

Business and Politics in the Muslim World

Weekly Report on Russia
Report # 130
24July 2010, to,31July 2010
Presentation 04July, 2010

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The 'unravelling relationship' between Russia and Iran

Russia and Iran seemed to be good friends, but in recent weeks the relationship has unravelled. Since 1991, Russia has been a major supplier of modern arms to Iran. The Russian-built nuclear power plant in the southern Iranian city of Bushehr is due to finally come on line this year. In advance, Russia has shipped more than 100 tonnes of low-enriched uranium reactor fuel rods to Bushehr. Moscow has earned billions, helping Iran bypass US and European Union (EU) sanctions.

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Tensions between [Russia](#) and [Iran](#) appeared to grow on Monday over Russian support for sanctions approved last month by the [United Nations Security Council](#). The Russian

Foreign Ministry criticized the Iranian president, [Mahmoud Ahmadinejad](#), over his recent comments about the Russian president, [Dmitri A. Medvedev](#). Mr. Ahmadinejad had said that Mr. Medvedev was becoming a “mouthpiece” for Iran’s enemies. Russia has long sought to maintain warm ties with Iran, in part because the two countries are neighbors, and the Kremlin does not want Iran to stir up trouble in Russia’s Muslim regions. But relations have soured since [Russia endorsed the latest sanctions](#).

Iran and Russia Exchange Acerbic Barbs on Sanctions

[Russia](#) and [Iran](#) publicly traded barbs on Wednesday, showing strains in their longstanding alliance because of Moscow’s support for [a new set of American-backed sanctions](#) over the Iranian nuclear program. During a televised speech in Iran, President [Mahmoud Ahmadinejad](#) lashed out at his Russian counterparts, who last week agreed, along with the other permanent members of the [United Nations Security Council](#), on the [draft language](#) for the proposed new sanctions, which would punish Iranian financial institutions and countries that offer Iran nuclear-related technology.

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U.S. deports alleged 12th Russian spy

Federal authorities detained a 12th person in their investigation of a Russian spy ring in the United States, and he has been deported to Russia, U.S. law enforcement officials said Tuesday. The man, Alexey Karetnikov, entered the United States in October and was living in the Seattle area, where he worked at Microsoft, according to federal officials and the company. Karetnikov, a Russian citizen in his early-to-mid-20s, had been held on immigration violations because there was insufficient evidence to charge him with a crime, the government officials said. “He was just in the early stages; had just set up shop,” said one senior federal law enforcement official, who spoke on the condition of anonymity because the details of the case were closely held. The official added that the FBI was monitoring the Russian almost immediately upon his arrival and that he had “obtained absolutely no information.”

Belarus and Georgia get together for a few potshots at Russia

Alexander Lukashenko, the hardline president of [Belarus](#), and Mikhail Saakashvili, the leader of [Georgia](#), have forged an unlikely political alliance in a "media war" with the Kremlin. Lukashenko, a former collective farm manager and often called Europe's last dictator, and Saakashvili, a graduate of Columbia Law School and self-styled champion of democracy, may seem like dubious bedfellows. But experts say their interests have merged in an escalating conflict between [Russia](#) and its former Soviet neighbours as the latter try to foster closer ties with the European Union. Russia fired the first salvo earlier this month when the state-owned NTV station aired a two-part documentary called The God Daddy. The film, a play on Lukashenko's nickname and the Marlon Brando mafia movie, was a character assassination accusing the Belarussian leader of "disappearing" political opponents.

Economic: New Holland Savior?

Russian billionaire Roman Abramovich may finance the New Holland property development in St. Petersburg's historic city center, Kommersant reported, without citing anyone. The project, designed by British architect Norman Foster, was abandoned by former billionaire Shalva Chigirinsky after Russia's record stock market rout in 2008, the Moscow-based newspaper said.

Grain Prices Soar

Russian grain prices rose as much as 33 percent last week on drought concerns, SovEcon, the Moscow-based research center, said on its web site. Wheat in the European part of Russia rose 15 percent to 4,850 rubles (\$160) a metric ton by July 23 from a week earlier, SovEcon said. Barley added 30 percent to 3,350 rubles a ton, while rye climbed 33 percent to 3,400 rubles a ton, according to the research group.

Gold Output Falls

Russia's total gold output, including by-product, declined 3.5 percent to 74.66 metric tons from a year earlier, the Russian Gold Producers Union said. The amount of mined gold fell 5.1 percent to 63.5 tons, the union said Monday in an e-mailed statement. Mined gold rose 6.1 percent to about 19 tons in June, compared with a year earlier, led by Polyus Gold, Kinross Gold and Petropavlovsk, the union said.

RusAl Splits In Two

United Co. RusAl split its alumina production unit into east and west divisions, the company said in an e-mailed statement Monday. Valery Matviyenko, a former GMK Norilsk Nickel deputy chief executive officer, will head Alumina Division East, which includes Russia and Ukraine, RusAl said. Yakov Itskov, who has worked at Rusneft, will head the west, or international, division, the company said.

Severstal Output Rises

Severstal, Russia's largest steelmaker, said second-quarter output rose 11 percent from the prior quarter to 4.56 million metric tons, led by the U.S. Production in the U.S. jumped 20 percent to 1.82 million tons and output in Russia added 6 percent to 2.74 million tons, Severstal said Monday in a statement. Prices for hot-rolled steel were \$723 a ton in the U.S. compared with \$605 a ton in Russia. Severstal raised output of washed coal for steel-making 15 percent to 1.85 million tons and output of iron ore pellets 8 percent to 2.43 million tons, the company said. Washed coal prices rose 21 percent to \$155 a ton, while iron ore pellets gained 77 percent to \$126 a ton.

Mall Loan Extended

AFI Development, Israeli billionaire Lev Leviev's Russian property developer, said it won a two-year extension at a lower interest rate on a ruble loan from VTB Group for its Mall of Russia project in Moscow. The repayment term on the 8.45 billion-ruble (\$280 million) credit line was extended to August 2013 and the rate was cut to 13.25 percent a year from 16 percent, AFI said in a regulatory filing Monday. Russia Credit Risk Slides Most in Four Months as Economic Growth Picks Up By Jack Jordan - Jul 29, 2010 1:00 PM PST Thu Jul 29 20:00:02 UTC 2010 months in July, helped by rising oil prices, accelerating economic growth and a declining budget deficit.

“A significant part of the budget deficit will be covered by higher borrowing,” Kudrin said.

Russia plans to borrow 1.5 trillion rubles next year, 1.3 trillion rubles in 2012 and 931 billion rubles in 2013, Deputy Finance Minister Sergei Storchak said last month, citing preliminary estimates in the government's borrowing program. The country will meet 90 percent of its borrowing needs on the domestic market, he said. Reserve Fund
The government will also tap its reserve fund to finance the deficit, and a 61 percent increase in the tax on gas extraction will raise 51.3 billion rubles next year, Kudrin said. At the same time, the government plans to spend 2.98 trillion rubles from 2011-2013 to cover the pension fund deficit, he said.

OJSC "Magnit" announces the opening of the 31st hypermarket

Krasnodar, July 30, 2010: OJSC «Magnit» (the "Company"; RTS, MICEX and LSE: MGNT) is pleased to announce the opening of the 31st hypermarket.

Dear Ladies and Gentlemen!

We are glad to inform you that today the Company has opened its 31st hypermarket of the small format located at 121, Sverdlova street, Shuya, Ivanovo region. The total space of the store is over 3,300 sq. m. and its selling space is over 1,700 sq. m. Assortment of the "Magnit" hypermarket consists of about 6,700 SKUs, out of which about 62% are food items. There are 15 cash desks installed in the sales area.

Russia's Surgut Q2 net profit jumps to 48 bln rbls

Surgut (SNGS.MM), Russia's fourth-largest oil company, saw its net profit rise almost sixfold to 47.7 billion roubles (\$1.6 billion) in the second quarter from a year before, the company said on Friday. The company posted a net income of 8.47 billion roubles under Russian Accounting Standards (RAS) for the same period last year when oil prices were much lower. Unlike many other Russian oil firms Surgut does not report to international accounting standards. It is also free of debt and analysts have estimated it had a cash pile of more than \$20 billion. (Reporting by Vladimir Soldatkin; Editing by Lidia Kelly and David Holmes) (\$1=30.15 Rouble)

Fund flows reflect underlying concerns on outlook-EPFR

Emerging market equities, especially in Asia, were hot among fund investors in the last week, but a sell-off in commodity stock funds and flows into cash suggest concerns persist about the global economic outlook. Investors sent \$10 billion in aggregate to equity funds globally in the week to July 28, with flows into emerging markets mandates hitting a 16-week high. Bond funds absorbed \$5.58 billion, EPFR Global said in a report on Friday. Emerging markets, which have been growing much faster than advanced economies, are increasingly being seen as a more fundamentally safe asset class. The 3-month change in 12-month earnings forecasts for the U.S. S&P 500 slid to negative this week for the first time in about a year.

Food / Energy & Environment:

Russia: Unprecedented heat, fires, smog, fumes

Publication time: 26 July 2010, 18:29

According to Russian media outlets, strong smell of fumes spread throughout Moscow on Monday morning. The smell of smoke was felt even in the city center. Natural fires in heartland of Moskovia in Moscow, in the so-called Mother Russia, have become frequent of because drought. 63 natural fires on a total area of 71 hectares, including 38

turfy areas and 25 forest areas, were recorded on July 25 in the Moscow region. Heat and smog have increased the level of pollution in Moscow air. Even according to a low official data, on the average daily concentrations of the weighed particles exceeded 8 the permissible values.

Eight killed as wildfires sweep central Russia

Clouds form a tropical storm over Havana July 2, 2010. REUTERS/Desmond Boylan
Reuters hurricane tracker
A firefighter works to extinguish fire at a building outside the town of Vyksa, some 150 km (93 miles) southwest of the Volga city of Nizhny Novgorod, July 29, 2010. REUTERS/Mikhail Voskresensky
A firefighter works to extinguish fire at a building outside the town of Vyksa, some 150 km (93 miles) southwest of the Volga city of Nizhny Novgorod, July 29, 2010.

Forest fires swept across central Russia on Friday, killing at least eight people and forcing the evacuation of thousands during the hottest summer since records began 130 years ago.

Political:

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Ten people pleaded guilty this month to being agents for Russia while living under cover in the United States in one of the biggest spy scandals since the cold war. The agents, who worked without diplomatic cover, led apparently normal lives in the United States, with some raising children and one family being described by a neighbor as "suburbia personified."

In exchange for the agents, Russia released four people imprisoned there for suspected contact with Western intelligence agencies.

Mr. Putin did not say where he met the agents, but said he expressed his admiration and sang Soviet songs with them.

"As far as those people are concerned, every one of them had a tough life," he said. "First was to master foreign language as your own. Think and speak it and do what you are told

to do for the interest of your motherland for many years without counting on diplomatic immunity.”

The 'unravelling relationship' between Russia and Iran

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Since 1991, Russia has been a major supplier of modern arms to Iran.

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Air defence

And yet, last month, Moscow supported UN sanctions against Iran over its nuclear programme.

Last week, President Dmitry Medvedev even publicly questioned the Iranian programme which is moving into a position that may allow Tehran to acquire nuclear weapons.

Previously, Russian officials maintained that there was no proof that Iran was developing nuclear weapons.

In December 2005, Russia agreed to sell Iran long-range S-300 anti-aircraft missiles - 40 to 60 launchers with four missile tubes each, radars, and control stations, worth some \$1bn (£650m).

Together with the shorter-range Tor M1 and the older super-long-range S-200 already provided by Russia, Iran could build a solid anti-aircraft shield able to defend its nuclear facilities against a possible US or Israeli assault, and inflict serious damage to the attacking force.

Without the S-300, the Iranians do not have a balanced air defence.

Moscow has been withholding the delivery of the S-300 to Iran since 2008, while officials maintained the delays were "technical".

Last month, after some hesitation, Moscow announced that the S-300 deal is forbidden by the new UN sanctions.

Iranian officials reacted angrily. Defence Minister Ahmad Vahidi demanded that Russia must pay for the damage it has caused by failing to deliver the S-300.

President Mahmoud Ahmadinejad has publicly berated Mr Medvedev for buckling under what he said was US pressure for fresh sanctions.

'Not serious threat'

Moscow's policies towards the Middle East are clearly very different from its Cold War stance, when it steadfastly supported Muslim nations against the US and its closest ally, Israel.

Today Russia is seriously distressed by the spread of Western influence and the expansion of the North Atlantic Treaty Organisation (Nato) into what it considers its legitimate sphere of "privileged interests": Ukraine, Georgia and other former Soviet republics.

The Middle East today is too far from Moscow's true sphere of interest or capability.

If Washington under Barack Obama seems to be less intrusive in the post-Soviet space, if Israel obediently agrees to stop the supply of modern weapons to Georgia - like it did in 2008 - Russia is ready to be forthcoming on Iran.

The threat of Iran acquiring nuclear weapons is also a factor, but hardly the main one.

The Russian military do not consider a handful of primitive North Korean or Iranian nuclear weapons a serious threat.

Of course, Moscow has genuine business and security interests in the larger Middle East: supplying arms and nuclear technologies to Arab nations and to Iran.

At the same time, Russia has an increasingly important military and security relationship with Israel.

With Israel, Russia has been jointly producing billions of dollars worth of weapons for India.

The Russian military have acquired a substantial batch of different types of Israeli-made spy drones or unmanned aerial vehicle (UAV), the first official procurement of a major weapon system from a Western nation since 1945.

Moscow is at present negotiating the joint production of UAVs with Israel in Russia.

No clear strategy

In the absence of a clear, overriding strategic interest in the Middle East, Russia's policies are highly opportunistic and can be easily changed by lobbying or intrigue.

There is no evidence that Mr Medvedev and the all-powerful Prime Minister Vladimir Putin seriously differ on Iran.

But Tehran's anti-American policies, as well as its purchase of Russian military and nuclear technologies, helped to build a powerful lobby in Moscow.

The cancelling of the S-300 sale when the due process of vetting by all required government agencies was complete, and the hardware ready for shipping, has financially hurt influential officials and caused anger.

But Tel Aviv also has a lobby in Moscow.

An additional factor that may further influence the decision-making in Moscow is Saudi Arabia's offer to buy more than \$2bn worth of Russian weapons (helicopters, armour, anti-aircraft missiles) on condition that Russia does not sell Iran S-300 missiles, and stops supporting it in the UN.

Working in apparent cohesion, Israelis, Arabs, Russians and Americans have somewhat changed the traditional outlay of Middle Eastern great power rivalry.

But the Iranian nuclear problem seems to be as far from resolution as ever.

Pavel Felgenhauer is a Moscow-based defence analyst and columnist for the Novaya Gazeta newspaper.

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In a statement on Monday, the Russian Foreign Ministry described Mr. Ahmadinejad’s comments as unacceptable, saying that he was using “pointless and irresponsible rhetoric.”

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During a televised speech in Iran, President [Mahmoud Ahmadinejad](#) lashed out at his Russian counterparts, who last week agreed, along with the other permanent members of the [United Nations Security Council](#), on the [draft language](#) for the proposed new sanctions, which would punish Iranian financial institutions and countries that offer Iran nuclear-related technology.

“We do not like to see our neighbor supporting those who have shown animosity to us for 30 years,” Mr. Ahmadinejad said in the speech broadcast from the southern city of Kerman. “This is not acceptable for the Iranian nation. I hope they will pay attention and take corrective action.”

“If I were in the place of Russian officials, I would adopt a more careful stance,” he said.

The comments came a day after Iran's ambassador to Moscow said he hoped Russia would dissuade the other Council members from imposing sanctions, and warned that Russia risked manipulation by the United States.

“Russia should not think that short-term cooperation with the United States is in its interest,” said the ambassador, Mahmoud-Reza Sajjadi. “The green light the United States is showing Russia will not last long.”

A top Kremlin aide said Wednesday that Russia was guided by its own long-term interests, and that “our position can be neither pro-American, nor pro-Iranian.”

The aide, [Sergei Prikhodko](#), went on to say that Russia rejected extremism and unpredictability in the global arena, and that “those who speak on behalf of the fraternal people of Iran” should not forget this.

“No one has ever managed to save his authority by making use of political demagoguery,” Mr. Prikhodko said in remarks carried by Interfax, a Russian news agency. “And I am sure that the thousand-year-long history of Iran itself proves that.”

Russia has historically opposed sanctions against Iran, which it considers an important regional ally. That position began to shift late last year when Iranian leaders rejected a [United Nations](#)-brokered uranium enrichment plan, which Russia had helped draft, to defuse the standoff over [Iran's nuclear program](#).

With the threat of sanctions looming, Iran revived elements of the proposed compromise, striking a deal with Brazil and Turkey this month to send parts of its stockpile of enriched uranium abroad for further processing.

But that new agreement is also causing friction, particularly between the United States and Brazil. Angry at Washington's dismissal of the deal, Brazilian officials on Wednesday provided a full copy of the three-page letter [President Obama](#) sent to President [Luiz Inácio Lula da Silva](#) of Brazil in April, arguing that it laid the groundwork for the agreement they reached in Tehran.

"There continues to be some puzzlement" among Brazilian officials about why American official would reject the deal now, a senior Brazilian official said. "The letter came from the highest authority and was very clear."

In the letter, Mr. Obama wrote that an agreement by Iran to transfer about 2,600 pounds of low-enriched uranium out of the country "would build confidence and reduce regional tensions by substantially reducing Iran's" uranium stockpile. But he also made clear that the United States would continue to pursue sanctions while leaving the "door open to engagement with Iran."

[Susan E. Rice](#), the American ambassador to the United Nations, said the letter from Mr. Obama to Mr. da Silva should not be taken in isolation. "No one document or discussion captures the totality of the discussion and their mutual understanding," she said.

A number of countries led by the United States suspect that Iran has been enriching uranium because it wants [nuclear weapons](#). The Security Council has repeatedly told Iran to halt the enrichment. The Iranians have ignored the demand, saying they are within their rights to enrich uranium to relatively low levels for use in reactors.

Last week, Russia's foreign minister, Sergey V. Lavrov, offered cautious support for a draft Security Council resolution that would impose a fourth set of sanctions on Iran. But he emphasized that the draft needed approval from the council's nonpermanent members, and he encouraged Secretary of State [Hillary Rodham Clinton](#) to consider Tehran's [newest proposal](#) to enrich uranium in Turkey.

Tension has also been building between Moscow and Tehran over a proposed sale of S-300 anti-aircraft missiles to Tehran, a contract that Russia has suspended but not canceled. Washington has pressed Moscow not to deliver the weapons, which could help Iran shoot down American or Israeli warplanes should either try to bomb its nuclear facilities.

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U.S. deports alleged 12th Russian spy

Federal authorities detained a 12th person in their investigation of a Russian spy ring in the United States, and he has been deported to Russia, U.S. law enforcement officials said Tuesday.

The man, Alexey Karetnikov, entered the United States in October and was living in the Seattle area, where he worked at Microsoft, according to federal officials and the company. Karetnikov, a Russian citizen in his early-to-mid-20s, had been held on immigration violations because there was insufficient evidence to charge him with a crime, the government officials said.

"He was just in the early stages; had just set up shop," said one senior federal law enforcement official, who spoke on the condition of anonymity because the details of the case were closely held. The official added that the FBI was monitoring the Russian almost immediately upon his arrival and that he had "obtained absolutely no information."

An immigration judge issued an order Monday for Karetnikov's removal from the United States, said Matt Chandler, a spokesman for the Department of Homeland Security. The Russian admitted he was illegally present in the country and agreed to the deportation in lieu of further court proceedings, said Chandler, who added that Karetnikov "would face criminal and civil penalties if he returned without express U.S. government permission."

U.S. officials said Karetnikov was sent home Tuesday.

Database searches show that someone with Karetnikov's name had been living in an apartment in Redmond, Wash., since October. That man's Facebook page says he worked for Microsoft and a Romanian-based software company called Neobit.

Lou Gellos, a Microsoft spokesman, confirmed that Karetnikov had worked at the company for about nine months as a software tester. He said Karetnikov is the man whom authorities deported on Tuesday but would not comment further.

The latest detention added a new wrinkle to a case that has fascinated Americans since 10 people were arrested [June 27](#) and charged with working as deep undercover Russian spies. The 10 sleeper agents [pleaded guilty](#) Thursday to acting as unregistered agents for Russia and were then "swapped" for four Russian prisoners in a [deal](#) reminiscent of the Cold War. An 11th man charged in federal court in New York remains [at large](#).

Details about the 12th alleged spy came as information emerged on how the 10 agents involved in the swap are faring in Russia. Russian news media reported that they have applied to a witness-protection program and are seeking to change their names.

Moskovsky Komsomolets, a Russian newspaper, reported that the 10 agents are being debriefed at a Russian intelligence facility on the outskirts of Moscow. They are not allowed to leave the premises, but family members are allowed to visit, the newspaper said.

The reticence that most are showing might not apply to Anna Chapman, who became a tabloid sensation in the United States when sultry photographs of her were posted on the Internet after her arrest. Russian news media reported that Chapman is willing to sell her story to journalists.

Chapman had told her U.S. attorney, Robert M. Baum, that she may want to relocate to Britain, where the Russian acquired dual citizenship in 2002 through her marriage to a British businessman, Baum said Tuesday. But he said the British government has stripped Chapman of her citizenship and revoked her passport, citing the spy case.

In the United States, officials indicated last week that the case had effectively shut down the spy ring. But law enforcement officials said Tuesday that Karetnikov was not part of the same ring and had no direct ties to the other spies, although his name came up in the broader investigation.

It was unclear when Karetnikov was detained, although an official said he was in custody by last week. He was apparently not part of the swap because unlike the other 10 agents, he was not charged with a crime. One official said Karetnikov was "just doing the things he needed to do to establish cover," including holding down a job.

Asked whether further arrests are possible, one official said U.S. law enforcement authorities are closely monitoring all potential espionage activity but added, "I don't think there will be a 13th or a 14th arrest here."

Special correspondent Rebecca Omonira-Oyekanmi in London, special correspondent Julia Ioffe in Moscow, and staff writer Walter Pincus and research editor Alice Crites in Washington contributed to this report.

Belarus and Georgia get together for a few potshots at Russia

Alexander Lukashenko, the hardline president of [Belarus](#), and Mikhail Saakashvili, the leader of [Georgia](#), have forged an unlikely political alliance in a "media war" with the Kremlin.

Lukashenko, a former collective farm manager and often called Europe's last dictator, and Saakashvili, a graduate of Columbia Law School and self-styled champion of democracy, may seem like dubious bedfellows. But experts say their interests have merged in an escalating conflict between [Russia](#) and its former Soviet neighbours as the latter try to foster closer ties with the European Union.

Russia fired the first salvo earlier this month when the state-owned NTV station aired a two-part documentary called The God Daddy. The film, a play on Lukashenko's nickname and the Marlon Brando mafia movie, was a character assassination accusing the Belarussian leader of "disappearing" political opponents.

Incensed by the film, Lukashenko responded by allowing Russia's arch-enemy, Saakashvili, a fawning interview on Belarussian television, which the Georgian used to castigate Moscow over the 2008 war in South Ossetia.

Saakashvili's appearance was surprising, not least because he claims his country is a beacon of freedom, while Lukashenko has rigged polls crushed dissent and said in 1995 that "not everything was bad in Adolf Hitler's Germany."

"It may not be a long romance but for now these two leaders' interests have coincided," said Vladimir Zharikin, an analyst at the Institute of CIS Studies in Moscow.

"It's a case of my enemy's enemy is my friend."

The caustic Saakashvili interview angered Moscow, where the speaker of parliament, Boris Gryzlov, called its transmission an "unfriendly act". But state-controlled Belarussian media piled on the pressure, publishing a scathing report on the Russian prime minister, Vladimir Putin, by opposition politician Boris Nemtsov.

Hundreds of thousands of copies of Nemtsov's report, which accused Putin of presiding over soaring corruption in the last decade, were confiscated by the Federal Security Service when it was published in Russia last month. The Kremlin hit back today by inviting two prominent Belarussian opposition figures to meet senior officials in Moscow.

In the past, Lukashenko and Putin appeared to be bosom pals, greeting each other warmly at bilateral summits. But the relationship between Belarus and Russia, both Slavic countries with an intricately linked history, has crumbled in the last two years over economic disputes. Last month the two clashed over Minsk's debts for supplies of

Siberian gas, and a year ago Moscow banned milk products from Belarus after Lukashenko protested at the gas price.

Arkady Moshes, an expert on Belarus at Chatham House, said the conflict grew out of Lukashenko's recent attempts at reorientation towards the west.

"Russia wants Belarus to go back to being the client state that it once was," he said. "But Lukashenko realises a significant part of the general population and the business elite in his country see Europe as the future while Russia means the old Soviet past. And he wants to respond to that in order to stay in power."

Last year, the EU launched its Eastern Partnership programme to bring six eastern European countries including Belarus and Georgia more tightly into its orbit, much to Russia's chagrin.

Lukashenko indicated in a recent interview that he had asked Javier Solana, the EU foreign policy chief, whether the EU could replace Russia as his financial patron.

Earlier this month, Belarus joined Russia and Kazakhstan in a new customs union. But Zharikin said Lukashenko wanted to stall on progressing to a common economic space being promoted by Moscow that would require much deeper reforms. "These TV attacks against Russia are part of Lukashenko's battle to retain the status quo," he said.

Economic: New Holland Savior?

MOSCOW (Bloomberg) — Russian billionaire Roman Abramovich may finance the New Holland property development in St. Petersburg's historic city center, Kommersant reported, without citing anyone.

The project, designed by British architect Norman Foster, was abandoned by former billionaire Shalva Chigirinsky after Russia's record stock market rout in 2008, the Moscow-based newspaper said.

Grain Prices Soar

MOSCOW (Bloomberg) — Russian grain prices rose as much as 33 percent last week on drought concerns, SovEcon, the Moscow-based research center, said on its web site.

Wheat in the European part of Russia rose 15 percent to 4,850 rubles (\$160) a metric ton by July 23 from a week earlier, SovEcon said. Barley added 30 percent to 3,350 rubles a ton, while rye climbed 33 percent to 3,400 rubles a ton, according to the research group.

Gold Output Falls

MOSCOW (Bloomberg) — Russia's total gold output, including by-product, declined 3.5 percent to 74.66 metric tons from a year earlier, the Russian Gold Producers Union said.

The amount of mined gold fell 5.1 percent to 63.5 tons, the union said Monday in an e-mailed statement. Mined gold rose 6.1 percent to about 19 tons in June, compared with a year earlier, led by Polyus Gold, Kinross Gold and Petropavlovsk, the union said.

RusAl Splits In Two

MOSCOW (Bloomberg) — United Co. RusAl split its alumina production unit into east and west divisions, the company said in an e-mailed statement Monday.

Valery Matviyenko, a former GMK Norilsk Nickel deputy chief executive officer, will head Alumina Division East, which includes Russia and Ukraine, RusAl said. Yakov Itskov, who has worked at Russneft, will head the west, or international, division, the company said.

Severstal Output Rises

Severstal, Russia's largest steelmaker, said second-quarter output rose 11 percent from the prior quarter to 4.56 million metric tons, led by the U.S.

Production in the U.S. jumped 20 percent to 1.82 million tons and output in Russia added 6 percent to 2.74 million tons, Severstal said Monday in a statement. Prices for hot-rolled steel were \$723 a ton in the U.S. compared with \$605 a ton in Russia.

Severstal raised output of washed coal for steel-making 15 percent to 1.85 million tons and output of iron ore pellets 8 percent to 2.43 million tons, the company said. Washed coal prices rose 21 percent to \$155 a ton, while iron ore pellets gained 77 percent to \$126 a ton.

Mall Loan Extended

MOSCOW (Bloomberg) — AFI Development, Israeli billionaire Lev Leviev's Russian property developer, said it won a two-year extension at a lower interest rate on a ruble loan from VTB Group for its Mall of Russia project in Moscow.

The repayment term on the 8.45 billion-ruble (\$280 million) credit line was extended to August 2013 and the rate was cut to 13.25 percent a year from 16 percent, AFI said in a regulatory filing Monday.

Russia Credit Risk Slides Most in Four Months as Economic Growth Picks Up
By Jack Jordan - Jul 29, 2010 1:00 PM PST Thu Jul 29 20:00:02 UTC 2010

The cost of protecting Russian government bonds from nonpayment fell the most in four months in July, helped by rising oil prices, accelerating economic growth and a declining budget deficit.

Russia's five-year credit-default swaps dropped 32 basis points, or 0.32 percentage point, the biggest monthly decline since March, to 164 as of July 28. The move was more than the 18 basis-point retreat for Brazil contracts, 14 for Mexico and 12 for China, according to data compiled by Bloomberg.

Investors are gaining confidence in Russia's ability to service its debt as the 15 percent rally in oil from this year's May 20 low boosts the recovery for the world's biggest energy exporter. The economy grew 5.4 percent in the second quarter, the government said this week, up from 2.9 percent in the first three months of 2010. While default protection on Russia remains 44 basis points more expensive than for Brazil, whose debt is rated lower, the gap narrowed from 58 at the end of last month.

"Russia is seen as being at the riskier end of emerging-market assets, but you could argue that isn't justified," said Neil Shearing, senior emerging-market economist at London-based research consultancy Capital Economics Ltd. "So long as the global environment remains supportive, I'd expect CDS to keep falling in Russia."

GDP Grows

Russia may lift this year's growth forecast after increased domestic spending boosted gross domestic product in the second quarter, Deputy Economy Minister Andrei Klepach told reporters on July 27. The government currently forecasts a 4 percent expansion for 2010.

Prime Minister Vladimir Putin said this week the budget deficit should shrink to 3.6 percent of GDP next year, Interfax reported. The gap was 5.9 percent in 2009 as the economy shrank 7.9 percent, the most since the Soviet Union collapsed in 1991.

Russia's foreign-currency bonds returned 3.2 percent so far this month, compared with a 1.9 percent advance for similarly rated Mexico and 3.2 percent for Brazil, JPMorgan Chase & Co.'s EMBI+ Indexes show. The extra yield investors demand to hold Russian sovereign debt rather than U.S. Treasuries dropped 47 basis points, the biggest monthly decline since December, to 236 yesterday, according to JPMorgan.

The yield spread on Russian bonds is 48 basis points below the average for emerging markets, down from a 15-month high of 105 in February, according to JPMorgan's EMBI+ Indexes.

Eurobonds

Russia's foreign-currency debt is rated BBB by Standard & Poor's, the same as Mexico and one level above Brazil.

Yields on the first Eurobonds issued by Russia since 1998 are at their lowest since the notes were sold in April, with the 2020 dollar notes gaining 0.8 percent yesterday to 100.8 cents on the dollar, according to prices on Bloomberg.

The ruble strengthened 3.6 percent against the dollar in July, reaching 30.1663 per dollar yesterday, the highest level since May 13. Non-deliverable forwards, which provide a guide to expectations of currency movements as they allow foreign investors and companies to fix the exchange rate at a specific level in the future, show the ruble at 30.375 per dollar in three months.

The Micex Index of Russia's largest stocks rose 8.3 percent and shares in gas monopoly OAO Gazprom surged 15.1 percent this month.

Emerging Debt

Russia is benefiting as investors turn to higher yielding assets on optimism the global economic recovery is gathering momentum. Emerging-market bonds are headed for their best monthly returns since September, gaining 4 percent, according to JPMorgan indexes. Russia credit-default swaps may drop to 150 basis points, said Nigel Rendell, senior emerging-market strategist at RBC Capital in London.

The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent should a government or company fail to adhere to its debt agreements.

The Reuters/Jeffries CRB Index of 19 raw materials rose about 5 percent in July. Crude for September delivery gained \$1.39, or 1.8 percent, to \$78.38 a barrel on the New York Mercantile Exchange yesterday. Prices have risen 24 percent in the past year and are up 3.9 percent this month.

"The trend we've seen over the past few weeks has come from the international background," Rendell said. "There's an appetite for risk out there."

Russia Seeks to Cut Deficit to 2.9% of GDP by 2013 Amid State Asset Sales
By Maria Levitov - Jul 28, 2010 1:01 PM PST Wed Jul 28 20:01:19 UTC 2010

Russia plans to cut its budget deficit to 2.9 percent of gross domestic product by 2013 as it sells state assets and increases taxes, Finance Minister Alexei Kudrin said.

The government plans to raise 883 billion rubles (\$29 billion) by selling minority stakes in state-owned companies over the next three years, Kudrin told reporters late yesterday in Moscow. It may sell a holding in OAO Rosneft, Russia's largest oil producer, within three to five years, he said.

Russia posted a budget deficit of 5.9 percent of GDP last year, its first shortfall since 1999, as the economy contracted a record 7.9 percent. In addition to asset sales, the government has proposed increasing taxes on oil and natural gas extraction, as well as copper and nickel exports, to narrow the gap.

“The economy will feel the aftermath of the deep crisis,” Kudrin said, adding that Russia will experience “moderate” growth from 2011 to 2013 and won’t reach pre-crisis levels of GDP until the fourth quarter of 2012. “We’ll just be emerging from the crisis.”

The budget gap will narrow to 3.6 percent of GDP next year and 3.1 percent in 2012, Kudrin said. Russia’s sovereign debt will rise to 16.3 percent of GDP in 2013 from 11.5 percent at the end of this year to finance the deficit, he said.

“A significant part of the budget deficit will be covered by higher borrowing,” Kudrin said.

Russia plans to borrow 1.5 trillion rubles next year, 1.3 trillion rubles in 2012 and 931 billion rubles in 2013, Deputy Finance Minister Sergei Storchak said last month, citing preliminary estimates in the government’s borrowing program. The country will meet 90 percent of its borrowing needs on the domestic market, he said.

Reserve Fund

The government will also tap its reserve fund to finance the deficit, and a 61 percent increase in the tax on gas extraction will raise 51.3 billion rubles next year, Kudrin said.

At the same time, the government plans to spend 2.98 trillion rubles from 2011-2013 to cover the pension fund deficit, he said.

The Finance Ministry has proposed selling minority stakes in companies including Russia’s two largest lenders OAO Sberbank and VTB Group, OAO Russian Railways, shipper OAO Sovcomflot, the OAO RusHydro utility, Russian Agricultural Bank and OAO Agency for Housing Mortgage Lending.

Sales of stakes in Russian Railways and the Agency for Housing Mortgage Lending may be delayed for two to three years, Kudrin said yesterday. He declined to name other companies in which the government plans to sell stakes, saying the list hasn’t been completed. The asset sales plan should be clarified in September, with the list finished by year end, he said.

OJSC "Magnit" announces the opening of the 31st hypermarket

Krasnodar, July 30, 2010: OJSC «Magnit» (the "Company"; RTS, MICEX and LSE: MGNT) is pleased to announce the opening of the 31st hypermarket.

Dear Ladies and Gentlemen!

We are glad to inform you that today the Company has opened its 31st hypermarket of the small format located at 121, Sverdlova street, Shuya, Ivanovo region. The total space of the store is over 3,300 sq. m. and its selling space is over 1,700 sq. m. Assortment of the "Magnit" hypermarket consists of about 6,700 SKUs, out of which about 62% are food items. There are 15 cash desks installed in the sales area.

Company description:

Based in Krasnodar, in the Southern region of Russia, Open Joint Stock Company "Magnit" is the holding company for a group of entities that operate in the retail trade under the "Magnit" brand. The chain of "Magnit" stores is one of the leading food retail networks in Russia. As of June 30, 2010 the chain consisted of 3,464 convenience stores and 28 hypermarkets in 1,109 locations in the Russian Federation.

Approximately two-thirds of the Company's stores are located in cities with a population of less than 500,000 inhabitants. Most of its stores are located in the Southern, North-Caucasian, Central and Volga regions. The Company also operates stores in the North-Western and Urals regions.

As of June 30, 2010 the Company operated an in-house logistics system consisting of 10 distribution centers, employing automated stock replenishment systems and a fleet of 1,713 vehicles.

In accordance with the audited IFRS consolidated financial statements for the twelve months ended December 31, 2009, the Company recorded consolidated revenue of approximately US\$5,354 million and consolidated EBITDA of around US\$509 million

Russia's Surgut Q2 net profit jumps to 48 bln rbls

Surgut (SNGS.MM), Russia's fourth-largest oil company, saw its net profit rise almost sixfold to 47.7 billion roubles (\$1.6 billion) in the second quarter from a year before, the company said on Friday.

The company posted a net income of 8.47 billion roubles under Russian Accounting Standards (RAS) for the same period last year when oil prices were much lower.

Unlike many other Russian oil firms Surgut does not report to international accounting standards. It is also free of debt and analysts have estimated it had a cash pile of more than \$20 billion. (Reporting by Vladimir Soldatkin; Editing by Lidia Kelly and David Holmes) (\$1=30.15 Rouble)

Fund flows reflect underlying concerns on outlook-EPFR

Emerging market equities, especially in Asia, were hot among fund investors in the last week, but a sell-off in commodity stock funds and flows into cash suggest concerns persist about the global economic outlook.

Investors sent \$10 billion in aggregate to equity funds globally in the week to July 28, with flows into emerging markets mandates hitting a 16-week high. Bond funds absorbed \$5.58 billion, EPFR Global said in a report on Friday.

Emerging markets, which have been growing much faster than advanced economies, are increasingly being seen as a more fundamentally safe asset class. The 3-month change in 12-month earnings forecasts for the U.S. S&P 500 slid to negative this week for the first time in about a year.

Expectations that policy rates in major economies will remain low for a long time kept money flowing into bond funds.

EMERGING MARKET EQUITY FUNDS

Global emerging market funds and Asia ex-Japan funds absorbed more than \$1 billion during the week.

Asia ex-Japan had the biggest inflow in 14 weeks. India equity funds had their eighth-straight week of inflows and China equity funds posted the best week of inflows since mid April.

Flows into Brazil Equity Funds climbed to a 27-week high of \$123 million.

The other BRIC market, Russia, also fared well with investors committing \$103 million to Russia equity funds.

DEVELOPED MARKET EQUITY FUNDS

Global equity funds, Japan and Pacific fund groups all posted outflows in the latest week.

U.S. equity funds took in \$7.3 billion, accounting for the majority of inflows to equity funds globally.

Europe equity funds had weekly inflows for only the sixth time year to date, with regional and German equity funds receiving the bulk of the inflows.

SECTOR FUNDS

Commodity sector funds suffered a large \$1 billion in outflows, reflecting increasingly more defensive positioning among investors.

Energy and financial sector funds also had outflows.

Consumer goods, utilities and healthcare/biotechnology sector Funds all took in more than \$400 million during the week, with the latter two fund groups recording their best weeks since the fourth quarter 2009 and fourth quarter 2008, respectively.

BOND FUNDS

All four major bond fund groups tracked by EPFR posted inflows of more than \$1 billion for the week.

Global bond funds took in \$1.53 billion, while emerging market bond funds had their second best week of inflows so far this year.

Investors appeared to be moving further down the yield curve with U.S. intermediate bond funds attracting more than four times as much inflow as short-term bond funds. That is a marked shift from flow patterns established this year. (Reporting by Kevin Plumberg; Editing by Kazunori Takada)

Food / Energy & Environment:

Russia: Unprecedented heat, fires, smog, fumes

Publication time: 26 July 2010, 18:29

According to Russian media outlets, strong smell of fumes spread throughout Moscow on Monday morning. The smell of smoke was felt even in the city center.

Natural fires in heartland of Moskovia in Moscow, in the so-called Mother Russia, have become frequent of because drought. 63 natural fires on a total area of 71 hectares, including 38 turf areas and 25 forest areas, were recorded on July 25 in the Moscow region.

Heat and smog have increased the level of pollution in Moscow air. Even according to a low official data, on the average daily concentrations of the weighed particles exceeded 8 the permissible values.

Other reeks are added to the smell of fumes in Moscow, since not only peatbogs and forests are burning. Moscow stikgs Hell nowadays, there is smell of sulfur, and norms for the levels of hydrogen sulfide in the air are significantly exceeded. The media do not explain the reason. Excess of hydrogen sulfide by as much as 30 % has been registered in the Moscow district of Marino, for example.

The situation will worsen in the near future, ecologists say and advise Muscovites to limit their stay in the open. However, it is impossible to stay in apartments because of heat. There is a stalemate.

Moscow inhabitants report:

"My lungs hurt from the smoke. I walk constantly with a oxygen can, because it is the only way to alleviate the situation, a little. Fumes are terrible in Moscow southeast. Smoke is also present in the northeast. There is also smoke in the west of Moscow.

This heat is already unrealistic. And here is also smog. No way to escape, the smoke is everywhere. I'm staying on a 42-floor, I see the whole city. Absolutely everything is shrouded in mist. We are suffocating already. Today, fires are extinguished, and they will start again tomorrow, until we get rain showers.

The day of Monday, July 26, will be included into the 130-year history of meteorological observations as the hottest day of summer. According to Interfax agency citing Hydro-meteorological Office of Moscow and the Moscow area, the basic capital weather station recorded at 16:00 OCE the temperature of 37.2 degrees centigrade.

Until now, the hottest day was recorded even under earlier Bolshevik years: in July 1920, when the air was warmed up to 36,8 degrees in the capital. In 2010, the absolute summer temperature made a record in the history of weather observations.

Eight killed as wildfires sweep central Russia

Clouds form a tropical storm over Havana July 2, 2010. REUTERS/Desmond Boylan
Reuters hurricane tracker

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A firefighter works to extinguish fire at a building outside the town of Vyksa, some 150 km (93 miles) southwest of the Volga city of Nizhny Novgorod, July 29, 2010. REUTERS/Mikhail Voskresensky

A firefighter works to extinguish fire at a building outside the town of Vyksa, some 150 km (93 miles) southwest of the Volga city of Nizhny Novgorod, July 29, 2010.

VORONEZH Russia (Reuters) - Forest fires swept across central Russia on Friday, killing at least eight people and forcing the evacuation of thousands during the hottest summer since records began 130 years ago.

Fanned by strong winds, raging fires ripped through woods and fields already scorched by the heatwave. The emergencies ministry said 866 square km, an area about the size of Berlin, was on fire in hundreds of peat and forest blazes.

"We don't know where to go," said Galina Shibanova, 52, standing outside the charred remains of her family home in the town of Maslovka in the Voronezh region, about 500 km (300 miles) south of Moscow.

"We called the emergency services, and not one person answered the phone," she said, adding that at least 50 homes had been destroyed.

A heatwave has engulfed European parts of Russia and Siberia since June, destroying crops and pushing thousands of farmers to the verge of bankruptcy.

In an indication of the seriousness of the situation, Prime Minister Vladimir Putin canceled planned meetings in Moscow to fly to Nizhny Novgorod, where at least 540 homes were destroyed, for an emergency meeting with local officials.

Television pictures showed a crowd of women surrounding the prime minister, demanding to know if the government would pay to rebuild their houses. "Don't worry, don't worry," said Putin. "I promise you the village will be fully rebuilt."

One woman said: "We are very thankful to you." Putin then embraced her and kissed her on the cheek.

Nizhny Novgorod residents earlier fought flames with buckets of water as neighbors scrambled to rescue furniture from their burning houses.

One woman sat crying in an armchair, surrounded by her children's toys, as her house burned down in front of her. Another sat on a bench clutching religious icons saved from her burning house.

More than 1,100 homes were destroyed across central Russia, Emergencies Minister Sergei Shoigu was quoted as saying by Russian news agencies. He said 238,000 people had been deployed to fight the fires.

State television channel Rossiya said 340 houses in a village in Nizhny Novgorod region were destroyed within 20 minutes.

Five people, including one firefighter, were killed overnight in Voronezh, an emergencies ministry official said. The general prosecutor's office said two men were killed in fires in Nizhny Novgorod and news agencies reported that a firefighter died in a blaze in the Moscow region.

Thousands were evacuated, including 900 patients from a hospital in Voronezh region that was threatened by the flames and 1,200 children from summer camps in Ryazan region, the emergencies ministry said.