

Privatization under fire

The stock market crash presents Chubais & Co. with a new dilemma. The Russian government is desperate to get on with the next round of privatization of state companies, its remaining major source of revenue. Slated for sale before the end of this year are stakes in five oil companies. Rosneft and another 25% of Svyazinvest go on the block in 1998. Going ahead with these big sales is a dicey proposition in a crashing market. "The people who are willing to buy these assets will not be so numerous as they were before," a J.P. Morgan economist was quoted in the *Financial Times*, so Russia will get even fewer peanuts for the jewels of its industry.

Chubais and Nemtsov convinced the Russian President to proceed. Nemtsov confirmed that Yeltsin's Nov. 4 decree, lifting the 15% ceiling on foreign ownership of Russian oil companies that was in effect since 1992, means that foreign investors may now take over 100% stakes in these firms. Yeltsin took six oil companies off the list of companies protected from any foreign ownership for national security reasons, earlier this year.

As much as \$70 billion foreign investment in Russian oil projects has been discussed, but the government hopes to raise a quick \$4 billion from oil company sales. Rosneft, the biggest, is supposed to go for \$1.5 billion. Besides the British Petroleum-Oneksimbank team, alleged by Berezovsky, Rosneft chairman Aleksandr Putilov told reporters that Gazprom (which just raised a \$3 billion credit from Cr dit Lyonnais and others in France) and the Anglo-Dutch Royal Dutch/Shell group are considering a joint bid for the company.

Political explosions in store

What is in store for the weeks ahead? At "only" \$100 billion total capitalization, the Russian stock market might seem to be a tiny spot on the world financial map, but its collapse and the vaporization of Russia's state finances can ignite economic, political, and social explosions with a worldwide impact. One forecast came from Pavel Felgenhauer, military correspondent of the daily *Segodnya*, with whom *EIR*'s Mark Burdman spoke on Nov. 11.

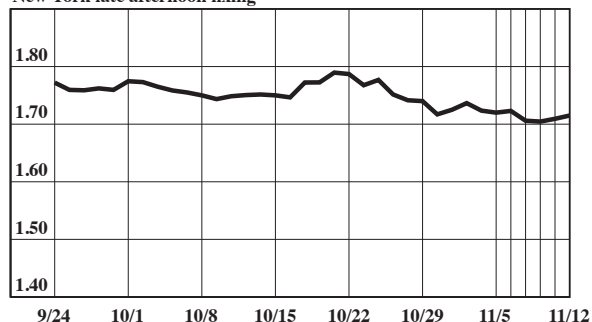
The growing impact of the international financial crisis on Russia situation virtually ensures a major political confrontation by early next year, said Felgenhauer. "I very much recall what you from *EIR* have been telling me about the global financial crisis," he said. "By January, the situation will become absolutely clear to the rank and file, when the promises that they would get their wage arrears will not work. The fact is, there is no money. An equivalent of \$10 billion would be needed, and that amount is impossible, all the more so because of what is happening outside Russia, internationally."

Felgenhauer forecast that Chubais "will be kicked out in the new year. Maybe that will be our present for New Year's Day, or for Russia's Orthodox Christmas, on Jan. 7. Chubais, as finance minister, will have to pay the political price."

Currency Rates

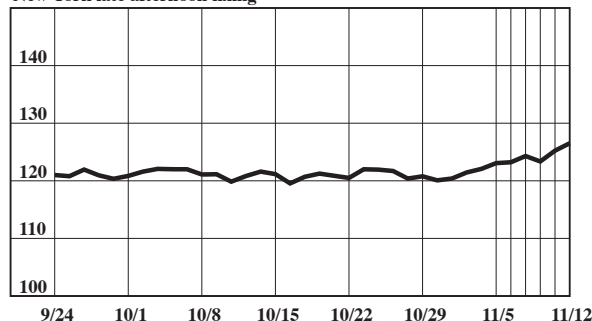
The dollar in deutschemarks

New York late afternoon fixing



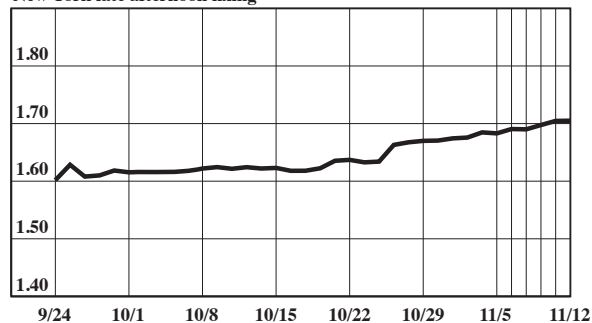
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

