant international organizations and non-governmental organizations, as appropriate.”

Paul M. Joyal, *President, Editor in Chief*
Clifton F. von Kann, *Publisher*
Oleg D. Kalugin, *Content Advisor*
Jennifer M. Rhodes, *Principal Editor*
Tatyana Kotova, *Contributing Editor*

Daily Report on Russia is for the exclusive use of the subscriber only. Reproduction and/or distribution is not permitted without the expressed written consent of Intercon. *Daily Report on Russia* © copyright 2001, Intercon International, USA.

Daily Report on Russia is published Monday-Friday (excluding holidays), by Intercon International, USA. Subscription price for Washington, D.C. Metro area: \$950.00 per year. A discount is available for non-profit institutions.