

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Bulgaria To Implement New Visa Regime

□ Bulgaria's Foreign Ministry announced it is introducing visas for visitors from Russia, Ukraine, and Georgia starting October 1st. The visas are being imposed in line with pledges to the European Union (EU). The EU lifted visa requirements for Bulgarians traveling to Western Europe in April, after Bulgaria opened full membership talks last year. The free travel status was given on condition that Bulgaria toughened its border controls to curb illegal immigration. The ministry will discuss with Russia, Ukraine, and Georgia ways to ease visa restrictions for businessmen and tourists, Reuters reported.

Economy

Investors Urge Bank Reforms

□ Foreign investors believe that further economic growth in Russia may be hindered if banks are not reformed. Banks were hit hardest by the crisis, when the government defaulted on domestic debt and temporarily froze repayments on non-sovereign foreign debt, triggering a wave of bank failures, Reuters reported. Allan HIRST, senior vice president and head for Russia and the CIS group of states which were formerly part of the Soviet union at *Citibank* said, "Russia's banking system is not relevant to the growing economic needs [of the country]." Russia's economy posted record post-Soviet growth of 8.3 percent in 2000 and the government has forecast 5.0-5.5 percent gross domestic product (GDP) growth this year. A favorable economic situation, including high prices for key exports oil, gas and metals, has given the government breathing space to launch wide-ranging structural reforms. Investors praised the government's progress in tax reform and in ending barter and other non-monetary

forms of payment, which were inherited from the communist-style economy. But they highlighted the dependence on high prices for energy and commodities and a post-crisis ruble devaluation as key drivers for the recovery. Pyotr AVEN, the head of one of Russia's top banks, *Alfa Bank*, quoted official figures that show the total capital for all Russian banks is a meager four percent of GDP. He said bank loans to industry were just three percent of all investments, with the remainder covered by the government and companies themselves. AVEN said banks suffered from a lack of long-term funds as foreign capital markets were effectively closed to them after the crisis and an estimated \$30 billion in household savings was kept at home, not in banks. Russia's Central Bank is urging all banks to adopt international accounting standards by 2004. The Central Bank has said it wants to tighten control over banks' corporate management and get them to increase capital and improve capital adequacy ratios as part of a comprehensive banking reform, being drafted together with the government.

Business

Insurers Lack Information In Russian Sell-off

□ Insurers monitoring Russia's first big sell-off of *Rosgosstrakh* have hit a snag. Two insurance firms said they lacked information about that sale which was undermining their interest in the tender. On Friday, Russia sold the first nine percent stake of *Rosgosstrakh* to *Troika Dialog* investment bank for 201 million rubles (\$6.83 million). The starting price was 153

million rubles. This is the first of three tenders aimed at reducing the state share in *Rosgosstrakh* bank to 50 percent plus one share. Three insurers, *Interros-Soglasie*, *Alfa-Garanti*, and *ROSNO*, had said they were considering participation in the sale. Alexei POPONIN, an aide to *Interros-Soglasie*'s general director, said his firm decided not participate in the tender. "We refused to participate in the sale, not in the whole process, but on the nine percent package because we do not have enough information," POPONIN told Reuters. He added, "The main attraction of *Rosgosstrakh* is its branch network, but what is this network? The sellers did not do their pre-sales preparations properly." He said *Interros-Soglasie* did not get enough information on the financial standing of some of *Rosgosstrakh*'s branches. But his company might still take part in further sales, depending on the information they receive, if any. Vladimir KLEIMYONOV, an aide to the general director at *ROSNO*, declined to say whether it participated in the first auction. *ROSNO* might take part in the second sale, where 16 percent plus one share will be offered. He noted, "We are not satisfied with the amount of information for the first stage. There is a lack of information on many questions." *Alfa-Garanti*, part of *Alfa Group*, declined to comment. The government has promised to announce terms for the second sale later this week. *Troika* bought the stake for a client, but declined to comment further. Dmitry DRUZHININ, chief economist at the *Prospekt* investment company, pointed out, "The difference of this sale from...[the previous ones] is that the final price turned out to be significantly higher than the starting price. It is one of the signs there was some sort of competition."

EUROPEAN REPUBLICS

Meri Call For Direct Presidential Elections

□ Estonian President Lennart MERI told legislators on Monday he wanted to see the head of state directly elected by the people and not by parliament in 2006. "I am presenting to you my observations about the need to develop and change the constitution. I will leave the legal details...to my successor," MERI told deputies returning to the 101-seat house after their summer break. MERI, Estonia's

sole president since the country ended 50 years of Soviet occupation in 1991 is barred from standing for a third term and leaves office on October 8th. Deputies last month failed in three rounds of voting to choose MERI's successor and sent the vote to the Valijameeste Kogu Electoral College of parliamentarians and local government representatives on September 21st. Whoever follows MERI will likely lead Estonia into the European Union and the NATO military alliance. Estonian presidential candidates include Reform Party's Toomas SAVI, Pro Patria Union's Peeter TULVISTE, and the opposition Center Party's Peeter KREITZBERG.

Ukrainian-EU Summit Opens In Yalta

□ The 5th Ukraine- European Union (EU) summit opened today in Yalta, at the Livadia Palace. Ukrainian President Leonid KUCHMA said that remarkable progress has been made in bilateral relations with the EU since the last summit in Paris one year ago. "Political dialogue between Ukraine and the EU was going on in an especially frank and constructive atmosphere during the period," he noted. Pledging to deepen the political and economic reforms in Ukraine, KUCHMA said his country is committed itself to safeguarding human rights, building a democratic society, and a market-oriented economy, as well as improving people's living standard. Belgian Prime Minister Guy VERHOFSTAND said the EU welcomes Ukraine's drive to integrate into the European family. He encouraged Ukraine to continue its reforms, including speeding up economic liberalization, privatization, increasing its transparency and fighting corruption, Xinhua reported. He added cooperation between Ukraine and the EU is becoming closer and fruitful, especially in energy, protecting the environment and combating illegal migration and organized crimes. EU Commission President Romano PRODI, EU chief for foreign and security policy Javier SOLANA, and Belgian Foreign Minister Louis MICHEL attended the meeting.

Ukrainian officials ahead of the summit, said they would ask the EU for assistance in developing the key Odessa-Brody oil pipeline project, which feeds into a line supplying Europe from Russia. Ukrainian Foreign Minister Anatoly ZLENKO told Reuters, "Energy sector issues will be one of the biggest items on the agenda of this summit." The 600-kilometer (370-mile) pipeline runs from a terminal in

Odessa Crimea to Brody close to the Polish border, providing a link to supply Caspian oil to Europe. The cash-strapped government is seeking foreign involvement and funding.

Nine Baltic States Agree On Tanker Safety

□ Nine Baltic Sea states including Russia on Monday agreed to a fast-track timetable for eliminating single-hulled tankers from their national fleets. According to a statement from the nine-member Helsinki Commission (Helcom), "Single hull oil tankers will be phased out between 2003 and 2015, depending on the age and type of the vessel." Helcom said the move ratified a timetable agreed by shipping's legislative body, the International Maritime Organization (IMO) in April, but rejected IMO's provisions for states to extend their own national deadlines. "The Baltic Sea states will refrain from making use of any exemption and relaxation provisions," it said. The single hulled tankers, seen as a pollution hazard, will be replaced by double-hulled tankers. Double-hulled tankers offer better protection against oil spillage during low-speed collisions and groundings. Russia is Helcom's largest oil exporter, pumping over 500,000 barrels per day from Baltic Sea terminals Butinge, in Lithuania, Latvia, and Estonia. Helcom Chairman Peter EHLERS told Reuters the ban couldn't be extended to foreign ships calling in the members' ports.

SOUTH CAUCASUS & CENTRAL ASIA

Georgian-Abkhaz Coordinating Council Meets

□ The Georgian-Abkhazian Coordination Council, established at the Geneva negotiations, is meeting today in Tbilisi. The meeting, chaired by the head of the mission of UN military observers, Pakistani General Anis BAJWA, will focus on questions of preventing violence in the conflict zone and the situation in the Kodorskoye Gorge. The meeting will be attended by the commander of the collective peacekeeping force in the conflict zone, Major-General Nikolai SIDORYCHEV. The Georgian side

is headed by Georgian Deputy Prosecutor General Polikarpe MONIAVA and the Abkhazian chief of staff of armed formations Vladimir ARSHBA.

Aide To Armenian Prime Minister Murdered

□ Gagik POGOSYAN head of the auditing service under Armenian Prime Minister Andranik MARKARYAN, died as a result of a grenade explosion in Yerevan today as he was leaving his apartment. The Armenian Interior Ministry believes that a grenade was triggered to explode when POGOSYAN opened his door. POGOSYAN was gravely injured and died on the way to a hospital. Criminal proceedings were instituted on the case and an investigation is being conducted by the Armenian prosecutor's office. Various versions are being examined, including a contract murder. During Soviet-era, POGOSYAN was in charge of a gas-filling station. Later, he became a businessman. Between 1990 and 1995, he was deputy to the Armenian parliament. Between May 2000 and January 2001, he held the post of minister for state revenues. After that, he was appointed chief adviser to the prime minister and in July 2001, he became head of the auditing service of the Armenian Prime Minister, Itar-Tass reported.

Central Asian Nations To Hold Urgent Meeting

□ Iranian television reported that representatives from Iran, Russia, Tajikistan, India and Uzbekistan will meet soon in the Tajik capital Dushanbe to hold an urgent meeting regarding the assassination of Afghan leader Ahmad Shah MASOOD and the growing Taliban movement. The television did not mention Pakistan, which shares a long border with Afghanistan, as a participant. "They [the Taliban] are there and they are a reality. Since we have common borders with them we cannot have any other policy than engaging with whoever is in charge in Afghanistan," Pakistani military leader General Pervez MUSHARRAF said in July. S. Frederick STARR of the Johns Hopkins School of Advanced International Studies said, "If there's anything that

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