

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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Daily intelligence briefing on the
former Soviet Union

Wednesday, July 25, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Russia-India Complete Nuclear Deal

• Russia and India on Wednesday reach an agreement on the financing portion of a 13 year-old deal for Russia to build two nuclear power plants in the Indian state of Tamil Nadu, according to the Press Trust of India (PTI). India has agreed to pay Russia \$3 billion for the two plants, following two days of meetings in Bangalore. Chairman of the *Nuclear Power Corporation of India* V.K. CHATURVEDI said, "We have now reached an understanding on the cost." E. A. RESHETNIKOV, Russia's deputy minister for atomic energy, said, "The agreement will increase Indo-Russian cooperation in this field." Russia will be responsible for the design, supply of material and key equipment. Approximately, 90 percent of equipment for the power plants would come from Russia while 10 percent would be made in India or from third countries, PTI said. The excavation for the plant at Kudankulam of Tamil Nadu has been planned to begin in the coming October and the major construction work for the main plant are expected to start in the first quarter of 2002. The first unit of the plant is planned to be operational by December, 2007 while the second unit by December, 2008. India tested nuclear weapons, along with neighboring Pakistan, in May, 1998.

Economy

US Backs Russia's Accession To WTO

• The US on Tuesday expressed full support for Russia's accession to the World Trade Organization (WTO). US Commerce Secretary Don EVANS told a news conference, "We are very supportive of wanting (to) assist in any way we can for Russia's accession into the WTO." However, he also urged Russia to meet international trade rules. "What Russia must do is they must meet the rules

for accession into the WTO." EVANS clarified the policy before his trip to Russia starting later in the day, Kyodo News reported.

Ruble = 29.27/\$1.00 (NY rate)
Ruble = 29.24/\$1.00 (CB rate)
Ruble = 25.75/1 euro (CB rate)

Business

Ryazan Court Bans LUKoil Exports

• *Transneft* Vice President Sergei GRIGORIEV said a Ryazan Court has banned the export of *LUKoil* oil through the *Transneft* pipe system for a second consecutive day due to a case filed by a *LUKoil* shareholder. He gave no further details and *LUKoil* was not available for comment. He told Reuters, "It will affect Russian oil exports because there are no *LUKoil* volumes being shipped from Novorossiisk, Odessa and Tuapse ports." *LUKoil* exports around 600,000 barrels per day (bpd) of oil from its fields in western Siberia from production of 1.5 million bpd. GRIGORIEV said, "We don't want to break the law so we're not shipping *LUKoil* crude." He hopes *LUKoil* will solve the problem as quickly as possible. "Our internal system is full but we are losing out because we cannot export oil." A Russian Energy Ministry source told Reuters another court decision taken in Kogalym, *LUKoil's* western Siberian headquarters, could allow exports to restart within a day.

Gazprom Pays Off Gusinsky's Debts

• Russian natural gas giant *Gazprom* said it had paid off a \$262 million debt owed by former

media magnate Vladimir GUSINSKY's *Media Most* firm to *Credit Suisse First Boston*. A Moscow city court had already awarded the gas company majority stakes in GUSINSKY's media properties earlier this month in return for *Gazprom*'s guarantee of the debts, which *Media Most* was unable to pay. *Gazprom* acted as guarantor for GUSINSKY's debt for years, but its decision to pursue control over his media empire over the past year has met with controversy, Reuters reported. GUSINSKY has fled Russia, which has charged him with fraud and money laundering. He believes the Kremlin trumped up these charges in an effort to silence his criticism of the Kremlin and its military operation in Chechnya. The international police cooperation agency Interpol has refused to keep a copy of a Russian arrest warrant for him in its files, saying the case against him is politically motivated. *Gazprom* says taking control of GUSINSKY's companies was the only way it could receive compensation for its guarantees of his debts.

EUROPEAN REPUBLICS

EU-Lith. Initial PECA

- The European Union (EU) on Tuesday initialed the Protocol to the Europe Agreement on Conformity Assessment (PECA) with Lithuania. This agreement will extend certain trade benefits of the EU's single market to Lithuania. It is the first step towards establishing the common market in industrial sectors for which Lithuania has proper legislation in line with the Union. These sectors will initially include machinery, electrical safety, electromagnetic compatibility, simple pressure vessels, lifts, and personal protective equipment. Pascal LAMY, EU trade commissioner said, "This agreement will remove all barriers to trade and boost trade between the EU and applicant countries. This is a very important step in facilitating trade and preparing for enlargement." The trade pact follows up similar ones with the Czech Republic, Hungary and Latvia. Talks on similar agreements are in progress with Estonia, Slovakia, and Slovenia, and will soon be opened with other EU applicant countries.

Meanwhile, the EU's Enlargement Commissioner

Gunther VERHEUGEN, after meeting with Lithuania's Prime Minister Algirdas BRAZAUSKAS, said, "Personally, I strongly believe Lithuania has both the potential and political intention to do it [join the EU by 2004], and the Commission certainly supports that." BRAZAUSKAS re-affirmed his government's commitment to pursue accession negotiations. In a two-hour meeting, VERHEUGEN and BRAZAUSKAS discussed the remaining obstacles for Lithuania's accession: the closure of the Ignalina nuclear plant and how to treat the Russian enclave of Kaliningrad, which shares borders with EU candidates Lithuania and Poland. Later on Tuesday, BRAZAUSKAS met with NATO Secretary General George ROBERTSON to discuss Lithuania's possible membership of the alliance. Lithuania's defense reforms have made it a top candidate for an invitation to join NATO at the alliance's 2002 Prague summit.

Four Candidates Enter Belarus Election

- Belarus Central Election Commission authorities said on Tuesday only a handful of candidates had gathered the required 100,000 signatures to qualify for September's presidential elections. The four politicians who met the requirement are: President Alexander LUKASHENKO, head of the Liberal Democratic party Sergei GAIDUKEVICH, head of the Trade Unions Federation Vladimir GONCHARIK, and leader of the independent Regional Belarus party Semyon DOMASH. It is believed that DOMASH may throw his weight behind GONCHARIK, who was nominated by the country's fragmented opposition parties during the weekend to crush LUKASHENKO. Electoral commission officials said it was possible that more candidates could come forward and collect the required signatures before the September 9 presidential poll, but it was unlikely, Reuters reported.

Western governments, which have criticized LUKASHENKO for his poor record on human rights and free press, will be watching the elections closely. LUKASHENKO has run Belarus with an increasingly authoritarian hand since winning power by a landslide in 1994. He dissolved an opposition-led parliament in 1996 and extended his term. Opposition parties hope to oust LUKASHENKO and restore normal relations with the West and open up funding and foreign investment for the impoverished country.

Ukraine Favors Adjustments To ABM

- Ukraine's Foreign Ministry spokesman Sergei BORODENKOV told reporters on Tuesday, ahead of top-level meetings between Ukraine's President Leonid KUCHMA and US National Security Council Advisor Condoleezza RICE, that Ukraine has always favored adjustments to the Anti-Ballistic Missile (ABM) treaty of 1972. He added that Ukraine has welcomed "understanding and mutually acceptable solutions," between the US and Russia in, "global stability, international peace and security." BORODENKOV said revision of the US national security strategy should not threaten the world's strategic stability or trigger a new arms race.

RICE met with KUCHMA and Prime Minister Anatoly KINAKH today. Talks focused on ways to create a beneficial investment climate in the country and the US standpoint on the ABM Treaty. RICE told KINAKH said that Ukraine relationship with the US is a key strategic interest. She said that US President George W. BUSH believes that cooperation should rely on political transparency, partnership, political freedoms, the rule of law, and free foreign trade. She stressed the need for free and fair elections. RICE will join US Treasury Secretary Paul O'NEIL and Commerce Secretary Don EVANS for meetings in Moscow on Thursday.

Ukraine-South Korea Sign Nuclear Agreement

- Ukrainian First Deputy Fuel and Energy Minister Nur NIGMATULLIN and South Korean Science and Technologies Minister Kim YOUNG-HWAN on Monday signed an agreement on cooperation in the field of peaceful use of nuclear energy. It allows the two countries to jointly produce and supply fuel elements for atomic power stations and research reactors, design, build, operate and service nuclear power plants, produce, and use of radioactive isotopes in industry, Itar-Tass reported. The agreement also provides for cooperation in the creation of a full nuclear fuel cycle, from the prospecting for and development of new uranium fields to the treatment of nuclear waste. According to the agreement, uranium transferred or used in any transferred equipment should not be enriched by more than 20 percent in the uranium 235 isotope. Transferred nuclear materials cannot be reprocessed unless the sides reach a special agreement to this effect.

SOUTH CAUCASUS & CENTRAL ASIA

US-Rus. Defense Mins. Plan Georgian Visits

- Both US Defense Secretary Donald RUMSFELD and Russian Defense Minister Sergei IVANOV are planning official visits to Georgia later this fall; RUMSFELD in late September or early October and IVANOV in November. RUMSFELD will announce the donation of 10 US military helicopters to help patrol Georgia's borders, under a partnership agreement signed in 1996. He is the second US Defense Minister to visit Georgia following a 1999 visit by former Secretary William COHEN. Georgian President Eduard SHEVARDNADZE has called Georgia's membership in NATO a "long term project." Georgia's parliamentary chairman Zurab ZHVANIA urged the alliance today, "to guarantee our country's safety and independence." He said, "Georgia must be protected by NATO and membership remains our political goal," Agence France Presse reported. The hope of Georgian NATO membership has raised concern in neighboring Russia. Georgia's Defense Ministry noted that a broad range of bilateral issues, particularly cooperation in the military sphere, will be discussed when IVANOV visits Georgia. Russia's Defense Minister last visited Georgia in April, 1996. In 1999 and 2000, Georgia Defense Minister David TEVZADZE invited Marshal Igor SERGEYEV, the then Defense Minister of Russia, to visit Tbilisi, but visits were postponed several times.

Georgia Suffers From Malaria Outbreak

- Eastern Georgia has registered 13 cases of malaria at the border with Azerbaijan. The sick, ethnic Georgians and Azeris living in the border districts of Gardaban, Marneul, and Lagodekh, have been taken to the town hospital of Rustavi, some 20 kilometers East of Tbilisi. According to doctors, all the patients had had contacts with Azeri residents, but were too slow to consult physicians. However, their condition is not grave.

LUKoil-Itera Win Uzbek Contracts

- Uzbek national oil and gas holding company, *Uzbekneftgaz*, has signed a joint development contract with the *LUKoil* and *Itera* for developing oil and gas fields in Uzbekistan. Under the terms of the contract, the companies will share development of oil and gas fields in the Bukhara-Khivinsky and Gissarsky regions as well as conduct geological

exploration throughout Uzbekistan, United Press International reported. The contract entails *LUKoil* and *Itera* to 45 percent each of the development deal, with *Uzbekneftegaz* getting the remaining 10 percent. The fuel reserves involved in the project are estimated at 250 billion cubic meters of gas and 10 million tons of liquid hydrocarbons. The maximum volume of gas extraction will reach between 8 and 10 billion cubic meters a year. The capital investment needed to take the fields up to their projected capacity totals \$750 million. The contract covers the next 25 years of field development and can be extended by another 10 years. President of *LUKoil* Vagit ALEKPEROV said this latest contract brings the company closer to its objective of becoming one of the largest oil companies in the region, and positions it for expansion into the global gas market. *LUKoil* produces around 24 percent of all the oil produced in Russia. *Itera* is Russia's second-largest gas producer. The company's links with gas giant Gazprom are under investigation.

Kazakhstan's GDP Grew 14 Percent

- Kazakhstan's Economic Minister Zhaksybek KULIKEYEV Tuesday said the nation posted gross domestic product (GDP) growth of 14 percent in the first half of the year in comparison with 10.5 percent growth in the first six months of 2000. Kazakhstan's rapid growth has relied heavily on revenues from its huge oil and gas sector as well as other minerals. The minister pointed out, however, that other sectors of the economy are now growing at a faster pace. He pointed out that industrial growth was 13.6 percent higher in January to June than in the same period last year, with the chemical sector growing 1.5 times, machine building 1.4 times and oil refining equipment production also rising 1.4 times. The Central Asian state's budget forecasts GDP growth of 4.0 percent for the full year, after 9.6 percent last year, but KULIKEYEV said economists expected a final figure of at least 10 percent. He said the Finance Ministry and Central Bank would soon publish a more up-to-date economic growth forecast. The main factors influencing growth were

favorable conditions on international markets for Kazakhstan's exports, especially oil, KULIKEYEV said. Another factor was the opening, scheduled for August 6th, of a new crude oil pipeline connecting Kazakhstan's huge Tengiz field with the Russian Black Sea port of Novorossiisk, giving the country its first direct link with global oil markets. Budget revenues in the first half were 375.1 billion tenge (\$2.56 billion), or 57.6 percent of the year's planned total, against expenditure of 327.6 billion, or just 44.8 percent of the year's target, Reuters reported. Official data gives the inflation rate for the first half of the year at 3.7 percent. But he said incomes should exceed this, with income rises of around 10 percent now expected for the whole year. The relatively low inflation rate in the first half had led to an increase in confidence in the domestic market, he said, with capital investment up 33.5 percent.

Armed Rebels Enter Kyrgyzstan

- On Tuesday night, armed rebels entered Kyrgyzstan at the Batkentsky region of Kyrgyzstan near Tajikistan. The Kyrgyz Defense Ministry said today that two Kyrgyz troops were wounded in the fighting that followed the raid. This is the first assault on Kyrgyzstan this year. The Kyrgyz Interior Ministry noted that the militants have dispersed. This morning, Kyrgyz servicemen began combing operations in the area of the shootout. Kyrgyz security structures are investigating. Kyrgyz Defense Minister Esen TOPOYEV has flown to the area where the fighting took place, Reuters reported. Every summer since 1999, groups thought to support the Islamic Movement of Uzbekistan (IMU) have fought government troops in the region. The IMU seeks to overthrow Uzbek President Islam KARIMOV and set up an Islamic state in the Fergana Valley, a center of Islamic support in the region where Uzbekistan, Kyrgyzstan and Tajikistan meet. The IMU fighters are thought to be based in Tajikistan and supported by Afghanistan's ruling Taliban militia.

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