

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

Published every business day
since 1993

Wednesday, September 5, 2001

RUSSIAN FEDERATION

Politics

Rebels Continue Attacks On Grozny

□ Despite a blockade of traffic on all roads into Grozny following a bombing of the Pro-Moscow government headquarters on Monday, rebels continued small-scale attacks. Rebels managed to fire grenades at police headquarters injuring two soldiers, blow up an army car killing one soldier, and plant a bomb in a TV studio. The clampdown on Grozny came amid a general worsening of the security situation in the region over recent weeks. On Monday, a bomb went off in the government headquarters one floor below a conference room where pro-Moscow administrators were meeting. Since that attack security has been beefed up at the government compound. Rebels claimed responsibility for Monday's blast and said it was part of their campaign to assassinate pro-Moscow officials. They have killed dozens of town and village administration workers, including two shot dead over the weekend, Reuters reported. Russian artillery and fighters jets blasted the mountains to the south near Vedeno, where rebels say they have launched a month-long offensive. The rebels have said they seized villages and roads in the area in an offensive under way since early August. Tensions are rising ahead of Thursday, which will mark the 10th anniversary of late Chechen leader Dzhokhar DUDAYEV's declaration of independence and the start of a decade of battles between Moscow and separatists that has killed tens of thousands of people.

Russian Drug Use Threatens Security

□ Russian Security Council Deputy Secretary Nikolai SOLOVYEV said on Tuesday that, "an epidemic" of drug use in Russia is now threatening the country's national security, both directly by the

harm it does to society and indirectly as a source of money for extremist groups, Interfax reported. The same day, officials at the Interior Ministry said that the drug trade, illegal arms sales, and sales of pornography have all reached record highs and are increasing, RFE\RL Newline reported.

Russian Price Body Established

□ Russian President Vladimir PUTIN Tuesday signed a decree creating a single new state agency to set prices for the nation's electricity and gas monopolies, Reuters reported. The new body will be based on the Federal Energy Commission (FEC), which currently sets tariffs for energy companies, and will decide the prices which huge firms like electricity utility *Unified Energy System (UES)* and gas giant *Gazprom* can charge domestic customers. Interfax news agency quoted Economics and Trade Development Minister German GREF as saying the new body, "is particularly important from the country's macroeconomic standpoint, so that we do not have any uncoordinated increases in prices for the services of natural monopolies. I think that from next year we will be able to regulate far more effectively the tariffs of our natural monopolies and control their production costs." Natural monopolies cover such industries as utilities, gas and railways infrastructure. Power generators and energy producers say they need to charge more in order to fund investment in infrastructure and prevent energy crises like the one that left much of Russia's Far East last winter. *Gazprom* sells gas for less than a tenth the

price at home as abroad and most Russians pay virtually nothing for their electricity. But the government looks set to move cautiously. The government has said utility tariff rises hastened overall price rises this year, and declared a moratorium on tariff hikes. PUTIN and GREF also discussed plans for reform to the pension system and medical and social insurance and further "de-bureaucratization" of the business sector, Interfax said. PUTIN also asked the government to review the taxation system for small businesses before the end of the year.

Economy

Ruble = 29.45/\$1.00 (NY rate)

Ruble = 29.47/\$1.00 (CB rate)

Ruble = 26.20/1 euro (CB rate)

Russian August CPI At Zero

□ Russia's consumer price inflation (CPI) fell to zero in August month-on-month after 0.5 percent in July, the State Statistics Committee said. A Committee spokeswoman said consumer prices did not change in August compared with July and gave no further details.

Business

UES Releases 2000 Profit Figures

□ *Unified Energy System (UES)*, Russia's giant electricity firm and leading stock, Tuesday released profit figures for 2000, under international accounting standards. *UES* recorded a net profit for 2000 of 493 million rubles (\$16.7 million), compared to a loss of 11.9 billion rubles in 1999, Reuters reported. *UES* said its 2000 profit from electricity generation was 8.0 billion rubles, compared with the previous year's loss of 28 billion rubles. Revenues from electricity generation rose to 211.8 billion rubles from 176.7 billion. Total revenues, including heating, rose to 295.91 billion rubles from 259.98 billion. Earnings per share were 0.01 rubles versus a loss of 0.29 rubles. *UES* also said the amount owed to the company by debtors had fallen by 34.3 billion rubles in the year to 100 billion rubles, while the amount it owed to creditors decreased to 114.6 billion rubles from 140.6 billion rubles in 1999. *Troika Dialog* analyst Kakha KIKNAVELIDZE said the figures had surpassed his expectations. "The results are very solid. The main thing that one can say is that in 2000 *UES* became a profitable company for

the first time," he said. He added that the figures had been helped by a better-than-expected fourth-quarter performance, which he explained by the fact that *UES'* tariffs to customers had risen faster than the company's costs. *UES* said that 2000 fuel costs were 84.8 billion rubles, slightly higher than the 75.3 billion rubles it paid in 1999.

Promstroibank's License Denied

□ A Moscow arbitration court confirmed the legality of an order from the Russian Central Bank, which in June 2000 denied Russian bank *Promstroibank* a further license to conduct banking operations. The shadow of collapse has touched *Promstroibank* once again as it moves a step closer to bankruptcy, an outcome which Central Bank Chairman Viktor GERASHCHENKO has always insisted. This postpones indefinitely the planned transfer of *Promstroibank's* well-developed and large regional chain of subsidiaries to the Russian Development bank (RBR). Some say, however, that RBR may more easily obtain the subsidiaries if *Promstroibank* files for bankruptcy, *Kommersant Daily* reported.

Bankrupt Rospan To Be Auctioned

□ The creditors of *Rospan*, a gas-producing enterprise which holds the production licenses for the Novourengoi and Vostochno-Urengoi gas fields, decided to put this bankrupt enterprise up for auction. If *Rospan* is auctioned off, *Itera*, a company close to *Gazprom* and which has the majority shareholding in *Rospan*, will lose its licenses for these deposits. *Gazprom* has lost many licenses recently. Officials from the Environment Ministry claim that the Russian gas giant does not use at least 59 of its licenses and should therefore be denied them as soon as possible, the *Financial Times* reported.

EUROPEAN REPUBLICS

Latvia Opens Ports To Kazakh Oil

□ Latvian Prime Minister Andris BERZINS, who arrived today in Kazakhstan for a three-day official visit, announced that Latvia is willing to open its ports for the transportation of Kazakh oil. According to BERZINS, Latvia's potential in oil transportation is "unlimited." The initial amount could be three to five million tons a year. He added, however, that not everything depends on the will of Latvia or

Kazakhstan. If the two countries reach agreement on the issue, talks with Russia should be held, he explained. The Latvian Prime Minister held a meeting with Kazakh President Nursultan NAZARBAYEV to discuss ways of expanding bilateral relations. An agreement on the development of cooperation in the sphere of telecommunication and other types of communication, as well as a convention on taxes will be signed on the results of the visit, Itar-Tass reported. A declaration on cooperation in a short perspective is also to be signed, BERZINS said.

Adamkus To Push For NATO Membership

□ Lithuanian President Valdas ADAMKUS plans to lobby US President George W. BUSH next week during a working visit for his country to join NATO. He said, "(The year) 2002 is decisive for our nation and that is why we cannot sit idly by...We must unite all the efforts of politicians and society while seeking Lithuania's membership in NATO and the European Union." Lithuania and its Baltic neighbors Latvia and Estonia are seeking an invitation to join the alliance at next year's NATO summit in Prague. Russia has vehemently opposed NATO's eastward expansion to include the Baltic States. Russian President Vladimir PUTIN reiterated this stance earlier this week in Finland. ADAMKUS said, "He [PUTIN] clearly knows Lithuania's position and I want to point out that he repeated once again that it is Lithuania's sovereign right to make the choice. ADAMKUS begins his visit to the US on September 9th, which will last until September 16th. The Lithuanian President will visit Washington, New York, and Pennsylvania.

Ukraine Discovers State Surplus

□ Ukraine's Finance Ministry on Tuesday reviewed its data for the first seven months of the year and discovered a state budget surplus of 1.195 billion hryvnias (\$224 million). The ministry had previously said Ukraine posted a budget deficit of 25.3 million hryvnias or 0.02 percent of gross domestic product (GDP) in January to July. But the previously released data were preliminary, the ministry stressed. The budget surplus in the first seven months of the year is equivalent to 1.07 percent of GDP, Reuters reported. Strict budgeting is one of the key prerequisites required to win renewed financing from the International Monetary Fund (IMF). The Ukrainian government last month sent a letter to the IMF's board, saying it had met all the

terms required to gain fresh funds from the IMF in September. Ukraine hopes to receive \$370 million under a \$2.6 billion IMF lending program which was frozen in March. In the first seven months of 2000, Ukraine's budget surplus totaled 817.3 million hryvnias. This year, state budget revenues totaled 21.924 billion hryvnias in January to July or 99.1 percent of the target for the period. The state budget totals 42 billion hryvnias. The ministry said lower than planned revenues from privatization were offset by higher receipts from the State Tax Administration and customs.

SOUTH CAUCASUS & CENTRAL ASIA

Zhvania Calls For Action Against Corruption

□ Chairman of the Georgian Parliament Zurab ZHVANIA, in an open letter to Georgian President Eduard SHEVARDNADZE published on August 29th in Georgian newspapers, called for the President to heed his appeal for a crackdown on corruption. He stressed that the population of Georgia, "has actually no trust in the government and does not believe that authorities are willing to solve these problems...Any speculation about the plans for future turned into nonsense because the society does not trust in any single promise made by the government." He noted that corruption government officials show their opulence, while Georgians live in poverty. ZHVANIA pointed out that, "just three years ago our friends abroad spoke about Georgia with hope and enthusiasm as of, 'a country of opportunities,' today they are left with no other option but to face the reality and are referring to us as a 'country of lost opportunities.'" The Chairman expressed his support for SHEVARDNADZE and noted that in the past the President had, "made radical decisions in a critical situations more than once in the past." He called for radical personnel reshufflings and institutional changes to be carried out without delay. SHEVARDNADZE's spokesman said that President shared ZHVANIA's views and approved of his open letter. Some analysts regard ZHVANIA's open letter as the beginning of a campaign to succeed SHEVARDNADZE in the 2005 election. His call for purging the executive branch of corrupt officials could likely remove potential presidential competitors, giving him an easier campaign trail. Others speculate that ZHVANIA's letter clearly states his position and could

be viewed as an ultimatum prior to his resignation from the Citizens' Union Party of Georgia (CUG), formed by uniting communists and reformers. Still other analysts speculate that ZHVANIA's letter is a wake-up call from the young reformers to the President, who for years has been working to reel in corruption without real results. **Intercon** analysis concluded that this letter is a coordinated effort between ZHVANIA and SHEVARDNADZE to reinvigorate government reform changes ahead of the President's visit to the US in October and help transition the generational change which will be necessary to reinvigorate the economy.

On Tuesday, SHEVARDNADZE chaired the first formal session of the 12-member anticorruption council. He called on the council's members to work together with the police and other law-enforcement agencies. The council's chairman Mika GOGIASHVILI earlier criticized law enforcement agencies for failing to take adequate measures to crack down on economic crime, according to Caucasus Press. **Intercon** sources report that specifically he targeted the Interior and Security ministries as riddled with corruption. Justice Minister Mikhail SAAKASHVILI charged that the council's work is "purely declamatory," noting that GOGIASHVILI's speech failed to identify a single individual guilty of corruption. SAAKASHVILI predicted that if the current trend is not reversed, within 2-3 years Georgia will come to resemble Honduras in the early 1960s, plagued with "little private armies and corrupt authorities," RFEVEL Newsline reported.

Opposition To Boycott Local Elections

□ The 11 opposition parties aligned in the Coordinating Council issued a statement that they will not field candidates in the elections to local administrative bodies scheduled for November 4th, the Caucasus Press reported. One of those 11 parties, the Union of Traditionalists of Georgia, has proposed postponing the poll until the spring of 2002 in order to allow for the passage of legislation on the territorial-administrative division of the country.

SMK General Secretary Eduard SURMANIDZE said his party would support a postponement if other parties do likewise. **Intercon** sources report that when Georgian President Eduard SHEVARDNADZE returns from Romania this week, he will land in Batumi and meet with Chairman of Adjara and the Revival Party Aslan ABASHIDZE. The Coordinating Council also issued a statement to the Parliamentary Assembly of the Council of Europe warning that a one-party dictatorship is imminent. In the statement the Council also complained that the amendments to the election law and the law on local government were passed in violation of procedural requirements. Parliamentary speaker Zurab ZHVANIA has ordered the creation of a special group to investigate the claims of Industry Will Save Georgia's head Givi TOPADZE that the text of the amendments to the election law was changed after their passage in parliament, RFE\RL Newsline reported.

Bouygues Offshore Wins AIOC Contract

□ Bouygues Offshore has been granted an interim award by the *Azerbaijan International Operating Company (AIOC)* for the fabrication of offshore structures to be installed on the Azeri field, located 120 kilometers south-east of Baku. The 170 million Euro contract is to be signed within three months. It covers the fabrication and the loading of two jackets and associated piles, with a total weight of approximately 45,000 tons. The structures will be built at the Baku yard of *SPS*, a subsidiary of *State Oil Company of Azerbaijan Republic (Socar)* after the refurbishment of the yard. The project will take over three years from the contract signing date. Chairman and chief executive officer of *Bouygues Offshore* Herve LE BOUC said, "This success is based on our technical expertise, marketing approach and strong local presence. This contract will be executed within Phase-1 of Full Field Development of the Azeri, Chirag and Gunashli fields, and bodes well for the Company's future in Azerbaijan, a high potential market."

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.