

# CIS LEGAL NEWSWIRE

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## RUSSIA

### Lack of Implementing Legislation Halts Gold Exports

As we reported in the July 2, 2001 issue of the *CIS Legal Newswire*, on June 21, 2001, President Putin signed a decree establishing the procedure for the export and import of precious metals by mining companies. The decree came into effect on August 25, 2001. For gold producers, unfortunately it now appears that this new decree simply replaces one set of regulatory difficulties with another, as the lack of appropriate implementing regulations has completely halted the export of gold from Russia.

The current difficulties have arisen as a result of the fact that the decree does not retain the customs index for bullion which was used by authorized banks prior to enactment of the decree. Since those regulations which contained the customs index for bullion were abolished and reference is made in the text of the decree to a new customs index, yet implementing regulations acceptable to the State Customs Committee were not enacted, all export of gold has effectively been frozen. Now, more than two months after the decree was signed, implementing regulations still have not been issued to correct the problem. No date has been announced for the resumption of precious metals exports. /S. *Sineva*

### Tender for Sukhoi Log Gold Deposit May Be Announced in September

It appears that a tender for the license to develop Russia's Sukhoi Log gold deposit is now imminent. According to a recently declassified 1975 Soviet government survey, this deposit could contain over 1,100 tons of gold, which would rank it as among Eurasia's largest undeveloped deposits. The survey estimates the gold concentration of Sukhoi Log at 2.7 grams per ton of ore. In addition, the deposit's ore is reported to contain amounts of platinum, palladium and rhodium.

The long-running battle between the Ministry for the Environment and the Irkutsk Administration over the terms of the tender, especially with respect to the amount of funds which a bidder must have available on its freely accessible accounts at different stages of the deposit's development, was finally resolved at the beginning of August, when the acting governor of the Irkutsk Region signed off on the terms of the tender. The Ministry for the Environment had already approved the terms of the tender earlier this year. The terms of the tender will likely require the initial production of about 13 tons of gold per year, which will be increased over time to between 25 and 30 tons per year. It has been acknowledged that the fee due from bidders for a tender appli- / continued page 2

cation and the package of documents for the feasibility studies will cost several hundred thousand dollars. Russian newspapers have indicated that the one-time, lump-sum payment to be paid by the winner of the development rights is US \$10 million, although the starting price for the tender is not known. The amount of this one-time payment may not be final, since the new Minister for the Environment has decided to review both the starting price and the one-time payment.

According to applicable legal requirements, six months after the terms of the tender are published, the results will be announced. Among the potential bidders are Barrick Gold (the world's third largest gold mining company), Placer Dome (the world's sixth largest gold mining company), Rio Tinto, and two Russian companies – "Polimetall" and "Polus." /S. *Sineva*

## Government Adopts Action Plan for Reform of the Energy Market

On August 3, 2001, the Russian Government adopted Regulation No. 1040-r, approving an action plan for the first stage of reform of the Russian electricity market (the "Plan"), as mandated by the Decision of the Russian Government, dated July 11, 2001 (for more information, please see the July 17, 2001 issue of the *CIS Legal Newswire*). The Plan addresses the actions to be taken beginning as of September 2001 through the first half of 2002. The Plan designates the particular issues to be resolved by issuing new regulations, defines specific terms for the adoption of such regulations, and names the particular federal bodies responsible for implementing such regulations. The Plan further lists amendments that will need to be made to the Russian Civil Code and certain existing federal laws, such as "On Natural Monopolies," "On State Regulation of Tariffs for Electric and Thermal Power," and "On Competition and Limitation of Monopolistic Activity on the Commodities Markets," in order to reflect the introduction of competition in the power market. In addition, the Plan provides for the adoption of a new law, "On Electric Energy," which will set out the legal framework for the generation, transmission, distribution and sale of electric power. Drafts of this new law, as well as the proposed amendments, must be submitted to the State Duma for consideration by specified dates during the period beginning November 2001 and ending late January 2002.

Finally, the Plan lists the most important Russian Government decisions to be adopted and directives to be issued to the Russian Government's representatives on the Board of Directors of RAO UES, including: (1) establishment of a federal grid company (fourth quarter of 2001); (2) establishment of a system operator and administrator for the electricity trade system (first quarter of 2002); (3) framework for the establishment of tariffs (fourth quarter of 2001); (4) establishment of the regional grid companies (first quarter of 2002); (5) list of companies whose shares are to be transferred to the generating companies (fourth quarter of 2001); and (6) adoption of a framework regulating the development and operation of a competitive power market (fourth quarter of 2001). /P. *Gloushkov*

## New Methodology For Export Duty on Crude Oil

Federal Law No. 126-FZ, adopted on August 8, 2001, contains a variety of amendments and supplements to the new Tax Code and other legislation affecting mineral resources, including an amendment which will simplify and stabilize export duties on crude oil. Previously, export duties on crude oil were levied at fixed amounts per ton, with nine flat rates denominated in Euros determined every two months for nine different price bands based on average quoted prices for Urals blend crude.

Effective on January 1, 2002, Russian export duties on crude oil will be levied in three, rather than nine, price bands, and will be denominated in US Dollars. In addition, the duties will be levied as percentages of the increased price per ton (difference in the band), rather than as flat duties for each price band. The following table sets out the new duties, with conversion into barrels from tons assuming 28 Degrees API (7.10 barrels per ton):

BRENT BLEND \$/bbl price	EXPORT DUTY
Up to \$15.42	0
\$15.43 to 25.70	35% of price/bbl exceeding \$15.42
Exceeding \$25.70	\$3.60 per barrel plus 40% of the price/bbl exceeding \$25.70

The new methodology is simpler than the previous one in that it only fixes three price bands, but remains progressive by calculating amounts owed based upon a percentage of increased prices rather than flat duties within bands. It is also

an improvement and simplification to peg the price and duty in US Dollars, given the nature of crude oil markets which generally required exporters to convert between US Dollars and Euros under the previous methodology. /S. DeBeer

**AZERBAIJAN**

## President Enacts New Employment Reforms

President Heydar Aliyev recently signed a decree entitled “On Implementation of the Law ‘On Employment’” (the “Bill”), which became effective as of August 15, 2001. The Bill is a part of an overall legislative effort to address employment issues by providing for extended unemployment benefits and a mechanism to keep track of new job vacancies.

Under the Bill, in the event of any dismissal due to redundancy (regardless of whether this is part of a mass redundancy), the employer must provide two months’ prior notice to the Department of Employment of the Ministry of Labor and Social Employment of Azerbaijan (the “Department”). Additionally, as new vacancies are due to arise, the employer must provide the Department with five days prior notice.

The Bill also contains a number of provisions addressing benefits available to those who become unemployed. For instance, an unemployed individual is now entitled to unemployment benefits constituting 70% of his annual average salary earned at his most recent position, provided that such individual worked at least 26 payable weeks within a single year. The duration of such benefits may not exceed 26 weeks within a single year. /S. Sultanov

**BELARUS**

## Russian Beer Producers Closer to Investment in Belarusian Market

In the July 17, 2001 issue of the *CIS Legal Newswire*, we reported on the slow progress in negotiations for the acqui-

sition of shares in Belarus’ largest brewery, OJSC “Krynitsa,” by Russia’s largest brewery, “Baltika.” On August 21, 2001, at an extraordinary meeting of the shareholders of Krynitsa, a number of decisions were approved which are designed to pave the way for the sale of a majority stake to an outside investor – most likely Baltika. Baltika has indicated that it is ready to invest in excess of US \$50 million in the Minsk enterprise.

Other major players on the Russian beer market have also recently begun to express an interest in gaining access to the Belarusian market. Currently, the breweries “Ostmark” (Kaliningrad) and “Ochakovo” (Moscow) are evaluating possible ventures involving certain Belarusian enterprises. In fact, Ochakovo has already signed a protocol of intent to invest US \$20 million — \$25 million to establish a brewery in Slutsk with an annual production capacity in excess of 50 million liters of beer. /Y. Dodochenko

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