

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

US To Proceed With Missile Tests

• After meeting with Russian President Vladimir PUTIN in Moscow, US National Security Adviser Condoleezza RICE today said Washington would go ahead with tests banned by the 1972 Anti-Ballistic Missile (ABM) treaty, despite Russia's determination to stick to the pact. "President [George W.] BUSH made it very clear that he believes there is a threat. A new threat and we will need to move, to go beyond ABM so that we can have a serious testing and evaluation program that gets us a solution to the threat." She added, "[BUSH] has not set a specific deadline, but it should be obvious to all concerned that the president believes that this is something that will happen relatively soon...The testing program will proceed." Deputy Foreign Minister Georgy MAMEDOV, Russia's top arms negotiator, said Moscow still stands behind ABM. "I would recall here the words of Vladimir PUTIN immediately after his return from Genoa, that Russia still sees the ABM treaty as one of the most important elements in strategic stability," MAMEDOV said. BUSH and PUTIN agreed at a weekend summit in Italy to link talks on missile defense with talks on offensive weapons.

During the US delegation's visit, RICE met with Russian Defense Minister Sergei IVANOV and Security Council Secretary Vladimir RUSHAILO. IVANOV, quoted by Interfax news agency, said he was, "less worried now, than at the beginning of the year, that either side could take measures of some sort liable to endanger security."

US Treasury Secretary Paul O'NEILL and Commerce Secretary Donald EVANS met top Russian economic policy makers. The Russian economy has

been buoyed by high prices for its exports mainly of oil and gas, although analysts worry that inflation could hinder growth as the effects of a 1998 currency devaluation wear off and prices creep back up. PUTIN has pledged to carry out sweeping structural reforms. O'NEILL stressed that it is important for Russia to implement its economic reforms to reassure foreign companies and investors. He said, "I believe we haven't seen more [investment in Russia] because of the absence of the rule of law and enforceable contracts and having to pay people off in order to do business... The real challenge is to see implementation take place...we need to see some practice."

Berezovsky Planning Putin's Demise?

• Self-exiled Russian business tycoon Boris BEREZOVSKY predicted in the Italian Repubblica on July 12th that Russian President Vladimir PUTIN would be removed from power this year and replaced by a leading regional governor. BEREZOVSKY, an outspoken critic of the President, resigned from his position in the Russian State Duma last year because he could not support the direction PUTIN was leading the country. He has been living in France. BEREZOVSKY has pledged to return to Russia and build a strong political opposition to oust PUTIN. An article published Tuesday in Versiya speculated on how BEREZOVSKY might orchestrate such a take-over. The newspaper outlines possible trump cards that BEREZOVSKY could use toward his advantage. First, the unstable economic strategy of PU-

TIN and his advisors to restructure natural monopolies could result in a crisis. This would hurt the President's popularity and deny the population a rise in standards of living. Second, strong regional leaders could rise up and retaliate against the President for attempting to strip them of their powers. Third, international organizations could take a stronger stance against Russia on its military campaign in Chechnya. Fourth, the so-called "oligarchs," who are the target of a Kremlin campaign to minimize their influence, could unite against the Kremlin. Fifth, BEREZOVSKY could help promote ambitious candidates for the highest governmental position, including incredulously Chechen campaign generals. Finally, an internal split between PUTIN's St. Petersburg cronies and the head of the Presidential Administration Alexander VOLOSHIN. Another more farfetched theory supports the idea that PUTIN may be assassinated during one of his trips to the regional republics. He is scheduled to go to Bashkiriya and Komi later this summer. Komi Governor Yuri SPIRIDONOV, who is running for reelection this December, has used the Kremlin's threat to limit his power in the republic in his campaign. One of his campaign slogans is "Moscow is unpredictable. Republic of Komi is independent and stable!" He actively expresses his determination not to succumb to Kremlin control.

Clearly, BEREZOVSKY is perceived as a political threat by PUTIN, even from his French chateau. Following his statements in [Repubblica](#), Kremlin advisor on information policy Gleb PAVLOVSKY suggested that PUTIN should begin a campaign against mass media outlets controlled by BEREZOVSKY. He said that BEREZOVSKY's information outlets are openly attacking the President and his policies, strana.ru reported. BEREZOVSKY's media outlets include the website Zhin, grani.ru, and newspapers like [Prizyv](#). Former prime minister Yevgeny PRIMAKOV is also accusing BEREZOVSKY of planning to release a forgery, which reflects PRIMAKOV's negative assessment of PUTIN when he was Prime Minister as [Trud](#) reported on July 24th in its article "BEREZOVSKY Who Would Benefit From a Rift Between PUTIN and PRIMAKOV." PAVLOVSKY said that the BEREZOVSKY-controlled organs are seeking to split the Russian Orthodox Church, undermine Russian allies in Belarus and Ukraine, and compromise PUTIN personally. PAVLOVSKY

said that in such a campaign, PUTIN should rely on his own cadres and on "new centers of faith, influence, and business." The question remains how BEREZOVSKY will win back Kremlin influence and remove PUTIN and when he will take such actions.

Economy

<p>Ruble = 29.26/\$1.00 (NY rate) Ruble = 29.25/\$1.00 (CB rate) Ruble = 25.68/1 euro (CB rate)</p>

Russia Sets Medium-Term Economic Targets

- Russia's Prime Minister Mikhail KASYANOV late Friday signed a medium-term economic plan, which targets steady gross domestic product (GDP) growth and falling inflation by 2004. The government approved a social and economic development program for 2002 to 2004. It was drafted by the Trade and Economic Development Ministry in May and has since been amended. The ministry said in a program posted on its website ([www.economy.gov.ru](#)) that it aimed for real ruble appreciation that would allow for a 30 percent increase in imports by 2004 compared with 2000 levels. Electricity output is expected to rise to 973 billion KWh by 2004, or a 9.6 percent to 11.1 percent increase from the 2000 level, and exports are expected to rise by more than 1.5 times. Oil output would rise by 7.4-9 percent in the same period, while natural gas output would increase by 34 billion cubic meters (bcm) to 618.1 bcm, which would allow Russia to export 190 to 204 bcm. Inflation is expected to be steady at 10 to 13 percent in 2002 and 2003, before dropping to 8 to 10 percent in 2004. Foreign direct investment is expected to reach \$4.5 billion this year, rising to \$5 billion in 2002, \$5.2 billion in 2003, and \$6 billion in 2004.

Business

Norilsk Seeks To Boost Int'l Presence

- The new general director of the core mining unit of metals giant *Mining and Metals Company (MMC) Norilsk Nickel*, Mikhail PROKHOROV, in a [Kommersant Daily](#) interview said his aim was to turn the firm into a major international player. *Norilsk* is already the world's largest producer of nickel and palladium and a key miner of strategic metals and gold. He announced the company's

intention to work on mining projects in the Pacific island of New Caledonia. PROKHOROV said, "The managers of *Norilsk Nickel* have done enormous work inside the country [Russia], it has taken up a dominant position in its main businesses and now it is time to take up a worthy place in the world economy, which I will work on." He will present a new company strategy in the fall, but gave no new details of the New Caledonia plans. *Norilsk* said on Tuesday it had entered a partnership to prospect on the Pacific island, believed to hold 25 percent of the world's nickel ore. It said prospecting would need tens of millions in investment and last two to three years.

EUROPEAN REPUBLICS

Slavneft Acquires Belarus Refineries

- The Bus-Belarus oil company *Slavneft* will acquire several Belarus refineries and the Taylakovsky oil field, vice president of the company Andrey SHTORKH stated in an interview with Ros-BusinessConsulting. According to him, it is still not clear how a license for exploring the oil field will be handed over to the company, as a law prohibits this. Thus, a stake in *Obneftegazgeologiya*, the owner of the oil field, may be sold to *Slavneft*. Talking about Belarus companies, several subsidiaries of the *Belneftekhin* oil and gas company, such as Azot, Polimir, and Naftan, will be acquired by *Severstal*. However, they first need to be privatized, as they are state-owned.

Ukraine-Lockheed Sign 10-Year Air Deal

- Ukraine's Transport Ministry announced it had signed a declaration of intent laying the foundations for a 10-year cooperation deal with US aerospace group *Lockheed Martin Corp*. The ministry said it hoped *Lockheed Martin* would help to modernize Ukraine's air traffic control system and take part in programs to train controllers and other technical personnel, Reuters reported. Ministry spokesman Anatoly HARKUSHA said the value of the joint projects, including some modernization of Ukraine's airports, could amount to \$200 million. There are some 100 airports around Ukraine, but only 10 are operating because of weak demand and the dwindling fleet of ageing Ukrainian aircraft.

Lith. To Reconfirm Deficit Commitments

- Lithuanian Prime Minister Algirdas BRAZAUSKAS Monday said he would reconfirm to the International Monetary Fund (IMF) his government's commitment to cut the fiscal deficit next year. The last government pledged that it would cut next year's fiscal deficit to 1.3 percent of gross domestic product (GDP) from a planned 1.4 percent this year. BRAZAUSKAS said his cabinet would direct a letter this week to the IMF, re-affirming this commitment. "There will be continuity of policy...of the previous administration and we will try to maintain all the macro-economic criteria [set in the IMF memorandum] especially in regard to the fiscal deficit as a percentage of GDP," BRAZAUSKAS said. Fiscal discipline is essential for Lithuania to sustain its currency board's credibility, especially when the country plans to repeg the litas from the dollar to the euro on February 2, 2002 in line with its aspirations to join the European Union. The letter to the IMF is a key element for the Fund to decide whether to enter a new 18-month precautionary arrangement with Lithuania. It also provides a strong framework to pursue much needed structural reforms, Reuters reported. Some analysts have worried an administration under BRAZAUSKAS would mean an explosion of budget expenditures as the government shifts focus to social programs. BRAZAUSKAS rejected the criticism, saying any additional spending would have to be backed by economic growth. "We have to link the budget to the growth of the country's gross domestic product by stimulating transport, manufacturing service and tourism sectors growth and streamlining our customs system," he said.

Ukraine CB Reserves Hit Record High

- Ukraine's Central Bank Wednesday announced its gross hard currency reserves rose to a new three-year high, hitting \$2.078 billion on July 20th, after \$2.002 billion in the previous month. Sergei YAREMENKO, head of the Central Bank's currency regulation department, said liquid currency reserves rose to \$1.948 billion on July 20th, from \$1.866 billion on June 25th. Ukraine's hard currency reserves have grown steadily since the start of the year, when they totaled \$1.628 billion. "The rise in reserves is due to the Central Bank's interventions in the interbank market...the bank sold hryvnia and bought hard currency," YAREMENKO told Reuters. He said the Central Bank had bought \$1.035 billion of excess dollar supply on the interbank

market since the start of the year. YAREMENKO said demand for hard currency on the market was lower and he expected the trend to be maintained in the near term.

SOUTH CAUCASUS & CENTRAL ASIA

Chevron Plugs Well In Absheron Field

- *Chevron* has plugged its first well at the Absheron gas field in the Azeri sector of the Caspian Sea after failing to find commercially significant reserves. The announcement Monday was the latest in a string of drilling disappointments offshore Azerbaijan. John CONNOR, General Manager of *Chevron Overseas Petroleum Azerbaijan*, told Reuters, "We found a relatively thin layer of hydrocarbons near the bottom of the well, but the amount we found at this location was not commercially viable." *State Oil Company of Azerbaijan (Socar)* estimated that the Absheron block contained up to three trillion cubic meters of gas, possibly more than the major Shakh Deniz field. *Socar* complained that the exploratory well was drilled too far from the center of the structure, a claim denied by *Chevron*, operator of the project with a 30 percent stake. Absheron partners are obliged to drill a second well according to their production sharing agreement. However, there will be no further drilling until construction of a new semi-submersible deepwater rig is completed in late 2003, CONNOR said. "A commercial and relatively significant field could still exist there, but not on the scale of Shakh Deniz," he said. Earlier this month, *ExxonMobil* decided to abandon drilling at the Oguz concession after reporting a dry well. That followed other drilling failures this year by Italy's *Agip* and *TotalFinaElf* in the Azeri Caspian.

Kyrgyz-Kazakh Sign Economic Cooperation

- Kyrgyz President Askar AKAYEV and Kazakhstan President Nursultan NAZARBAYEV signed an agreement on Tuesday for bilateral economic cooperation from 2001 to 2005. AKAYEV noted that bilateral trade had been dropping, falling from \$160 million in 1998 to \$90 million in 2000. The treaty

is expected to give a huge boost to the development of trade and economic cooperation. The two presidents also signed a document on demarcation of borders between the two countries. AKAYEV said the demarcation work was finished on the basis of mutual understanding, Xinhau reported. He believes that this will set a good example for those countries still facing similar problems within the Commonwealth of Independent States (CIS). NAZARBAYEV added that under a CIS Collective Security Treaty to which both countries have acceded, Kazakhstan has an obligation to provide military aid to Kyrgyzstan once its neighbor is invaded and attacked by terrorists.

Kazakhstan Accepts Radioactive Waste

- President of the national company *Kazatomprom* Mukhtar DZHAKISHEV said that Kazakhstan is accepting medium to low radioactive waste and materials from abroad for treatment in Kazakhstan. Funds raised from radioactive storage can be used for Kazakhstan's national program of nuclear waste storage and land decontamination. Kazakhstan requires \$1.11 for this project. The quarries of used-up uranium deposits can be used for storage of medium and low-level radioactive waste. DZHAKISHEV opposes highly-active radioactive waste processing in Russia. This would cost 450 million dollars, whereas the creation of a long-term storage site on the Semipalatinsk test-range would be 15 times cheaper. At present, Kazakhstan holds more than 237 million tons of radioactive waste dumped on its territory, according to figures released by *Kazatomprom*.

NEWS FLASH: Georgian Journalist Murdered

- Georgi SANIA, anchorman of independent Georgian television Rustavi-2, was found murdered in his home today. Rustavi-2 personnel was so shocked, they did not broadcast the 9 o'clock news tonight. One *Intercon* source said he could not imagine anyone who would be an enemy to Georgi. Another *Intercon* source reported police had found evidence of torture at the crime scene.

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