

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,  
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

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## RUSSIAN FEDERATION

### Politics

#### **Russia-Iran Sign Historic Military Cooperation**

- Russian Defense Minister Igor SERGEYEV's historic visit to Iran, the first at that level since the 1979 Islamic revolution, was marked with the signing of an expanded military and security partnership on December 28<sup>th</sup>. Irani Defense Minister Rear Admiral Ali SHAMKHANI said, "Today marks a historic day in Iran-Russia political ties. The two countries have made concrete decisions to expand and deepen all kinds of long-term military, security, and defense relations...Today, it is proved that independent states are free in choosing their allies irrespective of the views of others and external intervention." SERGEYEV added that the new cooperation, "will pose not threat to any third country, but will help promote peace and security in the Central Asian region." US officials have called the Russian-Iranian alliance as particularly dangerous for US interests.

The three-days of talks followed a decision by Russia to back out of a 1995 agreement between US Vice President Al GORE and then prime minister Viktor CHERNOMYRDIN, whereby Moscow agreed to halt weapons sales with Iran after 1999. The US has threatened Russia with economic sanctions if it abandoned the agreement. With profits from high oil prices, Iran announced that it plans to spend a large part of its current cash surplus on upgrading and modernizing its military equipment, The Washington Post reported. Iran expressed interest in parts to repair diesel submarines, Su-24 and MiG-29 fighter jets, tanks, and armored personnel carriers. An unnamed source further said Iran is interested in buying military transport helicopters, shoulder-fired rocket launchers, modern attack

planes, and radar systems.

#### **Russia Moves Weapons To Kaliningrad**

- The Washington Times reported today that Russia is moving tactical nuclear weapons to its military base in Kaliningrad, a Russian enclave on the Baltic Sea port which is the headquarters of the Baltic Fleet and Russian ground and naval forces. The type of tactical weapons has not been determined. Some defense officials believe that weapons could be used on a new short-range missile, Toka, test fired in April in Kaliningrad. Pentagon spokesman Kenneth BACON said, "If the Russians have placed tactical nuclear weapons in Kaliningrad it would violate their pledge that they were removing nuclear weapons from the Baltics, and that the Baltics should be nuclear-free." Both the Soviet government in 1991 and the Russian government in 1992 announced that all tactical nuclear weapons were removed from Eastern Europe to more secure areas in Russia. It is unclear whether that included nuclear weapons based in Kaliningrad. CLINTON administration officials suggest that the moving of nuclear weapons could be posturing to test the incoming administration of president-elect George W. BUSH. Others view the Russian move with concern that Moscow is increasing its defenses against NATO in response to its expansion. In June, US Defense Secretary William COHEN said that Lithuania could join the alliance in the future. Russian military officials in the past have warned that if the Baltic States joined NATO Moscow would base tactical nuclear arms in Kaliningrad. The movement

of tactical nuclear weapons was detected in June, but was withheld from most US policymakers until recently. The BUSH administration will face an immediate bilateral security issue with Russia upon taking office. Russia will no doubt closely monitor the BUSH administration's handling of this sensitive security issue for indications of its future relationship with the new US president.

#### **Putin To Shut Down Minor Political Parties**

- Russian President Vladimir PUTIN has taken further steps to stamp his authority on the country's political arena. On December 26<sup>th</sup>, he met regional leaders, whose powers had already been greatly reduced, to discuss plans to set out once and for all where Moscow's power ends and that of the governors begins. On December 27<sup>th</sup>, he sent to the Russian State Duma a draft law that places new restrictions on political parties. According to Reuters, the proposed law would shut down parties with fewer than 10,000 permanent members and branches in less than half of Russia's 89 regions. PUTIN said the measure will make Russia more stable and easier to govern, but critics say it will concentrate more power in his hands. Vladimir RYZHKOV, an influential independent, called it a "deal between the Kremlin and big parties." "The big parties will get guaranteed parliamentary seats, the Kremlin will get more financial control over their activities," he said in an interview last week. "Such a law will in fact rule out the emergence of new political parties", RYZHKOV added. According to [Izvestiya](#), the plan is intended to reduce the number of parties from 180 to perhaps a dozen. Despite the criticism, parliamentarians promised to support the bill, Reuters reported.

#### **Economy**

<p><b>Ruble = 28.16/\$1.00 (NY rate)</b>  <b>Ruble = 28.55/\$1.00 (CB rate)</b>  <b>Ruble = 27.07/1 euro (CB rate)</b></p>
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#### **Year End Economy Status**

- Russian Prime Minister Mikhail KASYANOV on December 29<sup>th</sup> summed up the work of his Cabinet as satisfactory. He said, "A great deal has been done, and the situation in the country is considerably improving." He added that, "the wage and pension arrears have been repaid, not only in the capital but also in regions;" taxes are being collected at

a rate of 82 percent; wages and salaries rose 25 percent; real incomes of the population increased ten percent; and revenues under the federal budget reached this year 17 percent of gross domestic product. The situation in agriculture seriously improved for the first time this year. Production growth made up almost four percent. KASYANOV noted that barter settlement in Russia was cut by half and now makes up roughly 20 percent. He said that the growth rate of Russia's economy was seven percent in 2000, industrial production rose ten percent, and investment grew by roughly 17 percent to 18 percent. The Prime Minister further pointed out that according to public opinion surveys, nearly half the number of Russian citizens approve of the Cabinet's work.

#### **Business**

#### **Russia To Consolidate Defense Industry**

- Russian Deputy Prime Minister Ilya KLEBANOV, in charge of the defense industry, has proposed consolidating hundreds of defense companies under about 10 holding companies in an effort to boost exports and raise its share of the market. He suggested that the aircraft building industry should be consolidated into one holding company. The sector consists of about 300 factories, design offices, and research centers, operating at perhaps 30 percent of capacity, the [Financial Times](#) reported. Russia last year boosted arms exports by 26.5 percent to \$4.3 billion for 2000, compared with \$3.4 billion in 1999, led by sales of MiG-29s, Mi-24 attack helicopters and S-300 anti-aircraft missile systems, Itar-Tass reported. KLEBANOV said the Russian government would be placing significantly more orders this year than last. In spite of this, government orders will remain only a fraction of export sales.

KLEBANOV's proposal follows a similar move by President Vladimir PUTIN to merge *Rosvooruzhenie* and *Promexport* into a new single entity called *Rosoboronexport* and named *Promexport* Deputy Director Andrei BELYANINOV as director of the new company. *Rosoboronexport*, which will account for 90 percent of the country's arms sales, was ordered to report directly to the Defense Ministry. *Rosoboronexport*, the state-run arms exporter last week signed a contract that will earn Russia at least \$3 billion over the next 15 years through licensing India to produce 140 Sukhoi-30MKI jet

fighters over that period. The size and scope of this deal no doubt indicates India's interest in exporting advanced military aircraft.

### EUROPEAN REPUBLICS

#### Estonia's Government Deficit

- Estonian Finance Minister Siim KALLAS said on Tuesday the country's government sector budget deficit in 2000 ran to some 400 million kroons (\$24.2 million). "Over the year we were carefully watching the deficit did not exceed 1.3 percent of gross domestic product or a little over one billion kroons...and as of year-end the preliminary deficit was approximately 400 million kroons," KALLAS said. He added that the total revenues were some 580 million kroons lower than planned, while total expenses were over 660 million kroons less than set out in the annual plan. KALLAS added the biggest problem on the revenue side was with fuel excise duties, followed by levies on tobacco products. Estonia's 2000 state budget was set at 28.53 billion kroons. Under the constitution, parliament can only approve balanced budgets, though they can still fall into a de facto deficit. The government sector deficit includes local and central government shortfalls, Reuters reported. The Estonian government expects to keep the 2001 budget balanced. It was passed last month with revenue and expenditure of 29.786 billion kroons and is based on forecasts of 5.5 percent economic growth and 4.1 percent inflation. The Central Bank has called for surpluses in 2001 and 2002 to compensate for last year's shortfall and a 2.1 billion kroons gap in 1999.

#### Ukraine's 2000 Economic Progress

- Ukrainian President Leonid KUCHMA has predicted that Ukraine will register a 5 percent growth in its gross domestic product for 2000. He said this indicator encourages hope for success of economic reforms in the year 2001. He said the outgoing year was a success even in spite of certain difficulties. The Ukrainian President said the budget revenue this year is due to exceed the target figure by 0.5 percent. He noted that 99.5 percent of all taxes have been paid in "live money." According to the State Tax administration sources, the Ukrainian budget revenues will rise by 12 percent above the planned amount to 31.4 billion hryvnias. The government is confident that the inflation level will not exceed

25 percent (as against 19.2 percent in 1999). The pension fund paid off all pension arrears back in September, while at the beginning of the year 2000, it had been 1.3 billion hryvnias behind schedule. The Central Bank fully repaid the country's external debts due in 2000 and to increase its gold and foreign exchange reserves to a record-high \$1.6 billion. On December 22<sup>nd</sup>, Ukraine received the first installment of \$247 million on a loan resumed by the International Monetary Fund (IMF). In December, the European Bank for Reconstruction and Development (EBRD) and Euroatom disbursed \$1 billion to finance the completion of the building of new nuclear reactor facilities at the Rovno and Khmelnytsk nuclear power stations.

#### Ukraine Signs Tight 2001 Budget

- Ukrainian President Leonid KUCHMA on December 26<sup>th</sup> signed into law a tight 2001 state budget previously approved by parliament on December 7<sup>th</sup>. The budget targets a deficit of three percent of gross domestic product under International Monetary Fund (IMF) standards. Under Ukrainian accounting practice, the budget has a zero deficit as a projected 5.9 billion hryvnias (\$952 million at the projected rate for 2001 of 6.2 hryvnias per dollar) in privatization income is counted as budget revenues. Total revenues and expenditures are both forecast at 41.97 billion hryvnias. This is the first time since gaining independence that Ukraine started the new year with an adopted budget. KUCHMA pointed out that the budget made no provision for lower taxes for companies and financial relations between Kiev and regions remained unresolved.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Azerbaijan Not To Join NATO

- Azeri Foreign Affairs Minister Vilayat GULIYEV announced today that the nation is not, at this time, interested in joining NATO, but stressed that Azerbaijan is interested in expanding cooperation with the alliance. He said that cooperation with NATO is important to ensure Azerbaijan's security. GULIYEV expressed satisfaction with the level of collaboration with NATO within the framework of the Partnership for Peace program which Azerbaijan joined more than six years ago. The Foreign Minister said prospects for interaction with the North Atlantic alliance will be discussed during the course of NATO Secretary General ROBERTSON's visit

to Baku on January 16<sup>th</sup> and 17<sup>th</sup>.

#### Council Of Europe Chairman Visits Baku

• Indulis BERZINS, chairman of the Council of Europe Committee of Foreign Ministers and foreign minister of Latvia begins a two-day visit to Baku today. He will discuss problems connected with Azerbaijan's joining of the Council of Europe. He will meet with his Azeri counterpart Vilayat GULIYEV, chairman of the Constitutional Court Khanlar GADZHIYEV, chairman of parliament Murtuz ALESKEROV, and leaders of the biggest political parties. On Thursday, BERZINS will meet with Azeri President Geidar ALIYEV, Prime Minister Artur RASIADZE, and the head of Azerbaijan's delegation at the Council of Europe Ilkham ALIYEV. The Azeri Foreign Ministry reports that the Council of Europe's Committee of Foreign Ministers on January 17<sup>th</sup> will discuss Azerbaijan's accession to the Council.

#### Turkmen Gas Unaffordable For CIS Nations

• *Itera*, a gas company closely tied to Russian gas monopoly *Gazprom*, has stated that the new price for Turkmen gas set at \$40 per 1,000 cubic meters is too high for most consumers in the Commonwealth of Independent States (CIS). Turkmenistan cut off gas deliveries to Russia on January 1<sup>st</sup> due to the lack of a legal document for sales in 2001. The entire volume of gas that had been shared between *Neftegaz Ukrainy* and *Itera* now goes to Ukraine. The Turkmen government expressed the readiness to resume gas deliveries to *Itera* on the same terms as to Ukraine. *Itera*, however, believes that Turkmenistan is breaking a contract signed in August, 2000. Under the contract, Turkmenistan pledged itself additionally to deliver 10 billion cubic meters of gas before the end of 2000 at the price of 38 dollars, but supplied only 6 billion cubic meters. Beginning in 2001, Turkmen increased the price per 1,000 meters to \$40. *Itera* believes this price is too high to profitably fulfill contracts with other CIS nations.

#### Uzbek Stops Gas Supplies To Kyrgyz

• Uzbekistan has stopped the supply of natural gas to Kyrgyzstan in a dispute over unpaid bills, *Pravda Vostoka* reported on Saturday. At the beginning of December, Kyrgyzstan's outstanding debt for Uzbek gas supplies amounted to \$1.6 million, which has to be paid off in hard currency, and \$3 million, which has to be paid off in kind.

#### Israel-Uzbek Signed Contract

• Israel-based *Bateman Project* has signed a \$158.5 million contract with *Uzbekneftegas*, the national oil and gas company for the building of a natural gas booster compressor station adjacent to the Shurtan gas fields in Uzbekistan. The United Press International reported that the field supplies 75 percent of Uzbek domestic needs. The compressor station is expected to enable *Uzbekneftegas* to use the field's reserves for an additional 20 years. Uzbek companies will build the station, while *Bateman* would be involved in training and consulting work on-site as well as in operating the supply of parts. *Bateman* has been awarded another two natural gas projects in the former Soviet Union, working with sites in Siberia and Turkmenistan.

#### Kazakh Passes Farm Land Law

• Kazakhstan's parliament on December 27<sup>th</sup> passed a long-awaited law on agricultural land, which allows for long-term leases, but stops short of introducing private ownership. The measure will allow farmers to pledge the leases of up to 99 years as collateral for loans, or to sub-let their plots, Reuters reported. Foreigners are allowed to lease land only from the government. Private ownership of land is a controversial issue in former Soviet states. Kyrgyzstan the week before became the first Central Asian state to permit sales of land. The Kazakh parliament last year passed a law that would have made land a saleable commodity, but widespread protests forced the government to amend it, removing private ownership. Experts say the absence of a land law has so far prevented cash-strapped farmers from raising mortgages.

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