

Press Overview

Pipelines of Power

On 27 July, the board of directors of state oil company Rosneft selected deputy presidential administration head Igor Sechin as its new chairman. Analysts were quick to see the move as part of a pattern designed to boost Kremlin control over the oil sector as a whole. They turned the spotlight on Sechin himself and on Rosneft.

Sechin is believed to be one of President Vladimir Putin's closest loyalists, having worked for him for some 11 years. Sechin graduated from the Department of German and Romance Studies at Leningrad State University in 1984, specializing in French, Spanish, and Portuguese.

After graduation, Sechin worked as a "military translator," a term which is often a euphemism meaning that he worked for military intelligence (GRU). He also served with a Soviet Army unit in Angola. In 1988, he joined the foreign-trade department of the Leningrad city administration, taking responsibility for relations with Leningrad's sister cities Rio de Janeiro, Milan, and Barcelona. He befriended Putin in 1990 when both men participated in a trade delegation to Rio de Janeiro. In 1991, Putin took over the city's foreign-trade department.

In 1996, Sechin followed Putin to Moscow, working under him in the administration of then President Boris Yeltsin. Since Putin became president, Sechin has held senior posts within his administration.

"Kommersant-Vlast," No. 27, of 14 July 2003, described Sechin as a leader of the so-called Petersburg chekisty. In a memorandum published on 2 September 2003, Effective Politics Foundation head and Kremlin insider Gleb Pavlovskii accused Sechin and the chekisty of plotting to take power within the presidential administration in order to squeeze out all holdovers from the so-called Family of the Yeltsin era. Pavlovskii, himself an ally of Yeltsin-era holdover Aleksandr Voloshin, who at that time was the head of Putin's administration, complained that the chekisty were planning a crippling redistribution of property in order to benefit themselves and their supporters.

National Strategy Institute Director Stanislav Belkovskii earlier this year named Sechin as one of the organizers of the assault on oil giant Yukos and oligarch Mikhail Khodorkovskii. On 5 July, Belkovskii posted an analysis on the National Strategy Institute website (<http://www.apn.ru>) in which he wrote that the Kremlin would reject any compromises offered by Yukos or former Yukos CEO Khodorkovskii and would instead implement a plan purportedly drafted by Sechin that would entail the takeover of Yukos assets by state-controlled Rosneft and Gazprom. Under the plan, court bailiffs would sell Yukos's assets to those companies at cut-rate prices.

Rosneft is Russia's sixth leading oil producer. In 2003, it pumped 19.4 million tons of oil, generating revenues of \$3.6 billion. Perhaps the most interesting thing about Rosneft, though, is that it is 100 percent state-owned. An enlarged Rosneft headed by Putin loyalist Sechin, together with Transneft, the state-owned oil-pipeline network, would be able to form a cartel that would have a stranglehold on Russian oil exports and could determine the rules of the game, a 27 July comment on the National Strategy Council website argued.

"Before our eyes we are seeing the emergence of a pipeline empire that will be quite different from a 'liberal empire,'" the website commented, referring to a proposal put forward in December 2003 by then Union of Rightist Forces co-leader Anatolii Chubais. The driving force behind this new empire will be the Kremlin-connected political elite, not independent business people advocating so-called liberal values.

*By Victor Yamsann
The "RFE/RL Russian Political Weekly"
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New Changes to Budget Code to Tighten Center's Control over Money Flows

State Duma deputies voted on 2 August to adopt a bill in its second reading amending the Budget Code, RIA-Novosti reported. The **amendments** redefine financial responsibilities among the various levels of government. The bill, if enacted, would amend more than 150 legislative acts, according to "Vremya novosti" on 3 August. More than 5,000 amendments were considered, 1,000 of which were recommended for adoption. According to "Kommersant-Daily" the same day, the "chief intrigue" of the bill in its second reading was a struggle by the Finance Ministry to liquidate the regional treasuries. When the Duma's Budget Committee objected, the ministry compromised and suggested that all budgets be serviced by the federal treasury after 1 January 2006. Regions that want to keep their own treasuries will first have to conclude an agreement with the federal center. In a televised meeting with President Vladimir Putin, Deputy Prime Minister Aleksandr Zhukov noted that "there are regions that are likely to lose money in the beginning, because the distribution of resources among regions is unequal. However, we envisage [revenue] in the draft budget for 2005 will cover gaps that might appear in the budgets of certain re-

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gions.” The third reading of the bill is scheduled for 5 August, according to RIA-Novosti.

*By Julie A. Corwin
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Yukos to Sell Rospan to Pay down Tax Debt

Justice Ministry bailiffs told Yukos on 4 August that the ministry will not prevent the company from using its current accounts to do business, Interfax and other Russian media reported. “The Justice Ministry said that from now no money will be removed and the company can use its accounts to finance current operations,” an unnamed Yukos source said. Yukos announced the same day that it will sell its 56 percents take in the Rospan natural-gas producer to TNK-BP, Prime-TASS and other media reported. Yukos intends to use the \$357 million from the sale to pay part of its tax arrears. Interfax, however, reported the same day that the government so far has refused to confirm that the sale is legal, prompting concerns that the Justice Ministry will block it. According to Interfax, Yukos has thus far paid about 20 billion rubles (\$667 million) of the 99.4 billion that it owes.

*Robert Coalson
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Newspaper Reports Major Tax Bill Looming for Yukos Subsidiary...

The tax authorities are considering presenting a \$3 billion bill for back taxes to Yuganskneftegaz, the main production subsidiary of embattled oil giant Yukos, “The Financial Times” reported on 22 August. Yukos shares fell by 8.5 percent on Moscow markets during the first 20 minutes of trading on 23 August, Interfax reported. “The Financial Times” speculated that the threat of a new tax bill against Yuganskneftegaz might be a tactic to suppress the value of the company in preparation for its sell-off to a government-approved buyer. The Justice Ministry recently named Dresdner Kleinwort Wasserstein Bank as the assessor to value the company prior to its sale. According to the daily, several potential Western buyers have said they most likely will not bid for Yuganskneftegaz for fear that they could become entangled in a legal battle over ownership of its assets.

*By Robert Coalson
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23 August 2004*

...As Talks on Yukos Suspended during Vacation Season

Discussions over the fate of Yukos have reached a dead end, “Kommersant-Daily” reported on 23 August. Acting Menatep Chairman Tim Osborne told the daily that all contacts between the company and the government have broken down. Osborne said the company has received “no positive signals from the government.” He noted, however, that August is the vacation season in Russia and that it is not realistic to expect decisions during this period.

*By Robert Coalson
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23 August 2004*

Suspended Property Official Faces New Charge

The Prosecutor-General’s Office has completed its investigation of suspended Federal Property Fund Chairman Vladimir Malin and has submitted the case materials to the defense team for study, “Gazeta” reported on 23 August. In addition to the earlier charge that Malin exceeded his authority by trying to cut off the investigation into the 1994 privatization of the Apatit fertilizer factory – the deal which is at the heart of the charges against former Yukos CEO Mikhail Khodorkovskii and Menatep Chairman Platon Lebedev – Malin was charged with commercial bribery stemming from 1999 when he served as chairman of an unnamed commercial structure. According to a defense lawyer, Malin is charged with “doing nothing to annul” a 1995 deal under which state shares in the company were transferred to private ownership. Malin’s trial is expected to begin in about two months.

*By Robert Coalson
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Central Bank Head Expects no Banking Crisis this Year

Central Bank Chairman Sergei Ignatev said on 19 August that there was no banking crisis this spring and that there will not be one this year, gazeta.ru reported. “I don’t see any grounds to expect a systemic banking crisis by the end of the year,” Ignatev told a 19 August cabinet meeting. He added, however, that the Central Bank will continue revoking the licenses of troubled banks. He declined to speculate about how many banks could lose their licenses this year. Banking-sector analysts interviewed by the website agreed that there are no economic reasons to expect a crisis. “Everything depends on the Central Bank itself,” Tserikh Investment Company analyst Sergei Zakharov said, “because those problems that

arose at the end of the spring and the beginning of the summer were provoked by the Central Bank itself."

*By Robert Coalson
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Western Bank Wants Stock Market Regulator to Investigate Duma Deputy

In response to an inquiry by State Duma Deputy Yuri Savelev (Motherland) regarding the alleged illegal transfer of Gazprom shares to foreigners, the United Financial Group (UFG) has asked the Federal Financial Markets Service to investigate Savelev's activities, "Gazeta" reported on 20 August (see "RFE/RL Newsline," 19 August 2004). According to UFG, the incident has made Russia less attractive to foreign investors and "encourages the development of a favorable environment for elements pursuing mercenary ends." As a result of Savelev's inquiry, Gazprom shares fell 12.5 percent on 18 August and UFG claims that its clients lost \$200 million. According to "Kommersant-Daily" on 21 August, Gazprom issued a press release on 19 August explaining to its investors why the stock had lost so much value in one day. In the release, the company said there is no objective reason for the decline and added that there is no danger that the state will lose its controlling interest in the company.

*By Julie A. Corwin
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Kyrgyz-Russian Accord to Finish Building Power Stations

Kyrgyz Prime Minister Nikolai Tanaev and Anatolii Chubais, head of Russia's Unified Energy Systems (EES), signed a memorandum of understanding on 20 August to finish the construction of Kyrgyzstan's two Kambar-Ata hydroelectric power stations, Kabar news agency reported. Chubais estimated that the project will cost about \$2 billion. "It's clear today that the project will be financed through a combination of loans and investments in internationally accepted proportions," Chubais said according to RIA-Novosti. Chubais said that the current memorandum sets out the basic obligations of the two sides, with a more comprehensive agreement to be signed on 30 November. "The work we've begun with EES will eventually lead to serious development for the Kyrgyz economy in terms of exporting electrical energy and managing water resources," Prime Minister Tanaev said. Russia's "Kommersant-Daily" reported on 20 August that work on Kambar-Ata No. 1 and No. 2 began in the 1980s, but was halted because of a shortage of funds with the two hydroelectric power stations half finished. Sagynbek Dordoev, the chairman of Kyrgyzstan's Electric Power Stations, told the newspaper that the first Kambar-Ata station could come on-line by fall 2007.

*By Daniel Kimmage
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Putin, Lukashenka Say Draft Union-state Constitution to Be Ready Soon...

President Vladimir Putin met on 23 August in Sochi with Belarusian President Alyaksandr Lukashenka to discuss bilateral issues, Russian and international media reported. In comments to reporters, Putin dismissed a call by U.S. Senator John McCain (Republican, Arizona) for international pressure to remove Lukashenka. "[Belarusians] should decide for themselves," Putin said, according to ITAR-TASS. "Parliamentary elections will be held in Belarus in October. Then we'll see the Belarusian people's choice."

The presidents also said that work continues on a draft constitution for the Russia-Belarus Union. "With the effort we are putting in, we can reach a joint document in the very near future," Lukashenka was quoted by the news agency as saying. The presidents set 1 January 2006 as the target date for the adoption of the Russian ruble as the joint currency of the union state. "It is to be hoped that by that time all doubts will become history," Putin said. "If this happens, very good. If not, we will keep working."

...And Discuss Bilateral Economic Cooperation

President Putin also said that Russia could resume exporting gas to Belarus at domestic rates if a joint venture between Russia's Gazprom and the Belarusian pipeline monopoly Beltranshaz is established, Prime-TASS reported.

Talks on such a joint venture are under way, he said. Finally, Putin said that Moscow's recent decision to allow Ukraine, Belarus, and Kazakhstan to collect value-added tax (VAT) on Russian gas transiting their territories will "have a positive effect on the development" of relations between Russia and Belarus, ITAR-TASS reported.

Lukashenka hailed the move as "a very powerful and timely step on Russia's part," Interfax reported. The news agency reported that the two presidents pledged to take steps to see that new customs barriers between the two countries are not established.

*By Robert Coalson
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Another Putin Aide Joins the Board of an Oil-sector Company

Presidential administration deputy head Vladislav Surkov was appointed on 20 August to the board of directors of the state-owned Transprodukt oil-transportation company, Interfax reported on 24 August. RosBalt reported on 24 August that Surkov replaces administration economics adviser Aleksandr Krasnov

as the Kremlin's representative on the nine-member board and that Surkov is likely to be selected to replace former Energy Minister Igor Yusufov as the company's board chairman. All nine members of the board except Transprodukt President Sergei Maslov are government officials.

Transprodukt's 2003 revenues were 11.1 billion rubles (\$370 million). In July, deputy presidential administration head Igor Sechin was named board chairman of Rosneft, and administration head Dmitrii Medvedev is board chairman of the state-controlled natural-gas monopoly Gazprom.

Presidential aide Igor Shuvalov is on the board of Russian Railways, the state-owned company that controls oil exports via rail, "Gazeta" reported on 24 August.

by Robert Coalson
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Yukos Has Paid \$1.5 Billion in Back Taxes So Far

Embattled oil giant Yukos has so far paid about \$1.5 billion of the \$3.4 billion it owes in taxes and penalties from 2000, Interfax reported on 23 August, citing a company press release. Of that amount, \$700 million was paid by the company and \$800 million came from seized company assets. The press release said that all the taxes from 2000 will be paid by the end of this month, although \$1.7 billion in penalties will remain outstanding. On 23 August, the Moscow Arbitration Court rejected a Yukos appeal against the government's seizure of the company's shares of four production subsidiaries – Geofit, Tomskneftegeofizika, Khantyanskiisknefteprodukt, and Novosibirsknefteprodukt, Interfax reported.

By Robert Coalson
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Ukrainian President Slams International Critics of Danube-Black Sea Canal

Following the official inauguration of the Bystraya canal project in the Ukrainian part of the Danube River Delta on 26 August, President Leonid Kuchma told journalists that international criticism of the Ukrainian canal project was motivated by "political and economic" reasons rather than environmental, Interfax reported. "You all know well how many skeptical accusations and even open provocations there have been that set the entire international community against this project," Kuchma said. "But we know very well whose interests stand behind these attempts to stir the waters around the canal, while in fact all international ecological requirements were

met during its construction." International criticism of the Bystraya canal project primarily focused on its potential damage to the Danube Delta's unique ecosystem. By opening the Bystraya canal, Ukraine has broken Romania's monopoly on navigation in the delta.

By Jan Maksymiuk
RFE/RL Vol. 8, No. 164, Part II, 27 August 2004.

Date for Lukoil Shares Sale Set

The government's 7.59 percent stake in LUKoil will be sold on 29 September, "Vremya novosti" and other Russian media reported on 27 August, citing acting Federal Property Fund head Kirill Tomashchuk. The starting price for the stake is \$1.93 billion. The sale is expected to generate about 90 percent of all the money the government will raise from privatization this year, the daily reported. In December 2002, the government sold a 5.9 percent stake in the company for \$775 million. Tomashchuk told the daily that ConocoPhillips and Dabir have stated that they will bid for the packet. President Vladimir Putin met in July with ConocoPhillips President James Mulva and LUKoil President Vagit Alekperov and expressed his personal support for the companies' joint projects.

By Robert Coalson
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New search Carried out in Yukos Investigation

Investigators from the Prosecutor-General's Office on 26 August carried out a search of the Moscow offices of Yukos-FPTs, the Yukos affiliate that provides accounting services for Yukos and most of its subsidiaries, newsru.com and other Russian media reported. The search was widely interpreted as a sign that the government is preparing additional tax-evasion charges against the embattled oil giant. The website reported that prosecutors seized about 50 boxes of documents dating to 2003 and 2004. However, a spokesman for the prosecutor's office told Interfax that the search was carried out in connection with a probe into the alleged embezzlement of funds in 2001 via the Moldovan company Fargoil.

By Robert Coalson
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