

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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Daily intelligence briefing on the  
former Soviet Union

Thursday, December 6, 2001

Published every business day  
since 1993

## RUSSIAN FEDERATION

### Politics

#### **Defense Min. Pledges Offensive In Chechnya**

- Russia's Defense Minister Sergei IVANOV stated today Russia will seek to smash rebel resistance in Chechnya with a winter offensive targeting the guerrillas' military leadership, Reuters reported. On a business visit to Yekaterinburg IVANOV said the army planned in the spring to cut its troop presence in the Northern Caucasus, which includes Chechnya. "Special operations are being conducted right now in Chechnya, practically on a permanent basis, and involving a large number of forces," IVANOV said. "This winter we will seek to finish off the remaining bandit groups, and capture or destroy their ringleaders. This I promise you," he stated on Russian television. Russian forces poured into Chechnya in October 1999, three years after a humiliating withdrawal which left the republic with de facto independence from Moscow. The retreat left Chechnya awash with arms and politically unstable and elected Chechen President Aslan MASKHADOV proved unable to impose law and order in a republic where clan loyalties proved stronger than central control. Then prime minister Vladimir PUTIN ordered Russian troops back into the province to restore Moscow's control, citing lawlessness and rampant hostage-taking.

#### **Russia To Work Out Logistics Of Oil Cut**

- Russia's government and oil firms will meet next week to decide how a promised cut in oil exports will be carried out, Reuters reported. Russia, the world's second largest oil exporter, agreed Wednesday to cut exports by 150,00 barrels per day (bpd) out of current shipments of three million bpd from January 1<sup>st</sup>. Analysts say harsh winter weather would likely cut sea borne exports anyway. Discussion on logistical details will begin by

Deputy Prime Minister Viktor KHRISTENKO who is calling a meeting of the government commission which decides on oil companies' access to export pipelines and domestic refiners, KHRISTENKO's spokesman said. Energy Ministry officials said they and the companies aimed to work out details of the cut by December 10<sup>th</sup>, spurred on by the approach of Christmas and New Year holidays. "Europe stops working several days before Christmas, so companies are rushing to set tanker timetables and arrange [money] transfers with banks," an official at the ministry stated. He added that all of Russia's producers would share the export cut in proportion to their output, but added that it was premature to specify which export routes might be affected. The government has only limited leverage in regulating the oil industry, almost entirely privatized several years ago, but it oversees export pipelines and fixes schedules for shipments. It can also affect exports by applying export tariffs. Prime Minister Mikhail KASYANOV said Wednesday that the government would fulfill its pledge to OPEC (Organization for Petroleum Exporting Countries).

### Economy

#### **CB Sees Stable Ruble, Possible Rate Cut**

- Russia's Central Bank Chairman Viktor GERASHCHENKO was quoted today as saying the ruble would remain stable even if energy prices slid, Reuters reported. The ruble has been depreciating gradually all year as part of government policy, but it fell

more sharply than usual in mid-November as markets worried over falls in the oil price, a key revenue earner for Russia. "I do not think a fall in energy prices to some kind of critical level will have a strong impact on the ruble exchange rate," GERASHCHENKO told Prime-Tass. "I think the ruble will be quite stable. We are capable of maintaining it," he said, but declined to give more precise forecasts. The ruble's official exchange rate against the dollar rose to 29.92 today from a previous 29.94. Dealers said the Central Bank has been selling dollars in the last few days to maintain a stable ruble. GERASHCHENKO said the Bank may cut its refinancing rate, set at 25 percent and unchanged since November 2000, although he said the market saw the rate as indicative rather than having any practical impact. GERASHCHENKO also reiterated an earlier statement that the Bank would convert only a small part of its foreign currency reserves into euros following Europe's transition to its new currency. He said the small amount of reserves currently held in German marks would probably those converted into the new unit. "As long as major part of foreign trade transactions in our country are paid in U.S. dollars the Central Bank has no need to transfer a great part of its reserves into euros," he said.

<p><b>Ruble = 29.95/\$1.00 (NY rate)</b>  <b>Ruble = 29.95/\$1.00 (CB rate)</b>  <b>Ruble = 26.70/1 euro (CB rate)</b></p>
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#### **Despite Reserves Drop, Analysts Hopeful**

- Russia's gold and currency reserves have made one of their sharpest drops in two years, but analysts said today the country still had enough funds in its coffers to pay debts and support the ruble, Reuters reported. The Central Bank earlier said that the reserves fell to \$37.3 billion by November 30<sup>th</sup> from \$38.6 billion by November 23<sup>rd</sup>. "The fall in reserves was connected mostly with the repayment on November 27<sup>th</sup> of the Finance Ministry's debut Eurobond," the Central Bank said in a statement. The Eurobond was worth \$1 billion and Russia also paid \$46 million interest. Vladimir TIKHOMIROV, an analyst at *NIKoil* investment bank, said the reserves which the Central Bank reported combined its own and those of the Finance Ministry, which repaid the bond. The remainder was spent on interventions on the foreign exchange market to support the ruble. "This is not a big problem,"

he said of the reserves drop. *Troika Dialog* analyst Alexander OVCHINNIKOV said the reserves would soon be replenished, although he criticized the Central Bank for using just one means of sterilizing the current excess ruble liquidity - market interventions. "They have fully excluded all ruble instruments from their arsenal," he said. Russian banks have a very limited range of instruments to invest spare rubles as, since the 1998 economic crisis, the domestic debt market has shrunk. Industry credits are also rare as banks' funds are mostly short-term and expensive. But TIKHOMIROV said Central Bank interventions to back the ruble did not always mean it lost money as it sold dollars within a month more expensively than it bought them back at the end of a month when banks needed to pay taxes. However, he said reserves would next year increase at a slower rate than this year, when they rose \$9.3 billion, due to an expected drop in prices for Russia's key oil exports. But he said there was no need for worry as the average oil price next year would be \$4 per barrel less than this year. It would result in \$4 billion less for reserves. Local markets also took the reserves decline in their stride.

#### **Business**

##### **Yukos, Slovnaft To Revise Transpetrol Bid**

- Russia's second largest oil producer *Yukos* and Slovak refiner *Slovnaft* have agreed to revise their bid for a tender selling a Slovak oil pipeline operator, *Transpetrol*, at the request of the Slovak government. Slovakia has offered to sell 49 percent and management rights in *Transpetrol*, in a deal valued by analysts at some \$50 million. *Yukos* and *Slovnaft* were the only firms to bid last week. Although small in terms of revenues at 1.15 billion Slovak crowns (\$23.73 million) in the first half of 2001, *Transpetrol* is seen as a potentially important part in the transit system for crude oil from the Caspian Sea region to Western Europe, Reuters reported. *Slovnaft* CEO Slavomir HATINA told a news conference *Slovnaft's* entry into *Transpetrol* would allow Slovakia to diversify its oil supplies and that the refiner would aim to increase the pipeline's transit volumes. *Yukos* officials said the Russian producing and processing oil giant would also place an updated bid for *Transpetrol*, adding that it would guarantee that *Transpetrol's* clients would be able to choose their own source of crude oil. *Yukos* said it would like to raise the transited volumes and

possible increase the pipeline's transport capacity. *Transpetrol* runs pipelines with an annual transport capacity of some 21 million tons of crude. It moved 9.3 million tons in 2000, of which 5.3 million were processed by *Slovnaft*. With earnings before interest, taxes, depreciation and amortization (EBITDA) of around \$149 million in January-June, *Slovnaft* is much smaller than *Yukos*, whose first half EBITDA totaled \$2.2 billion. The government, which will keep the remaining 51 percent of *Transpetrol*, is aiming to choose the new investor by end-2001. Originally, six companies expressed an interest in acquiring *Transpetrol*, including Czech *Ceska Rafinerska*, U.S. oil group *ChevronTexaco* and two other Russian firms, *Rosneft*, and *Surgutneftegaz*.

### EUROPEAN REPUBLICS

#### Schroeder Backs Ukraine's Europ. Integration

- German Chancellor Gerhard SCHROEDER opened his visit to Ukraine today with a pledge to help the former Soviet republic's aim of integration into Europe and to boost trade and investment, Reuters reported. "It's a question of supporting Ukraine's rapprochement with Europe. The tools are there but they should and could be used better, more intensively," SCHROEDER told journalists in Kiev. German Chancellor praised Ukraine's economic recovery and said there was potential to expand business with the 49 million-strong country. "Ukraine has had a good year, in terms of growth, which is noteworthy. We think there is considerable scope for more to be done," SCHROEDER stated. Ukraine suffered years of recession after gaining independence in 1991. But gradual reform has paid dividends, with economic growth forecast at up to eight percent this year after rising 5.8 percent last year, while inflation is set to drop to six percent from a heady 26 percent.

#### Ukraine Stumbles Again Over 2002 Budget

- Ukraine's efforts to secure fresh funding from the International Monetary Fund (IMF) failed today after parliamentary deputies again disagreed on a draft budget for 2002. According to Reuters, Parliament met to debate in a crucial second reading the draft budget, one of the keys to unlocking a \$375 million

installment from the IMF under its \$2.6 billion loan program. But deputies, who last month rejected the bill and demanded more handouts, voted 363 to 12 in favor of a postponement to December 13<sup>th</sup> after an inconclusive vote on the controversial issues of spending, revenue and deficit targets. Approval in the second reading would have meant those major parameters would not be changed in the third and final reading of the draft, which the IMF wants approved by late December. Finance Minister Ihor MITYUKOV sought to put a brave face on the delay and said the government, which has already made some minor concessions on spending, would revisit the bill. "I have every reason to hope that we will be able to get the required support on December 13<sup>th</sup>," MITYUKOV stated. He is hopeful the budget will be passed before the end of the year.

#### Lithuania Jobless Rises

- Lithuania's official unemployment rate rose in November for the second-straight month due to shrinking labor demand and seasonal employment, the labor exchange stated today. The office said in a statement the number of unemployed totaled 217,367, or 12.5 percent of the workforce, in November. The figure was up from 12.2 percent in October. This kept the jobless rate below the decade high of 13.2 percent it hit in February and March but higher than 12.1 percent in November of 2000. "The jobless growth in November was because of a decrease in labor demand and seasonal employment," the statement said. According to Reuters, the exchange registered 13,545 jobs on offer last month versus 15,765 in October, some 74 percent of them being full-time. In the first 11 months of the year the labor exchange registered 125,387 new jobs, a 34.4 percent rise versus the same period a year ago. Unemployment is one of the country's key economic woes and analysts expect economic restructuring to keep the jobless rate above 12 percent this year despite a widening economic expansion.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Man Arrested For Sanaya's Murder

- Georgia's Interior Minister stated Wednesday that police had arrested a former policeman for the murder in July of popular television journalist Georgi SANAYA. Koba NARCHEMASHVILI told a

late night media conference that the suspect had confessed his guilt and that investigators had recovered a police service pistol used in the murder, Reuters reported. "Grigol KHURTSILAVA, a former police officer, was detained in Tbilisi on Wednesday on suspicion of the murder of Georgi SANAYA, the presenter of the independent Rustavi-2 television," NARCHEMASHVILI said. The minister said KHURSTILISVA was sacked from his job as a member of a police bodyguard squad in August 2000 because of poor attendance at work, Prime News Agency reported. The suspect's name had only appeared in the case recently and the accused did not appear to have known the victim personally, NARCHEMASHVILI said. It was not immediately clear when the suspect would appear in court. SANAYA, 26, a news anchorman and host of a political discussion show was found shot dead in his home with a single bullet to his head. Many of his colleagues blamed the government and said his death was a warning to free-thinking journalists. President Eduard SHEVARDNADZE sacked his entire cabinet on November 1<sup>st</sup> after a political crisis sparked by a raid on Rustavi-2 which prompted concern over media freedom and led to mass street protests.

#### Russian Armenian Parliaments Meet

- Chairman of the Russian State Duma Gennady SELEZNEV stated today that the Armenian blockade should be stopped and the Abkhaz part of the Georgian Railroad should be restored, Prime News Agency reported. At a meeting with the Armenian parliament delegation headed by Speaker Armen KHACHATRYAN, SELEZNEV stated, "the end of the railroad blockade will be very important for Armenia, Georgia, Russia, and the entire region." Commenting on regional issues, SELEZNEV denied any statements accusing Nagorno-Karabakh of being a transit route for drug trafficking or being a base for terrorists training. He stressed that "extra efforts," including those of the Council of Europe, are not needed to settle the Karabakh conflict. However, he added, the activities of the Organization

for Security and Cooperation in Europe (OSCE) Minsk Group should be more coordinated and efficient. SELEZNEV is hopeful that the conflict can be settled politically.

#### Uzbekistan To Reopen Afghan Bridge

- Uzbek President Islam KARIMOV told parliament today that his government intends to reopen the only bridge across the river border into Afghanistan, potentially opening the way for bigger humanitarian aid deliveries, Associated Press reported. The Friendship Bridge spans the Amu Darya River and joins Termez, in Uzbekistan, to the Afghan town of Hairaton, about 40 miles from Mazar-e-Sharif, the largest city in northern Afghanistan. The Soviet army built the bridge for its war in the Afghanistan 12 years ago. It has been closed since 1997, when the Taliban took power on the other side. Uzbekistan has balked at opening the bridge to let humanitarian aid flow faster into Afghanistan, citing security concerns. Aid groups say the refusal has severely hampered efforts to get food and other aid in, and governments including the U.S. have pressed for it to be opened. "We are prepared to open the Termez bridge, but to do so we must provide for the security of the city of Termez. This bridge is being opened not for political games, but to restore the friendly ties between our two peoples," KARIMOV said. He did not say when the bridge would be opened, but he said specialists indicated "it has been well enough preserved that the scheduled for reopening it can be accelerated."

#### Fina Quits Azeri Consortium

- The Italian oil company *Fina* has announced its decision to quit the consortium created in late 1997 to develop Azerbaijan's Kurdashi Caspian oil field. Two successive drilled trial wells have failed to yield oil, the Associated Press reported. The remaining shareholders in the consortium are the *State Oil Company of Azerbaijan* or *Socar* (50 percent), Japan's *Mitsui* (15 percent), Spain's *Repsol-YPF* (5 percent), and Turkey's government-owned *TPAO* (5 percent), RFEIRL Newsline reported.

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