



Banking & Finance

Gazprombank to Pay \$500m for Banks in Russia and CIS

Next year, Gazprombank may spend up to \$500m to purchase several banks in Russia and the CIS, according to Alexander Sobol, Deputy Board Chairman of Gazprom's financial division. He said the funds would be spent if good offers came up. Gazprombank is currently negotiating with representatives of several banks from Ukraine, Kazakhstan and Azerbaijan. Gazprombank is one of the top three banks in Russia and the financial arm of Gazprom. It also ranks fifth amongst the top banks in Central and Eastern Europe.

Russian Banks to Toughen Credit Policies

The Russian banking system will respond to the sub-prime mortgage crisis in the United States by re-evaluating risks and toughening their credit policies. Loans will no longer be so easily available and fast-growing as they are now, said Finance Minister and Deputy Premier Alexei Kudrin. According to him, loans will no longer be cheap because of the market's response to higher financial risks. The rate of increase in lending will become lower, but it will have a "cold shower" effect, the Minister said, adding that Russia's banking system would remain competitive. Along with that, Kudrin said bankers should be prepared to take higher risks because the crisis is not yet over. In this connection, he asked the Central Bank of Russia to adjust its supervisory policy and suggested that commercial banks should draft their strategies with due consideration of those risks.

Bank of Moscow to Continue with Low-Interest Foreign Currency Mortgage Loans

Last May, the Bank of Moscow launched a programme of mortgage loans provided in Swiss francs from an interest rate of 7%. The idea was well received by Russians, according to Alla Tsytovich, Managing Director of the bank's retail arm. Loans in Swiss francs provided by the bank by the beginning of November 2007 reached the equivalent of RUR4bn (\$164.5m or €110.8m). Initially, the Bank's analysts hoped to reach this figure by the yearend only. The amount of housing loans provided by the Bank of Moscow as of early November exceeded RUR12bn. Its mortgage portfolio grew by more than 130% since the beginning of the year.

Transcapital Bank to Raise \$15m to Finance SMEs

Transcapital Bank (TCB), a Moscow bank with a share of foreign capital, and NationalCity Bank (Cleveland, USA) have signed an agreement on a \$15m long-term loan, guaranteed by the US Overseas Private Investment Corporation (OPIC). TCB plans to use the funds raised to expand its SME financing programmes. OPIC is a state corporation established by the US government in 1971, which assists private companies in FDI risk management, and supports investment in joint ventures in emerging markets. OPIC's goal is to encourage economic development and establish long-term partnerships between American and foreign businesses.

Moshkovich Buys Binbank

Vadim Moshkovich, co-owner of Rusagro (one of Russia's biggest agribusiness holdings) and member of the Federation Council, the Russian parliament's upper chamber, has bought Binbank. The agreement on the transaction was reached after Mikhail Gutseriyev, the founder of Binbank and RussNeft, had left the country. The package comprises the shares of the company that holds Binbank's stock. The Federal Anti-trust Service is currently considering the application of Tradewest, which wants to increase its stake in Binbank to 87.07%. The new owner's representative, Vartan Dilanyan, a partner with Ernst & Young, has become the Bank's first Vice President and will later become President. Binbank is one of Russia's top 30 banks.

ARB, CBR to Prevent Banking Crisis in Russia says ARB Head

The Russian banking system's capital has grown by 60%, to RUR2.437tn, (\$99.75bn, or €67.75bn) since January 2002, according to Garegin Tosunyan, President of the Association of Russian Banks

(ARB). The banks' assets have reached RUR18.231tn (\$746.25bn, or €506.84bn). Tosunyan said the Central Bank of Russia and the ARB had taken a series of effective measures to resolve a number of insufficient liquidity problems in the second half of 2007. "We are making every effort to prevent a banking crisis in Russia," he said. He also said the programme of consolidating the banking system until 2020 developed by the ARB and supported by the banking community would promote further growth in the system's resources and availability of services. According to the programme, by 2009, the ratio of bank-to-business loans to GDP will reach 50% (21.6% as of 1 January 2007), while interest rates on loans will be down to 3-6% from the current 11%-22%. The banking system's assets will amount to 86% of GDP, and its capital, to 13% (6% at present).

Fuel & Energy

Nord Stream Be Completed on Time says Dmitry Medvedev

The Nord Stream gas pipeline project will be implemented on schedule, said Russia's First Deputy Prime Minister, Dmitry Medvedev. Minor changes could be made but they should not affect the more general approach and the schedule, he said, adding that the project will make it possible to solve Europe's acute energy problems. According to Medvedev, the project was conceived at a time when gas production was falling in Europe and new sources had not appeared. However, certain difficulties have arisen. "Some countries do not want to participate in it and they have the right to do so. I think common sense will finally prevail and our colleagues will realise that this project will benefit all countries," Medvedev said.

Transneft Inspects ESPO Progress

Russia's pipeline monopoly Transneft has studied the results of an inspection of the progress of construction works for the East-Siberia-Pacific Ocean pipeline project. The first part of the pipeline to come on stream includes a 2,694km link, seven oil pumping stations with storage tanks of 800,000 cu m, communications facilities and external power distribution grids, an independent diesel power plant, and single IT management system and a specialised sea terminal, Kozmino. The company's board has spotted a serious delay in construction, and no work has been done on a 704km section of the pipeline. The reasons for the failure to meet the schedule include a shortage of qualified personnel with the general contractors for the project, and of subcontractors as well.

Independent Companies to Produce 140-180 bcm of Gas by 2020

Independent gas companies will increase Russia's production of natural gas by 140-180 bcm a year, said Alexander Berezikov, Vice President of Russian-British oil venture TNK-BP. Russia produced 656 bcm of natural gas in 2006, with Gazprom accounting for around 83.9% of the total. It means that independent gas companies produced 105 bcm. According to Itera International Group, one of the largest independent producers and traders of natural gas operating in the CIS and the Baltic states, the share of natural gas contributed by independent companies to Russia's annual gas production has been growing since 2002, amounting to 16% in 2006.

Key Companies

AvtoVAZ Net Profit to Exceed \$120m This Year

The net profit of Russia's largest automaker AvtoVAZ is expected to reach RUR3bn (\$123.41m or €3.13m) this year, up 20% from RUR2.5bn in 2006, according to a forecast released by Sergei Chemezov, Chairman of the Board of AvtoVAZ and CEO of the state-run arms firm Rosoboronexport. Chemezov said AvtoVAZ should retain its position and share in the domestic market as the producer of the most popular Russian car models. Which means the company has met its priority goal, Chemezov added. In the current market situation, the company's Lada and Zhiguli models will remain popular only in the price niche they currently occupy, with retail price not exceeding \$10,000 or \$12,000. The company will also have to improve the quality of its products, Chemezov added.

Alexei Mordashov Intends to Become Largest Shareholder of Germany's TUI

Alexei Mordashov, head of Severstal, intends to increase his stake from 3% to 20% in the German tourism and shipping concern TUI AG. Observers say that Mordashov is seriously interested in increasing his stake in the German concern in order to develop strategic partnership with TUI. By purchasing 20% of TUI for about €1bn, he would become its largest shareholder. When Mordashov bought 3.02% of TUI AG and became its co-owner, he supported the German company's management in its dispute against US shareholders demanding that TUI should be split into two companies. TUI AG has international interests which have been concentrated in two fast-growing sectors since 2005, tourism and shipping services. TUI is a leader on the market in these sectors being the largest European tourism company and the fifth largest sea freight carrier.

Leader, Gazprombank to Form Pool of Toll Road Builders

Russian managing company Leader, Gazprombank and Stroygazconsulting (a consulting company on the construction of gas facilities), Portuguese Brisa Auto-Estradas de Portugal SA, Austrian Alpine Ban GmbH and Spanish FCC Construcción SA have signed an agreement to participate in the contests held by the Russian Transport Ministry for concession agreements to finance, build and operate a St Petersburg high-speed road and the new exit from the M1 Belarus (Moscow-Minsk) federal motorway onto the Moscow Ring Road (MKAD). Leader was the initiator of this agreement. According to the agreement, two Russian companies will be established to bid in corresponding contests. The Russian participants will manage the companies, while foreign participants will bring in modern road-construction and maintenance technologies.

Gazprom, TNK-BP Postpone JV Deal till Late 2007

Gazprom and TNK-BP have postponed until the end of the year the deal to establish a joint venture, which was to be concluded by 1 December 2007, TNK-BP's vice-president Alexander Berezikov said. Berezikov also said that the sides had not yet decided on several minor parameters of the agreement. According to him, Gazprom's entry into the Kovykta project has not been postponed so far. In June, Russian-British joint venture TNK-BP and BP agreed to sell their stake in the Kovykta gas condensate deposit to Gazprom for \$700-\$900m on condition that this sum would be later adjusted. Gazprom and BP also announced their plans to set up a joint venture with assets worth \$3bn at the first stage.

GAZ Group's Earnings up 32.4% in First Quarter

The earnings of Russian automaker GAZ Group, according to international financial reporting standards, totalled RUR67.462bn (\$2.775bn, or €1.868bn) in the first six months of this year, 32.4% more than in the similar period last year (RUR50.942 or \$2.09bn). The earnings by the group's car division went up 35.9% to RUR44.934bn (\$1.849bn or €1.239bn). Its LCV division boosted earnings by 41.7% to RUR22.023bn (\$906.5m or €607.4m). The growth in earnings resulted mainly from a considerable increase of freight traffic in Russia, which caused a rapid development of delivery services by small and medium-sized businesses, which are the group's main consumers in this segment. Earnings in the passenger car segment dropped 14.4% to RUR3.88bn (\$159.7m or €106.9m), as a result of the planned sales decline in this segment due to a gradual reduction of the production and sales of Volga cars. The company plans to bring its new car, Siber, to the market.

Investment Projects**Forty Resident Companies in Alabuga Special Economic Zone to Invest \$2bn**

The production facilities of more than 40 resident companies, their investments totalling at least \$2bn, are to start operation in the Alabuga special industrial economic zone in the Yelabuga district of Tatarstan. The facilities in the zone will manufacture motor vehicles, buses, auto components, heat pump units, construction equipment and other products. About 30,000 jobs are planned to be created there. The construction of all kinds of infrastructure facilities should be completed in the Alabuga special economic zone by 2011, including those beyond its bounds, such as a 500MW substation, Kama-500.

\$1tn Investment Required by Russia's Transport Infrastructure

At least \$1tn needs to be invested in Russia's transport infrastructure up to 2020, said Kirill Androsov, Deputy Economic Development and Trade Minister. Russia today is a number one market in construction and modernisation in this sphere, and funds should come through 15-20 year project financing schemes. Although attracted by Russia's vast potential, investors are so far cautious to plan such inputs. In particular, the Trans-Siberian Railway (TransSib) could become the "main artery" linking the Asia-Pacific Region and Europe, Androsov said. According to his ministry, 22% of international cargoes and 10% of passengers travel through this link. The Economic Development and Trade Ministry and the Russian Railways monopoly have estimated that 10m to 12m containers could pass through TransSib annually.

Maxwell Asset Management to Establish Olympic Unit Investment Fund

On 26 November 2007, Maxwell Asset Management, incorporated in the Russian-based Maxwell Capital Group, started to establish the Maxwell Olympic Unit Investment Fund. The fund will use new investment opportunities offered by the holding of the 2014 Winter Olympics in Sochi. Nearly all sectors of the national economy will participate in building the Olympic infrastructure, and the shares of most companies, including those of the Southern Federal District, will be included in the fund's portfolio. The companies implementing Olympic projects have good growth prospects ahead of the Games. The fund will amount to RUR30m (\$1.23m or €31,255) in its primary placement.

Macroeconomics

Russia Remained Top Global Oil Producer in September

In September 2007, Russia remained at the top of the list of the world's largest oil producers with 9.467 bpd, Russia's Federal Statistics Service (Rosstat) reported. Saudi Arabia, which ranked second, produced 10% less, 8.604 bpd. Crude oil accounted for 34.4% of Russia's exports from January to September, and for 54.3% of its fuel and energy exports (in the January-September period of 2006, 35.5% and 52.6%, respectively). The effective average export price of oil was \$490.20 per metric ton (98.3% of August 2007 level), while global Urals oil price was \$539.10 per ton (107%) in September 2007.

Russia Won't Contain Inflation at 7% in 2008

The Russian government won't be able to contain inflation at the targeted value of 7% next year, the World Bank forecast. Inflation in 2008 will reach 7.5% in Russia, said World Bank senior economist, Paloma Anos Casero, adding that capital inflow was the key inflation factor in Russia's economy. Capital inflow affects inflation to a far greater extent than growing federal expenditures, she said. This will be significant in 2008, and inflation will be above the level set by Russia's government, she warned. This year's inflation could hit 11% or even higher by the end of the year, Ms Casero warned.

Current Policy to Put Russia among Top Five Economies says President

President Vladimir Putin is convinced that, ten years from now, Russia will rank amongst the top five global economic powers, if it consistently pursues its current policy. Russia is back to the top ten economies today, he said, but it could do even better. The country's GDP grew by 70% in eight years, while Russian companies' capitalisation grew by more than 30 times. Independent experts, both in Russia and abroad, agree with Putin's forecast. Recently, Russia ranked first among Group of Eight countries in the growth rate of real GDP in the second quarter of 2007. Germany topped the industrial growth list with a rate of 6%, closely followed by Russia (4.9%). Japan ranked third with 3.2%. On the other hand, Russia was absolute G8 leader in inflation with the monthly rate as high as 0.8% in September. The United States was second with 0.3% and Canada third, with 0.2%.

Average Salary Up 23.3%, to \$557 in October

The average accrued monthly salary in Russia was RUR13,540 (\$557 or €75) in October, a 23.3% increase from last year's figure, according to preliminary data from the Federal Statistics Service

(Rosstat). The highest average monthly wages were registered at mineral extraction companies (RUR36,807 or \$1,513), in the financial sector (RUR30,330), and pipeline companies (RUR27,212); the lowest, in the textile industry and clothing manufacture (RUR6,646 or \$273). In healthcare and social services, the accrued average salaries amounted to 77% of those in manufacturing, in education, 67% - a similar pattern was witnessed from January to August 2006.

Regional Authorities Can Keep Food Prices down – Official

Russian Emergencies Minister, Sergei Shoigu, said regional authorities should join the struggle to restrain the growth of food prices, which eats up salary and pension rises. Shoigu said that there are at least 19 different kinds of control agencies in each Russian region and territory, which can independently regulate many things. "There are enough levers, one need only to use them," he said. He added that the necessary decisions had been taken by the federal anti-trust agency, and the government had held several meetings to discuss the problem, including the situation in major retail chains and price collusions. "These measures have stabilised the situation. Price growth has been slowed down, even if not immediately," he said.

Putin Opposes Turning Machine Building into National Project

"We cannot launch a national project for every important, or even very important, problem," Russian President Vladimir Putin said. He said he agreed that machine building and manufacturing were the basis of the economy. "The government should use tax tools, customs policies and its influence on innovative ideas to facilitate the development of some or other activities," he said. In recent years, the government has taken steps in this direction, notably, adjusted the tax system, increased the burden on the energy sector, and reduced it for machine building and manufacturing, Putin pointed out. "The situation is already changing for the better," he said. "We will continue working in this manner."

President Putin Introduces Changes to Budget 2007

President Vladimir Putin has signed the federal law introducing amendments to the law on the federal budget for 2007. It changes the budget's figures taking into account preliminary estimates of its fulfillment in the first nine months of the year. Budget revenues are projected at RUR7.444tn (\$306.84bn or €205.92bn), an increase of 6.9% from the previously stated sum. The sum to be transferred to the Stabilisation Fund is reduced by 8.3% due to a decline in the average annual oil price used to calculate deductions to the fund. Budget revenues excluding these deductions are expected to grow by RUR618.8bn (\$25.51bn or €17.12bn), or 11.7%, compared to the initial plan. The bulk of this growth is made up of revenues from the sale of Yukos's assets as part of its bankruptcy procedure.

Mergers & Acquisitions

Rusal, Onexim to Merge Norilsk Nickel with Rusal Assets

United Company Russian Aluminium (UC Rusal), the world's largest aluminium and alumina producer, and Onexim Group, a Russian private investment fund, have signed an agreement to establish a mining and metallurgical company incorporating the assets of Russia's largest nickel producer, Norilsk Nickel (NorNickel) and UC Rusal, if Vladimir Potanin refuses to buy the other shareholder Mikhail Prokhorov out of NorNickel. The deal would go ahead if Prokhorov's ex-partner Potanin failed to accept an offer Onexim made earlier this week to sell its 25% plus one share stake in NorNickel for \$15.7bn, Rusal and Onexim said in a joint statement. Under the agreement, Rusal will acquire Prokhorov's stake, while Onexim will become an 11% shareholder of the enlarged UC Rusal with the balance of the consideration to be paid in cash, also getting a seat on Rusal's board. Four major foreign banks – ABN Amro, BNP Paribas, Credit Suisse and Merrill Lynch – will guarantee the cash component of the deal by a loan they have already confirmed to Rusal. Rusal and Unexim plan to complete the deal in the first quarter of 2008, after obtaining relevant permits from the Russian and foreign anti-trust agencies.

Tehnosila Buys 80% of Slavprombank to Develop Consumer Credit Lending

A fall in growth rates in the market for household appliances makes trading companies look for new sources of revenues. The CB group developing the Tehnosila retail network has purchased about 80% of Slavprombank, a commercial joint-stock bank. Tehnosila's representatives confirm that the company has bought a stake in the bank in order to manage it. On this basis, the CB group intends to develop consumer credit lending in the Tehnosila retail network. It hopes to enter other segments of the banking business in the future. At present, the network cooperates with three banks: Home Credit, Renaissance Credit and Credit Europe; in 2008, the network's own bank will join them. In 2006, Technosila sold 29% of all goods (in value terms) on account, against 36% in 2005. The network's representatives are convinced that this indicator will not drop below 25%-28% in the next two years.

Irkutskenergostroy Gains Control over Sverdlovsk Energy Service Company

Power facility repair company Irkutskenergostroy has acquired 90.21% of ordinary shares in Sverdlovsk Energy Service Company based in Yekaterinburg. Irkutskenergostroy had not been a shareholder of the Sverdlovsk Energy Service Company before that. Russia's electricity monopoly RAO UES, which earlier owned 65.33% of ordinary shares in the Sverdlovsk company, abandoned its shareholding. IES-EnergoStroyEngineering (IES-ESE), a dynamically developing engineering company providing a complete range of power engineering services, followed suit. IES ESE, which is incorporated in IES Holding, acquired 13.79% of the company's ordinary shares in March.

The Regions

PGO checking for violations of law by former leadership at Ukrtatnafta

KREMENCHUG. A special commission of the Ukrainian Prosecutor General's Office has started checking for violations of the law by the former leadership at CSJC Ukrtatnafta (the Kremenchug Oil Refinery in Poltava region), according to an appeal by Palvo Ovcharenko, who has been reinstated under a court order as the company's board chairman. "Specialists will find out whether the former leadership was artificially bringing the company to bankruptcy and evading taxes," Kremenchug Prosecutor Viktor Pavliychuk told the press. Earlier Ovcharenko said that during the leadership of Serhiy Hlushko, oil was bought at a higher price through intermediaries that acted under orders of Nail Maganov, Tatneft first deputy general director and head of oil and product sales, and over five months in 2007 the company lost around \$240m and dividends from activities, which in 2006 should be \$5m. Until recently, the main shareholders in Ukrtatnafta were Ukrainian national oil and gas company Naftogaz Ukrainy with 43.054%, the land property ministry of the Russian Republic of Tatarstan with 28.778%, Tatneft with 8.613% and two companies linked to Tatneft - Seagroup International Inc (United States) with 9.96% and Amruz Trading AG (Switzerland) with 8.336%. The Russian shareholders control a combined stake of more than 55% in the company.

UMMC drops plans to produce lead in Altai

BARNAUL. Ural Mining and Metallurgical Company (UMMC) has dropped plans to set up production of lead at the state-owned Biisk Oleum Plant in the Altai territory, the head of the regional industry and energy department, Viktor Meshcheryakov told Interfax on 22 November. The project would be "unprofitable, economically unjustified due to high transport costs," he said. Biisk Oleum general director Anatoly Ananyin told Interfax that UMMC has not yet officially stated its plans concerning the plant. "I don't have official answers. But the timetable for setting up production has long passed," he said. UMMC had planned to invest about \$80m in the project. Construction was supposed to begin in 2008 on a new facility at the plant to process lead, with capacity for about 60,000 tonnes per year worth 2bn rubles. The new facility was to get half its ore from UMMC mining subsidiary Sibir-Polymetals in the Altai territory, with the rest shipped in.

Defence equipment share in UVZ products to account for 20% - CEO

YEKATERINBURG. The share of defence-oriented products in the total output of the Uralvagonzavod (UVZ) plant is likely to reach 12-20%, Boris Mineev of the plant's PR and

information service claimed, citing the Company's CEO, Nikolai Malykh. Other products will be commercial, and include the unique motive power module, developed from RT-M-160 tractors, with diesel engines, developing from 60 to 240 hp. The company will be reincorporated as a joint-stock company in 2008, with the state to control 100% of its shares. The corporation will include six production companies, six research and development centers and four design bureaus, with UVZ appointed the management company. Mineev said with reference to the UVZ CEO that the corporation is going to double the output by 2015. UVZ specialises in rolling stock for railways, road-laying and special purpose civilian vehicles, and armored vehicles. The plant is the largest in the world in terms of production of tanks, including T-72 and T-90S, and armored vehicles on their chassis.

Putin Tells New Envoy to Decriminalise Far East

President Vladimir Putin has instructed his new envoy in the Far East Federal District, Oleg Safonov, to concentrate on the fight against crime. "You are being sent on a mission to one of the most difficult and most important regions - the Far East. A string of programs - regional and local - have been planned for implementation. In connection with this, decriminalization of the region ranks among the first-priority tasks. Please, pay attention to all aspects of your mission, including the fight against crime," Putin told Safonov on Tuesday. Safonov thanked the President for the trust vested in him and assured him that he was "fully aware" of the problems in the Far East Federal District. "You were right when you said that the first thing to be done is to decriminalize the economy, especially ahead of an APEC forum [to be held in Vladivostok in 2012,]" Safonov said. Safonov also said he would focus on economic, industrial and social development. "This is especially important against the background of the problems and events in Nevelsk," he said.

Sochi Thermal Power Plant to enter stock market in May 2008

Sochi Thermal Power Plant, which is consolidating assets, owned and managed by INTER RAO UES, will enter the stock market in May 2008, Unified Energy System of Russia (UES) CEO Anatoly Chubais announced. The Sochi plant will then issue Global Depository Receipts in June, he added. After all the assets have been consolidated on the core of the Sochi Thermal Power Plant, the plant will be renamed OJSC Inter RAO. Chubais said HydroOGK shares would appear on the stock market in March 2008, Federal Grid Company shares in July 2008 and the shares of RAO UES Vostok and MRSK Holding in August 2008.

International Cooperation

Union State's Budget Revenues Exceed Planned Targets

Russia's Audit Chamber has examined the report on the fiscal performance of the Russia-Belarus Union State from January to September this year. It shows that the planned budget revenues within the reporting period were exceeded by RUR1.6bn (\$65.8m or €44.3m). Less than half of the specified funds were spent. In particular, only 81.3% of allocations on the maintenance of the Union State's bodies were spent, and only 54% of the approved total was spent on implementing programmes and sub-programmes and measures. There has been a stable increase in the balance on the accounts of the national treasuries and chief asset managers. The remaining balance in the budget exceeded RUR2bn (\$82.3m or €55.38m) as of 1 October this year, or 68.1% of the revenues, having doubled since the start of the year.

Russia to Deliver 5m Tons of Oil Annually to China across Kazakhstan

Russia plans to deliver up to 5m metric tons of oil annually to China across Kazakhstan, Russian Industry and Energy Minister Viktor Khristenko said at the 11th meeting of the intergovernmental commission for Russian-Kazakh cooperation held in the capital of Kazakhstan, Astana. He said the drafting of an intergovernmental agreement on a Caspian gas pipeline was in the final stage. His Kazakh counterpart Galym Orazbakov said Russia was one of Kazakhstan's biggest trade partners and a stable investor in its economy. From January to September this year bilateral trade went up 31.4%, to \$11.7bn, compared with the same period of 2006. Over 3,000 companies with the participation of Russian capital are currently operating in Kazakhstan, Orazbakov said.

Saudi Arabia to Buy \$4bn worth of Weapons in Russia

Saudi Arabia is ready to make its first weapons purchase in Russia. Rosoboronexport has confirmed that Crown Prince Sultan Ibn Abdel Aziz of Saudi Arabia, who is also the country's Defence and Aviation Minister, had intensive talks in Moscow on this issue. Following the Prince's visit, it is planned to sign an agreement on military and technical cooperation between Russia and Saudi Arabia. Russian arms manufacturers estimate the transaction with Er-Riad at \$4bn. Saudi Arabia is one of the world's largest importers of military hardware. Annually, it spends from \$12bn to \$17bn to buy weapons. Experts think that Er-Riad, which has never bought Russian weapons before, is seeking a rapprochement with Russia on foreign policy issues. Besides, Saudi Arabia had problems with US weapon suppliers after the September 11th 2001 terrorist attacks; the relations between Er-Riad and Washington have been worsening since then. The Rosoboronexport State Corporation is the sole Russian state intermediary for military exports.

Russian-Italian Relations Better than Expected – Romano Prodi

Relations between Russia and Italy are rapidly developing in three main spheres – politics, economics and common spiritual values – in fact even faster than predicted, said Italian Prime Minister Romano Prodi at a meeting with Russian President Vladimir Putin. "Our relations are developing in a way we did not even expect," Prodi told Putin. Bilateral trade has increased by 30%, and not only in the supply of energy resources. The economies of both countries are becoming ever more integrated, he said. The two leaders planned to sign a series of cooperation documents on the construction of a gas pipeline and on humanitarian projects. Prodi said it would be more evidence of growing friendly relations. They planned to sign addenda to the memorandum of understanding between the main parties in the South Stream project – Gazprom and Italian energy company Eni – to set up a joint venture and conduct a feasibility study.

Kazakhstan, Turkmenistan Negotiate Construction of Pipeline Bypassing Russia

Turkmen President, Gurbanguly Berdymukhammedov, proposed at talks with Russian representatives to raise by 30% the price of Turkmen gas purchased by Gazprom, which had been fixed for a period until 2009. But the problem appeared to be more serious than a price increase: Kazakhstan and Turkmenistan are negotiating the construction of a trans-Caspian gas pipeline bypassing Russia and the export of Turkmenistan's gas along the Kazakhstan-China gas pipeline. According to the protocol of the second meeting of the intergovernmental commission for cooperation between Kazakhstan and Turkmenistan signed in Astana, the two countries have confirmed their preparedness to continue to work on establishing alternative export routes. In the long term, Kazakhstan and Turkmenistan are prepared to export their gas to the European Union across South Caucasus and to China across Kazakhstan.