

## **Russia - Economic News**

### **- 16TH CIS SUMMIT OPENS IN MOSCOW**

MOSCOW, February 22 (Itar-Tass) -

The leaders of the Commonwealth of Independent States met for their 16th summit in Moscow on Friday. Two of its participants - Russian President Vladimir Putin and Armenian President Robert Kocharyan are taking place in the forum for the last time in the capacity of heads of states.

Putin's term in office expires in early May. Russia will hold the presidential election on March 2.

In Armenia, incumbent Prime Minister Serzh Sarkisyan won the presidential election on Tuesday.

Russian First Deputy Prime Minister Dmitry Medvedev will meet with heads of CIS states on Friday.

A high-ranking Kremlin official told Itar-Tass that "First Deputy Prime Minister Dmitry Medvedev will make a report at the forum, per preliminary agreement with the CIS leaders."

The summiteers are planning to consider "interaction in the implementation of joint projects in the social and humanitarian sphere which are consonant with the national projects in Russia supervised by Medvedev."

The forum will be opened by incumbent CIS chairman Kurmanbek Bakiyev, and summit host Vladimir Putin will briefly address his colleagues.

Taking part in the CIS top-level meeting will be Presidents Alexander Lukashenko (Belarus), Nursultan Nazarbayev (Kazakhstan), Viktor Yushchenko (Ukraine), Gurbanguly Berdymukhamedov (Turkmenistan), Emomali Rakhmon (Tajikistan), Vladimir Voronin (Moldova), Mikhail Saakashvili (Georgia), Ilkham Aliyev (Azerbaijan) and Islam Karimov (Uzbekistan).

The upcoming event will be the 16th forum bringing together CIS leaders in which Russian President Vladimir Putin will participate, the Kremlin said.

"Up to date, there have been 15 meetings the Council of CIS leaders since January 2000, including four informal ones," a Kremlin insider said.

He underlined that the "development of interaction with CIS states remains a most important priority in Russia's foreign and economic policies for a long-term perspective."

The Kremlin representative also said that "during the informal meeting (in accordance with the establish practice, there's no rigid agenda), the parties are expected to consider the pressing issues of cooperation within the CIS framework in the economic and political fields."

### **- Russian Rosneft to spend \$1 bln on Kamchatka shelf exploration**

/FEBRUARY 19/RIA Novosti/

PETROPAVLOVSK-KAMCHATSKY- Russia's largest crude producer Rosneft [RTS: ROSN] will spend around \$1 billion on hydrocarbon exploration of the western Kamchatka shelf in Far Eastern Russia, a company executive said on Tuesday.

The early stage of the development project, which will cost the state-controlled company around \$24 billion, was coordinated earlier today by local authorities and company representatives.

Echoing comments made by Rosneft's head last September, vice president, Sergei Kudryashov, said, "In 2008, we plan to drill two initial exploratory wells."

"We want to know everything about the project, what it will bring and how safe it is for the environment," the Kamchatka Territory governor said after discussions with Rosneft.

State-controlled Rosneft holds a 60% stake in the project, which is comparable in scale to major oil and gas projects like Sakhalin I and Sakhalin II. The Korea National Oil Corporation (KNOC) holds a 20% stake. The Kamchatka shelf is about two-thirds the size of South Korea and is estimated to hold about 900 million metric tons of fuel equivalent at 26 sites.

A Russian-South Korean commission on economic, science and technical cooperation signed a memorandum of understanding to develop the shelf in September 2004.

The other shareholders in the project are a consortium of Korea Gas Corp., GS-Caltex Corp., SK Corp, Daewoo International Corp. and Kumho Petrochemical and Hyundai Corp.

Rosneft emerged as Russia's largest crude producer after taking over most of the assets of bankrupt oil firm Yukos through liquidation auctions in 2007.

**- Russia and Algeria should boost economic ties**

/FEBRUARY 19/RIA Novosti/

Russia and Algeria should evaluate trade and economic relations and resolve all issues preventing their further development, the Algerian president said on Tuesday at a meeting with his Russian counterpart.

Algeria's Abdelaziz Bouteflika said he was not "fully satisfied by the development of bilateral [economic] relations".

"We have to understand why our performance was better in 2006 than in 2007," he said, "it is probable, that both parties are responsible."

Russia's President Vladimir Putin said he hoped the free trade zone between Algeria and the European Union would not put Russian companies at a disadvantage on the Algerian market.

**- EVRAZ TO PAY \$1.5 BILLION FOR ACCESS TO CHINESE STEEL MARKET**

/FEBRUARY 20/RIA Novosti

Russian steel and mining giant Evraz Group SA has agreed to buy 51% of Chinese

steelmaker Delong Holdings.

If Chinese regulators approve the deal, Evraz will become the first Russian steel company in the Chinese market.

Delong Holdings manufactures and sells hot-rolled steel coils and trades in steel products, mineral ores and related materials. The group operates in China, Singapore, South Korea, Vietnam and Indonesia.

Evraz Group is one of the world's largest vertically integrated steel and mining businesses. In 2007, it produced 16.3 million metric tons of crude steel.

On February 18 Evraz announced a multi-stage deal to buy shares from Best Decade holdings, the largest Beneficiary of Delong. It will first buy a 10% stake in Delong, another 32% in the next six months, and finally the remaining 9%, thus accumulating a controlling stake for a total cost of \$762 million.

Having established itself as majority shareholder, it will then make a mandatory cash offer for the rest of the company. If all of Delong's minority shareholders accept, the Russian company's spending could increase to as much as \$1.5 billion.

Evraz, whose shareholders include Chelsea owner Roman Abramovich, is currently on an energetic expansion campaign, buying up steel and mining assets in the CIS, Africa and the United States. With the acquisition of Delong, which annually produces about 3 million metric tons of steel, it will gain a firm foothold in China, which accounts for 30% of global steel output and is the fastest growing market in the world.

Last year steel production in China increased by more than 16%, to 490 million metric tons. Domestic demand is expected to rise 40% in the next three years.

"Investment in the Chinese steel sector, our first in the Asian Pacific region, is a crucial strategic move to expand our global foothold," said Alexander Frolov, Evraz chairman and CEO.

To convince their Chinese partner to accept the deal, Evraz has offered more than 30% above market price for its shares.

The good price, however, is not enough to explain the Chinese company's agreement to sell. China does not willingly grant foreign firms access to its steel market.

One theory is that Evraz, which is currently turning out more raw steel than it needs to produce rolled steel, could help satisfy China's voracious demand.

One way or another, Evraz has been given a ticket to the Chinese market. Although it paid a very high price, the game is clearly worth the candle. The opinions expressed in this article are the author's and do not necessarily represent those of RIA Novosti.

**- RUSSIAN, UKRAINIAN PMS SET TO TALK OIL AND AVIATION, NOT GAS**

/February 20/RIA Novosti/

Talks on the oil and aviation sectors are on the agenda of Wednesday's meeting between the prime ministers of Russia and Ukraine, a Russian government source has said.

Russian Prime Minister Viktor Zubkov and his Ukrainian counterpart Yulia Tymoshenko are not, however, expected to discuss natural gas deliveries - an issue that hit the headlines last week when Russia threatened to turn off gas supplies to its neighbor over unpaid debts.

The government source said Zubkov and Tymoshenko were set to discuss the Odessa-Brody oil pipeline, running from Ukraine's Black Sea coast to Brody, near the Polish border.

The project was initially set to pump Caspian oil to Central Europe, but has instead been used "in reverse mode" since 2004 to transport Russian crude south to the Mediterranean.

"We are interested in the implementation of all the domestic obligations undertaken by Ukraine according to the oil transportation agreement signed in August 2004," the source said.

The representative explained that pumping oil in the reverse direction was profitable for Ukraine, which received \$60 million in payment for the transportation of Russian crude last year.

Around 2 million metric tons of oil (15 million bbl) was pumped along the pipeline in 2004 and some 10 million (73 million bbl) in 2007.

The Russian side is also expected to put forward for discussion joint projects in the production of aircraft, as well as helicopter and aircraft engines and components, envisioned in a plan valid until 2009 and signed by the countries' respective presidents.

However, the source denied that the two premiers would discuss natural gas deliveries to Ukraine during the meeting.

"We deliberately keep this issue from being discussed at an intergovernmental level," the source said, adding that all the differences between the two former Soviet republics over the gas issue had been discussed by the countries' presidents on February 12, and that Russian natural gas monopoly Gazprom and Ukraine's state-run Naftogaz had reached a deal on a new scheme of deliveries.

Russian President Vladimir Putin and his Ukrainian counterpart Viktor Yushchenko agreed on a roadmap to settle Ukraine's \$1.5 billion debt for Russian gas supplies during the last ditch meeting on February 12. An agreement was also reached to establish direct fuel supplies between Gazprom and Naftogaz.

The Cabinet source also said Zubkov and Tymoshenko were expected to fix the date for a meeting of the Russian-Ukrainian economic cooperation committee, delayed over political developments in Kiev in the wake of parliamentary elections.

Speaking on bilateral trade, the source said the current situation was dynamic.

Trade turnover between the countries increased 22% to just under \$30 billion in 2007. Imports from Ukraine expanded almost 40%, mostly due to foodstuffs and agricultural products, while Russian exports grew 9% in the same period.

**-RUSSIA TO ENJOY PRIORITY IN IRANIAN NUCLEAR POWER PLANT TENDERS**

/February 20/RIA Novosti/

Russia will have priority in future tenders for the construction of new nuclear power plants in the Islamic Republic, an Iranian official said on Wednesday.

"We certainly should give priority to Russia in the construction of new stations, because Russia is constructing Iran's first nuclear power plant in a difficult international situation and has vast experience in this field," said Kazem Jalali, a spokesman for Iran's parliamentary committee on national security and foreign policy.

Russia is currently building Iran's first nuclear power plant in Bushehr, in southern Iran.

Jalali stressed that Russia had completed the delivery of nuclear fuel for the Bushehr nuclear power plant's initial operation.

Russia delivered its final fuel shipment to Bushehr on January 28. With the eighth delivery of five metric tons, Russia had supplied a total of 82 metric tons of low-enriched uranium to the light-water nuclear power plant.

"I hope that the insignificant amount of work left for completion of the Bushehr nuclear power plant will be finished on schedule and no problems will hinder construction this year," the official said.

The first delivery of fuel to the plant arrived on December 16, 2007 following months of delays that Moscow attributed to payment arrears, but which Iran blamed on pressure from Western nations. The West suspects that Iran's nuclear program is military-oriented, a claim Tehran has denied. The five permanent UN Security Council members plus Germany agreed at talks in Berlin on January 22 on a draft for a third sanctions resolution against Iran calling for travel ban, asset freeze and vigilance on all banks in the Islamic Republic.

Iran hopes its first nuclear power plant will be launched in October.

Jalali said Tehran plans to hold tenders for the construction of 19 nuclear power plants in the country within 20 years, with a capacity of 1,000 MW each.

#### **- RUSSIA'S TOP GOLD PRODUCER POLYUS TO DEVELOP SIBERIAN MINES**

/February 21/RIA Novosti/

Russia's largest gold producer Polyus Gold [RTS: PLZL] announced on Thursday it would start developing alluvial gold fields in East Siberia's Irkutsk Region, following tender results.

Polyus Gold's subsidiary Lenzoloto was declared the winner of the tenders to develop five alluvial gold deposits in the Bodaibo area of the Irkutsk Region, with total reserves of 1.3 metric tons of gold, the company said in a statement.

"The expansion of the company's mineral base is an integral part of the program, which Polyus Gold is implementing to build up alluvial gold production," Yevgeny Ivanov, Polyus's general director said.

The company's alluvial gold output increased from 5.3 metric tons in 2006 to 5.6 metric tons in 2007, the company said in a statement.

#### **- RUSSIAN-INDIAN NUCLEAR DEAL READY FOR SIGNING**

/February 21/RIA Novosti/

A civil nuclear cooperation deal between Russia and India has been drawn up and could be signed in the nearest future, a Russian Foreign Ministry official said on Thursday.

Russia and India initialed an agreement earlier this month to construct another four reactors for the Koodankulam nuclear power plant in southern India.

"An agreement between Russia and India has been prepared on cooperation in the construction of additional power units at the Koodankulam NPP and at new sites to be designated," Alexander Maryasov said, adding that Moscow will be seeking to sign the new contract as soon as possible.

Atomstroyexport, Russia's nuclear power equipment and service export monopoly, is building the Koodankulam plant in line with an initial 1988

agreement between India and the Soviet Union, modified by an addendum signed ten years later.

However, Maryasov said the signing will take place only after restrictions on nuclear supplies and technology transfer to India are lifted and a safeguards deal with the International Atomic Energy Agency is signed.

A confirmed nuclear power, India has never been party to the 1968 Nuclear Non-Proliferation Treaty, and has been under U.S., Japanese and European sanctions since 1998, when it first tested atomic weapons.

Maryasov also urged for trade turnover between Russia and India, currently \$5.3 billion, to almost double by 2010. "We have a goal to increase Russian-Indian trade turnover to \$10 billion," he said.

#### **- METALLOINVEST READY TO MERGE WITH NORILSK NICKEL**

/February 21/RIA Novosti/

Metalloinvest, a leading Russian mining and ferrous metals company, is ready to merge with metals giant Norilsk Nickel, Metalloinvest's general director said on Thursday.

Russian business papers Kommersant and Vedomosti quoted on February 20 Andrei Klishas, chairman of Norilsk Nickel's board of directors, as saying he had received a letter from Dresdner Kleinwort with a proposal to consolidate the world's largest nickel producer with Metalloinvest, owned by Russian billionaire Alisher Usmanov.

"We are ready for a merger as this would be quite an interesting move for us," Metalloinvest CEO Maxim Gubiyev said.

Tycoon Mikhail Prokhorov and his former business partner Vladimir Potanin are two key shareholders of the metals giant Norilsk Nickel. As of late 2007, they held 28.2% and 25.3% of Norilsk Nickel's shares, respectively. Both businessmen announced plans early in 2007 to divide the assets, but eventually failed to agree on the business's division.

In late 2007, Russia's newly created aluminum giant United Company RusAl, controlled by Russian billionaire Oleg Deripaska, announced that it had reached an agreement with Onexim Group, owned by Prokhorov, on buying Prokhorov's blocking stake of 25% plus one share in Norilsk Nickel. The announcement came after Interros holding company refused to buy Prokhorov's blocking interest.

UC RusAl is currently raising a \$4.5 bln syndicated loan to finance the deal. Meanwhile, Nina Dementsova, an Interros spokeswoman, said that the holding did not rule out the option of consolidating with Metalloinvest.

"This option fits into our strategy for the company's aggregation, diversification and the growth of its profits," Dementsova said.

#### **- IRAN, RUSSIA TO SET UP JOINT VENTURE**

/FEBRUARY 22/press tv/

A Russian official says a joint energy and transportation venture between Iran and Russia will yield a \$20bn profit for both sides.

In a press conference on Thursday, Alexander Mariasov, a senior official in the Russian Foreign Ministry said that Iran and Russia will engage in gas, oil and aviation industry projects worth \$20 billion in the near future.

Iran's Oil Minister Gholam-Hussein Nozari said earlier that Iran and Russia have agreed on establishing an oil cartel presiding over more than 40 percent of the world's oil supply.

Russia's oil monopoly Gazprom and National Iranian Gas Company agreed on developing the South Pars field in the Persian Gulf, and the creation of a joint venture company with a third country in the next two months.

Nozari added that both sides have also agreed to construct a refinery in northern Iran.

Nozari said that Gazprom prompted the implementation of liquefied natural gas projects in the country.

#### **- Foreign investment in Russia in 2007 up 120% to \$121 billion**

/February 22/RIA Novosti/

Foreign investment in Russia's economy grew 120% to \$120.9 billion in 2007, and Russian investment abroad was up 43.6% on 2006 to \$74.6 billion, the Russian statistics service said on Friday.

#### **- RUSSIA'S UC RUSAL LAUNCHES ALUMINUM PLANT IN NIGERIA**

/February 22/RIA Novosti/

UC RusAl, the world's largest aluminum and alumina producer, has launched the Alcon smelter in Nigeria, the company said in press release on Friday.

RusAl said it plans to completely modernize the smelter so it can reach its full capacity of 197,000 tonnes per annum in 2010. Investment in the plant's modernization, including dredging of the Imo River, will total approximately \$300 million.

RusAl closed a deal to acquire a majority stake in Alcon (Aluminum Smelter Company of Nigeria) in February 2007, receiving a 77.5% share in a 193,000-ton

smelter, as well as a port on the Imo River and a power station. Germany's Ferrostaal AG and the government of Nigeria remain minority shareholders with 7.5% and 15% respectively.

Alcon, based in Nigeria's Akwa Ibom State, produced its first metal in 1997, but was brought to a standstill in 2000 by high production costs, inadequate gas supply, and a lack of working capital.

RusAl says the smelter will create 1,900 local jobs and that 90% of the employees will be Nigerian citizens. Additionally, 20,000 jobs will be created through infrastructure projects, resulting in higher living standards for Akwa Ibom state residents.

The smelter includes two potlines, an anode rodding shop, a cast house area and various infrastructure facilities, including a port on the Imo River and a power-generating gas station.

To date, the first start-up section of the cast house has been launched; dry scrubbers installed; two gas-turbine units have been refurbished; the anode rodding shop has been completed, and a system of alumina transportation has been organized.

UC RusAl, controlled by Oleg Deripaska's Basic Element, became the world's largest aluminum producer after a March merger between RusAl, rival Sual and Swiss Glencore's alumina assets.

#### **- RUSSIA, SERBIA SIGN SOUTH STREAM GAS PIPELINE DEAL**

/February 25/RIA Novosti/

Russia and Serbia signed Monday an agreement on implementation of a project to construct a pipeline for the transit of the Russian natural gas through Serbia to the Balkans and on to other European countries.

The agreement was signed in Belgrade in the presence of the Russian First Deputy Prime Minister Dmitry Medvedev and Serbian Prime Minister Vojislav Kostunica.

"This agreement serves interests of both, Russia and Serbia, and lays the foundation for the regime of energy security in the unified Europe," said Medvedev, who is the Kremlin's front-runner in the upcoming presidential elections.

The South Stream project envisions transportation of 10 billion cu m of Russian gas annually across the Black Sea.

Russia's Gazprom Neft signed a deal on the purchase of a 51% stake in the Serbia state-owned oil monopoly Naftna Industrija Srbije (NIS) during talks between the two countries' leaders in Moscow on January 25.

Gazprom had reportedly offered \$580 million for a 51% stake in NIS amid fears in Europe over perceived growing energy dependence on Russia.

The joint construction of a stretch of a natural gas pipeline with Russia's Gazprom under the South Stream project will turn Serbia into a regional economic leader, Serbia's prime minister said.

The South Stream pipeline proposed by Russia's Gazprom and Italy's Eni is a rival project to the Nabucco pipeline backed by the European Union and United

States, which will pump Central Asian gas to Europe via Turkey bypassing Russia.

The pipeline will run from Russia's Black Sea coast under the sea to Bulgaria, where it will branch off to different destinations in the European Union, supplying 30 billion cubic meters of gas annually.

Serbia initially planned to sell a 25% stake in NIS for \$300 million and oblige the buyer to invest another \$250 million in the development of the company. The company is estimated as being worth \$1.2 billion.

#### **- TURKEY FOR RUSSIAN INVOLVEMENT IN NUCLEAR POWER PLANT CONSTRUCTION**

/February 20/RIA Novosti/

Turkey is all for attracting Russian companies to take part in the construction of nuclear power plants on its territory, the country's foreign minister said on Wednesday.

"Turkey intends to build nuclear power plants, and we want Russian organizations to take an active part," Ali Babacan told a RIA Novosti press conference.

Babacan said Russia and Turkey were not competitors, but partners complementing each other, adding that the two countries successfully cooperated in energy transit, and that Turkey was also a large consumer of Russian oil and natural gas.

"We know Russia is interested in such projects as the underground storage of gas. There is also interest in a project to build a terminal to process liquefied gas in the port of Ceyhan," he said.

It was earlier reported that Turkish authorities were planning to announce on February 21 the date for holding a tender to build the country's first nuclear power plant, set to be constructed on the Mediterranean coast. Local and foreign-based companies are expected to participate.

Turkey expects to build three nuclear power plants by 2016, worth \$7-8 billion.

Babacan also said bilateral trade in 2007 had totaled \$20 billion. He went on to comment that Russia was Turkey's second largest foreign partner. Turkey is Russia's fourth partner in terms of the exports of Russian goods.

#### **- RUSSIAN DEFENSE SPENDING TO GROW 20% IN 2008, TO \$40 BLN**

/February 26/RIA Novosti/

Russia's Defense Ministry will spend around one trillion rubles (\$40 bln) of federal budget funds in 2008, 20% more than in 2007, a ministry official said on Tuesday.

"The Defense Ministry will spend a little less than one trillion rubles in 2008, which is about 20% more than last year," Deputy Defense Minister Lyubov Kudelina said.

She also said that in 2008-10, military spending would account for 15.5-16% of aggregate federal budget expenditure.

She said most of the funds would be spent on the maintenance of the armed forces, the procurement and repair of military hardware, scientific and research work, and construction.

The official did not say how much would be spent this year on the procurement of new military hardware, but last year's figure was over 300 billion rubles (\$12 billion), 20% higher than in 2006.

Russia has downsized its Armed Forces to about 1.1 million personnel, but military spending has increased dramatically under President Putin. Defense spending is set to total 1.18 trillion rubles (\$45 billion) by 2010.

#### **- UKRAINE'S DEBT FOR RUSSIAN GAS SUPPLIES IN 2007 PAID IN FULL**

/February 27/RIA Novosti/

Ukraine has paid over \$1 billion to Gazprom to clear its debts for Russian gas supplies in 2007, the country's First Deputy Prime Minister Oleksandr Turchinov said on Wednesday.

The presidents of Russia and Ukraine agreed on a roadmap two weeks ago to settle Kiev's overall \$1.5 billion debt for Russian gas supplies in 2007 and 2008.

"Ukraine's debt as of January 1, 2008 has been paid off," Turchinov told a Cabinet meeting.

Ukraine's national oil and gas company Naftogaz has transferred the payment to the import monopoly UkrGazEnergo, its joint venture with Swiss RosUkrEnergo, which holds a monopoly on natural gas exports to Ukraine. UkrGazEnergo will now transfer the money to RosUkrEnergo, of which Gazprom controls 50%, with the other half controlled by two private individuals. Gazprom warned on Tuesday that it would reduce natural gas supplies to Ukraine by 25% on March 3 if problems, primarily debts, were not settled. Ukraine's Prime Minister Yulia Tymoshenko was expected to make an emergency report to Ukrainian President Viktor Yushchenko earlier on Wednesday over Russia's ultimatum, Ukrainian ICTV said.

The latest reports quoted Gazprom spokesman Sergei Kupriyanov as saying that problems with gas supplies to Ukraine would only get worse in 2008.

Commenting on reports that Ukraine had paid off its 2007 debts to Gazprom, Kupriyanov said, "Paying off last year's debt is not a great achievement, there is nothing to be proud of. Particularly as problems with gas supplies are only set to get worse in 2008, with all the documentation for Central Asian and Russian gas still requiring signing, which means that unauthorized gas consumption is growing in Ukraine."

Under an agreement reached between Russia's Vladimir Putin and Ukraine's Viktor Yushchenko, Gazprom and Naftogaz are to switch to direct cooperation without intermediaries. To achieve this, two joint ventures will be established.

"We are entering a brand new level of gas contacts between Russia and Ukraine, based on principles of direct cooperation which will be **mutually advantageous for both parties**," Kupriyanov said.

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