

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

New US Ambassador Hopes For Cooperation

- New US Ambassador to Russia Alexander VERSHBOW hopes to increase the collaboration between Russia and the US in all spheres. The US Embassy in Moscow released this announcement today. He highly appraised activities of his predecessor James COLLINS and declared his intention to stimulate trade and investment relations between the two countries. In addition, VERSHBOW expressed his belief that his experience as the former US representative in NATO will help him to expand partnership between Moscow and the Alliance in the security sphere. There is much more in common between usp I will do my best to work for the sake of our countries, the US official declared.

FSB Foils Justice Min. Assassination Attempt

- Russian Federal Security Service (FSB) foiled an assassination bid against Justice Minister Yuri CHAIKA in war-torn Chechnya last week, his deputy Yuri KALININ said today, Interfax news agency reported. Russian forces arrested a group of armed rebels who had 20 kilograms (44 pounds) of explosives they planned to detonate along the route of CHAIKA's convoy in the village of Znamenskoye, northwest Chechnya, the deputy minister said. The attempt to kill the Justice Minister, "proves that the separatist chiefs and terrorists do not like the ministry of justice's work to reestablish law and order in Chechnya," said KALININ.

Moscow City Official Murdered

- Moscow police have launched an investigation into the murder of Leonid OBLONSKY, a Moscow City official, who was shot dead in front of his home this morning. OBLONSKY had been an official in

the northern city district of Zelyonograd where he oversaw private business activities including wholesale trading and catering. Murders and kidnappings have become common in Moscow. Last December, Moscow's deputy mayor was gunned down and seriously injured in a hail of bullets. Mayor Yuri LUZHKOVA blamed criminal gangs taking revenge on city hall for decisions it had made against their interests. Last week a foreign ministry official in charge of securing safe telephone communication lines was found murdered in his apartment in central Moscow, Agence France Presse reported. Last month, one man was killed and another injured in a central Moscow automatic weapon attack bearing the hallmarks of a contract killing, police said.

Economy

Russian Oil Exports Rise, Gas Exports Fall

- Russia's oil exports have grown 8.8 percent in January to May of this year, to 62.4 million metric tons, Prime-Tass reported, citing the State Statistics Committee. Revenue from export of crude oil was 106 percent of what it had been in the first five months of 2000. An average contract price of Russian-produced oil decreased in January to May as compared to last year's figure from \$165.2 a ton to \$160.9. During that period, Russia exported 54 million metric tons of oil abroad and about 8 million tons to Commonwealth of Independent States (CIS), with crude accounting for 24.1 percent of Russia's total oil exports in January-May. Exports of oil products have also increased in the five months to

26.5 million tons, or 1.5 percent above the same period last year.

Meanwhile, Russian exports of natural gas fell 14.2 percent to 80.1 billion cubic meters worth \$8.2 billion on world markets between January and May, fetching 15.1 percent less revenue than the same period last year, Prime-Tass reported, quoting figures from the State Statistics Committees. Analysts said the average gas contract price had risen from \$76.6 to \$102.7 per thousand cubic meters over the 12 months. Gas exports to foreign countries dropped by three percent, and to former Soviet republics of the "near abroad" by 32.4 percent against the first five months of last year. In January to May 2001, gas exports represented 19.7 percent of total Russian exports.

<p>Ruble = 29.27/\$1.00 (NY rate) Ruble = 29.28/\$1.00 (CB rate) Ruble = 25.60/1 euro (CB rate)</p>

Russian Capital Drain Totals \$11B In 2000

- The capital drain from Russia was over \$11 billion last year, a spokesman for the presidential information department told Itar-Tass on Thursday. Citing information of the Interior Ministry, he said that up to 80 percent of capital went to the US. "At the same time the volume of foreign investment in the Russian economy was \$7.888 billion, which is 30 percent less than the official amount of money moved from the country," the spokesman said. According to the Interior Ministry's experts, significant investments come to Russia from offshore zones. Some 11 percent of investment in industry and 68.8 percent in business was from Cyprus, 48.6 percent of money invested in the non-ferrous industry came from the Antilles, and 23.2 percent of investment in trade and the catering sector came from Gibraltar. "The continuing growth of foreign investment in Russia's economy warrants adequate laws for protecting the rights of investors, owners and the country's economy as a whole from such encroachments of organized crime as money laundering," the spokesman said.

Business

Norilsk Board Reshuffles Management

- The board of *Mining and Metals Company (MMC)* *Norilsk Nickel*, the core production unit of Russia's

metals giant *Norilsk Nickel*, today announced the appointment of Mikhail PROKHOROV as its new director general. PROKHOROV is a former president of *Rosbank*, which is part of the powerful *Interros* financial and industrial group that incorporates *Norilsk*, *Sidanko* oil company, and a number of machine building plants. According to a company statement, "[The decision was taken] on the basis of a long-term development strategy aimed at internationalization of the company." *Norilsk* is undergoing a complicated restructuring under which its shares will be swapped for shares in *MMC* by the end of 2001. After the swap is completed, *MMC* shares will become the only traded stock and the original *Norilsk* shares will be delisted. Dzhonson KHAGAZHEYEV, former *MMC* director general, became PROKHOROV's first deputy responsible for managing all the company's industrial assets in Russia. Dmitry ZELENIN, former first deputy chief executive officer, will take the post of deputy chief executive officer responsible for financial and economic issues. "The company currently has strong positions on the non-ferrous and precious metals markets both in Russia and in the world. *MMC* is currently ready for active work aimed at... transforming the company into a major international corporation representing the interests of Russia's business on the world market," Reuters reported. The *MMC* board charged PROKHOROV with forming a new management committee of the company. *Norilsk* is the world's largest producer of nickel and palladium, a platinum group metal mostly used by the motor industry to clean exhaust fumes.

Aeroflot Has Record Breaking Weekend

- Russian airline, *Aeroflot*, set a record in the transportation of passengers last weekend. A total of 26,175 passengers were transported on July 21st and 25,350 on July 22nd, according to the company's press service. Among the most popular flights were Moscow-Antalya (313 passengers on board) and Moscow-Khurgada (342 passengers on board). The aircrafts were filled to 85 percent capacity.

EUROPEAN REPUBLICS

New Charges Brought Against Lazarenko

- Former Ukraine Prime Minister Pavlo LAZARENKO, charged with embezzlement in Ukraine, money laundering in Switzerland and conspiracy in the

US, has been hit with new US charges on Monday after a federal grand jury added wire fraud to the indictments against him. The US Attorney's Office for the Northern District of California said the grand jury had added the wire fraud charge to a 53-count indictment against LAZARENKO, who was previously accused of conspiracy, money laundering and receipt of stolen goods. LAZARENKO is being held in federal prison outside San Francisco on charges of laundering some \$114 million he allegedly stole while in elected office in Ukraine in the 1990s. He has pleaded not guilty to the US charges, Reuters reported. Last year, a Swiss court convicted LAZARENKO in absentia of money-laundering, giving him an 18-month suspended sentence and confiscating nearly \$6.6 million from his Swiss bank accounts. A US judge has denied his request for bail, calling him a flight risk. LAZARENKO, who was Ukrainian prime minister from June 1996 to June 1997, was arrested in Switzerland in December, 1998 as he entered the country near Basel on a Panamanian passport. In February, 1999, he was detained in the US for visa irregularities, which led to a wider investigation. Ukraine has charged LAZARENKO with misappropriating state property. Authorities in Ukraine say LAZARENKO profited by buying and selling natural gas contracts when he was Ukraine's energy minister and bilked millions of dollars from state programs while he was prime minister. LAZARENKO has asked for political asylum in the US, stating that he is a victim of a vendetta by his political enemies.

Rice Prepares To Meet Kuchma

- US National Security Adviser Condoleezza RICE will meet Ukrainian President Leonid KUCHMA, Prime Minister Anatoly KINAKH, and other top officials on Wednesday to discuss bilateral issues, the expansion of NATO, and human rights and free press concerns. In the last five years, 11 reporters have been killed in Ukraine. The US and much of the West have been closely monitoring Ukraine's diplomatic temperament. Many analysts believe that Ukraine is drifting closer to Moscow's embrace. Ukraine is treading a delicate line, keen to nurture contacts with the West and the European Union, but also wary of riling its giant neighbor, Russia, Reuters reported. The appointment earlier this year of former Russian Prime Minister Viktor CHERNOMYRDIN as Russia's Ambassador to Ukraine is a

key indication as to Moscow's interest in Ukraine and its energy situation. CHERNOMYRDIN once served as head of Gazprom, to which Ukraine owes a sizeable debt. Following his new appointment, NATO Secretary George ROBERTSON flew to Kiev, pledging NATO's support but also reassuring Moscow it did not want to create new divisions in Europe. Ukraine is a member of NATO's Partnership for Peace program. ROBERTSON said after meetings with KUCHMA he was convinced Ukraine would press ahead with democratic and economic reform. RICE is scheduled to hold talks with top Russian officials on Thursday in Moscow where Washington's controversial plans for a national missile defense shield are likely to dominate the agenda.

Rus-Ukraine Break Agreement With EADC

- The consortium Medium Transport Plane (STS), which is in charge of manufacture and marketing of the Russian-Ukrainian military transport plane, An-70, has said that Russia and Ukraine will not assist the *European Aerospace Defense Company (EADC)* in its efforts to create the West European A400M plane, despite a signed cooperation agreement. It said the agreement was made without proper consultations with STS. STS general director Leonid TERYTYEV told Itar-Tass that the participation of Russian and Ukrainian aircraft makers on the A400M project would be detrimental to the An-70 project and would strengthen the position of a competitor. The STS board of directors and an intersectional working group on the An-70 project has formulated its stance on the issue. It added that Russia and Ukraine remained proponents of making a military transport plane jointly with Western Europe, provided that it was a synthesis of the best technical solutions of both the An-70 and the A400M. Only the joint format could ensure the full and equal cooperation of Western and Eastern European aircraft industries, STS said. STS said it would not facilitate the development of the A400M, bound to compete with the An-70 on the world market.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Among The Poorest Nations?

- Georgia's name on the list of the poorest nations will worsen the investment climate, spread "the impunity syndrome," and ruin the country's image

on the international arena, believes a prominent Georgian economist. Vladimir PAPAVAL from the Fund of Strategic and International Studies stated that even restructuring of a \$52 billion external debt of the poorest nations, discussed at the Group of Eight (G-8) summit in Genoa, will not benefit Georgia. According to PAPAVAL, only 30 percent (\$2.4 billion) of the Georgian debt could be restructured under the discussed terms. Only a debt to the Group of Seven (G-7) is a subject to restructuring. Georgia's debt to Russia and Turkmenistan, in the amount of \$157 million and \$337 million respectively, will have to be paid off. Moreover, joining the poorest nations "club," PAPAVAL states, the Georgian government will confirm its inability to service its foreign debt and manage the country. Georgian President Eduard SHEVARDNADZE in his Monday address to the nation said Georgia's desperate situation had a silver lining because it will lead to restructuring Georgia's foreign debt. According to the Prime News Agency, the President does not see any logic in the negative attitude of some politicians to the issue.

US Donates Vessel To Georgia

- By the end of this year, Georgian border guards will receive a 82-foot vessel from the US, the State Border Guard Service of Georgia announced. Georgia was awarded with the vessel during Georgian' Border Guard Chief Colonel General Valeri CHKHEIDZE's visit to Washington last week. CHKHEIDZE and officials made the decision during his US visit to create in Georgia an operative-information center for the border guard forces called Iori, Prime News Agency reported.

Iran Threatens Azeri Oil Ships In Caspian

- Azerbaijan's Prime Minister Artur RASIZADE has sent a letter of protest to the Iranian Ambassador of Azerbaijan today over Monday's incident when an Iranian gunship and a military aircraft threatened two Azeri oil exploration ships in the Azeri sector of the Caspian Sea. The letter noted that, "Iranian military aircraft flew over two Azeri

oil ships and after that an Iranian military ship approached one of the exploration ships and ordered it to retreat five miles to the north." The letter added that the Iranian ship's actions, "contradict the spirit of relationships between the two countries" and "might inflict damage to the Azerbaijani-Iranian relations." BP, which was operating the oil vessel, suspended exploration work in the area around its Araz-Alov-Sharg oil concession, which Iran calls Alborz. The incident followed a warning by Iran on Monday to oil companies about working in areas of the Caspian Sea, which it considers Iranian territory. Iran's official news agency IRNA said the oil ministry had warned foreign firms that contracts signed with other states in the Iranian sector were invalid, adding a senior official had asked Britain's envoy in Tehran to convey Iran's position to BP, Reuters reported. A BP spokeswoman said that the company is hoping for a positive resolution to the problem. The division of the Caspian between the five littoral states remains unresolved despite protracted talks. Iran has said the states should decide jointly on the Caspian's energy riches or has demanded a 20 percent share of resources.

Rus-Kazakh Sector Is Promising

- Russian Deputy Minister for Natural Resources Ivan GLUMOV estimated from the results of gas and oil prospecting studies that the Russia-Kazakhstan sector of the Caspian Sea has a hydrocarbon wealth of eight to ten billion tons. Geologists of both nations over the past three years have revealed more than 15 promising oil and gas structures and three oil and gas fields. At least three major deposits are expected to be uncovered by the end of 2002. He said these resources will allow full-capacity operation of Tengiz-Novorosiisk oil pipeline of the Caspian Pipeline Consortium. He said the southern Caspian basin until recently was seen as a main store of oil and gas, and this was an economic rationale for the Baku-Ceyhan pipeline. Reuters reported companies and investment funds were shifting their attention to the Russian-Kazakh part of the Caspian.

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