

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Chechen Commander Captured

• Russian forces on Friday captured Chechen rebel commander Ali SHABAZOV, during a raid and subsequent clashes in the village of Shalazhi. According to the Interior Ministry, SHABAZOV was a top lieutenant to Ruslan GELAYEV, one of the most influential rebel commanders in Chechnya. Rebel sources said 18 militants were arrested in the raid. Three Russian officers were killed on their way to a farmers' market in the Chechen capital of Grozny when a mine exploded their armored vehicle, Itar-Tass reported. Rebel snipers hiding in an empty nine-story building then opened fire on the soldiers. Two policemen died on the spot and two others later died of their injuries in the hospital. Following the attack, police and military checkpoints on Grozny's main roads were closed, cutting off traffic into and out of the capital. They were reopened Sunday. Three other servicemen were killed when their vehicle blew up on the outskirts of the southeastern town of Shali. Russian troops claim they control most of Chechnya, and say the militants, heavily outnumbered and out-gunned, are on the verge of defeat. The imminent rebel defeat is an all too familiar refrain as Russia popular support continues to decline. Rebel raids and mine explosions in supposedly Russian-held areas continue to inflict daily casualties, the Associated Press reported.

Chechen Governor Appoints Cabinet

• On Saturday, in Gudermes, the head of Chechnya's pro-Kremlin civilian administration Akhmad KADYROV signed a decree making the first appointments to a new government. The government formed by KADYROV will have seven deputies in charge of 34 specialized ministries and agencies.

Colonel of Russian Airborne Troops Yuri EM was named Deputy Head of the Chechen Administration in charge of power structures and security affairs, while Viktor ALEKSENTSEV took the post of another deputy Governor. Movla OSMAYEV, editor-in-chief of the Gudermes district newspaper Gums and also Deputy Information and Press Minister in the Zavgayev municipal government, was appointed Culture Minister. The Russian Interior Ministry's department for the Chechen republic, a key security agency for control of Chechnya, will be preserved indefinitely. The first session of the new Chechen government will be held within the next 10 days.

Economy

Russia To Make IMF Payment

• Russia used reserves of 89.86 million in Special Drawing Rights (SDRs) or \$116.2 million to make a scheduled payment to the International Monetary Fund (IMF) on February 11th, a Finance Ministry spokesman said. Under a payment schedule, Russia is also to pay 19.47 million SDRs to the Fund on February 25th, Reuters reported. Russia is due to repay the IMF about \$2 billion (1.566 billion SDRs) in 2001, the Fund said.

German-Russia Agree To Service Debt

• A German-Russian working group met in Berlin on Sunday for talks on swapping some Soviet-era debt for German investment in Russian companies. German Chancellor Gerhard

SCHROEDER proposed in December that Berlin might consider exchanging Russia's debt to Germany for investment projects in Russia. Germany is Moscow's biggest creditor, accounting for about 40 percent of Russia's unstructured \$38.7 billion debt to the Paris Club of lenders. Deputy Finance Minister Caio KOCH-WEISER and Russian Deputy Finance Minister Sergei KOLOTUKHIN reached an agreement on Sunday, whereby Russia would include the Soviet debt in their budget. A Finance Ministry spokesman said, "There have been advances insofar as the Russian side has said it was ready to include its responsibilities on 57 billion marks (\$27.1 billion) of Soviet-era debt in their budget." The German Finance Ministry said there had also been progress on setting up pilot schemes on swapping some Soviet-era debt for German investment in Russian companies, although there was still no specific list of Russian companies. Russia has been reluctant to offer stakes in its most valuable companies, such as those in the energy sector. The meeting was held ahead of the German-Russian Council for Cooperation, which opened today. Talks on the debt are expected to continue during the Council's meeting, which Russian Economic and Trade Minister German GREF is to attend. Klaus MANGOLD, chairman of the body representing German business interests in Eastern Europe told Welt am Sonntag, "Russia certainly has a bigger interest in solving the debt question than we do and therefore we think that the Russian side must now present a comprehensive project list."

<p>Ruble = 28.25/\$1.00 (NY rate) Ruble = 28.67/\$1.00 (CB rate) Ruble = 26.64/1 euro (CB rate)</p>
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WB Increases Russian Lending Limit

- The World Bank last week significantly increased the amount of lending it will consider for Russia in the next two years, offering it up to \$2 billion over two years. The World Bank's board approved increasing its lending limit to Russia to up to \$600 million in fiscal year 2001 and 2002, up from a previous limit agreed to in December, 1999 of \$150 million, Bank spokesman Nick Van PRAAG told Reuters. That amount can be increased to \$1 billion annually, if solid progress is made on reforms and other related issues. The previous upper limit had been \$350 million annually. The move was made possible by Russia previously agreeing to cancel earlier com-

mitments of \$2 billion for structural adjustment and various investment programs, which had not yet been disbursed, allowing the World Bank to commit to new projects. World Bank Country Program Coordinator for Russia Hans Martin BOEHMER said, "There certainly is better macroeconomic and political stability and there also is a greater sense of direction that the government is going to take because they have articulated a fairly comprehensive program. If you combine all those things there is an environment that makes sense to approve new loans because there is the prospect that the money will be used effectively."

Business

Russian-Iranian Arms Deal

- Deputy general director of *Rosoboronexport* Viktor KOMARDIN said arms deals with Iran could begin this year worth up to \$300 million. He said "concrete questions" were discussed in December when Defense Minister Igor SERGEYEV met his counterpart in Iran. Russia told the United States last year that Moscow no longer felt bound by the terms of a 1995 deal to curtail weapons sales to Iran. While SERGEYEV was in Tehran his Iranian counterpart said the deal, championed by former US Vice-President Al GORE, had been "buried by history." Russia seems to have decided that the economic gains from courting Iran will outweigh the diplomatic costs of defying Washington, the Financial Times reported. While pointing out that "real contracts" could be signed by summer, KOMARDIN pointed out that France and Germany have already been active in the Iranian arms market, Reuters reported.

Russia's renewed relations with Iran are headed for a boost as Iranian President Mohammad KHATAMI is scheduled to visit Moscow in mid-March. Questions regarding the legal status of the Caspian Sea and progress on the Bushehr reactors will be on the agenda. Washington has objected to Russia's participation in the project in 1995, pointing out that Iran would be gaining technology and skills used in building nuclear weapons. The first reactor should be operational in 2003.

US Backs Turner Bid For NTV Stake

- The BUSH administration is supporting CNN founder Ted TURNER's bid to buy a 25 percent

stake in Russia's only independent television network, *NTV*, to save it from government control, The Washington Post reported. US Secretary of State Colin POWELL and Ambassador James COLLINS have held private conversations with unidentified Moscow officials to underscore the importance of the maintaining the network's independence. TURNER plans to invest more than \$300 million in the station that reaches 110 million viewers. *Media Most* is negotiating with TURNER and investor George SOROS. Proceeds from the 25 percent stake sell-off may allow media businessman Vladimir GUSINSKY, chairman of *Media Most*, to pay off a \$261.5 million debt to *Gazprom*. *Gazprom* claims the unpaid debt means it controls a majority of *NTV* shares. Before proceeding with a deal, TURNER has asked President Vladimir PUTIN to guarantee journalistic freedom for the network, which PUTIN has been unwilling to do.

EUROPEAN REPUBLICS

Rus-Ukraine Relations In Times Of Need

- In a supposed bid to show support for Ukrainian President Leonid KUCHMA during the current political crisis, Russian President Vladimir PUTIN visited Kiev and said, "Relations on the post-Soviet territory are a priority for us, especially with Ukraine, our largest partner." He said that the political struggle in Ukraine will not affect Russia's cooperation with Ukraine. PUTIN and KUCHMA opened the visit today at the huge Yuzhmash aerospace factory, where KUCHMA was previously director, a former missile plant now producing civilian rocket boosters. The two nations are cooperating on the Sea Launch satellite program with *Boeing* using converted sea-based oil drilling platforms.

During the visit, the two leaders signed an agreement for *Unified Energy System (UES)* to coordinate electricity distribution between the two nations. *UES* signed similar agreements with utilities from the Baltic States and Belarus last week. Ukraine is one of the world's largest energy consumers and depends heavily on natural gas supplies from Russia. Moscow estimates Ukraine's gas debt at about \$2 billion, while Ukraine says it is \$1.4 billion.

Protesters Demand Kuchma's Ouster

- Thousands of Ukrainians marched through Kiev on Sunday demanding that President Leonid

KUCHMA quit over the allegations that he plotted the disappearance of opposition journalist Georgy GONGADZE. About 5,000 people, many bearing banners with "KUCHMA Kaputt!" and "Ukraine is a police state," joined the march. The third demonstration in a week came hours before KUCHMA welcomed Russian President Vladimir PUTIN, who arrived Sunday evening for talks. KUCHMA is now under pressure from the "Ukraine without KUCHMA" movement, which has mobilized opposition parties, rights groups, and individuals. GONGADZE, the editor of an internet website who criticized alleged high-level corruption, disappeared on September 16th and a headless body with an apparent DNA match was found near Kiev on November 3rd. A former presidential bodyguard later provided audio recordings of purported conversations between KUCHMA and top aides, with KUCHMA allegedly fuming in obscene language about GONGADZE and urging action to silence the journalist. The tapes were made public by opposition Socialist Party leader, Alexander MOROZ. KUCHMA and other accused officials have strongly denied involvement, and authorities say the tapes were fabricated. On Saturday, KUCHMA abruptly ousted the chief of Ukraine's Security Service, Leonid DERKACH, and the head of the state bodyguard department, Volodymyr SHEPEL. MOROZ said the dismissals were, "yet another circumstantial proof" that the tapes were genuine, Reuters reported.

In the Financial Times' weekend edition, KUCHMA countered that he was framed. KUCHMA believes there is a "100 percent analogy" to the disappearance last year of a journalist in neighboring Belarus. In that case, Dmitri ZAVADSKY, a cameraman of Russian television network *ORT* that frequently criticized Belarus' President Alexander LUKASHENKO, disappeared on July 7th. The investigation made no progress. In late November, however, an e-mail was sent to the news companies by someone identifying himself as "an officer in the State Security Committee." According to the letter, LUKASHENKO's personal Security Service was responsible for the disappearance and murder of ZAVADSKY. Diplomats in Minsk privately wonder aloud that the Russian Security Service (FSB) may have played a part in ZAVADSKY's disappearance. Subsequent to this disclosure, the Security chief of Belarus was also removed. But in this case, he was

suspiciously replaced by a former deputy director of the FSB, Russian President Vladimir PUTIN's old organization. KUCHMA maintains that there are disturbing aspects of the GONGADZE case that point to a conspiracy to frame him. However, he rejects, "the idea that this was done on the level of states, that it was the Americans or the Russians. Though it is not excluded that some sort of civil institutions from these countries are at work."

SOUTH CAUCASUS & CENTRAL ASIA

GUAM Summit Postponed

- The summit of GUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova) member states, scheduled for March 6th and 7th, has been postponed. **Intercon** sources report the real reason for the postponement is the political crisis in Ukraine. Earlier reports indicated that the summit was called off at the request of Moldovan President Petru LUCINSCHI. Turan news reported that it was Azeri President Geidar ALIYEV who asked for the postponement. It appears that these requests are a helping hand to support Ukrainian President Leonid KUCHMA during the turmoil. GUAM states will hold a conference on February 27th on small-medium business to encourage foreign investment.

Rus-US Defense Officials Visit Georgia

- A delegation of the Russian General Staff, led by chief of the international military cooperation department of the Russian Defense Ministry Leonid IVASHOV, arrived in Tbilisi today for a three-day working visit. During the visit, discussions on military cooperation as well as implementation of understandings [reached in Istanbul in 1999] concerning withdrawal of Russian military bases from Georgia and the removal of a Russian ammunition depot situated in eastern Georgia will be on the agenda.

Meanwhile, a US delegation from the Defense Department is in Tbilisi on a five-day working visit. They will study progress of the reform in the

Georgian armed forces and meet with President Eduard SHEVARDNADZE and Parliament Chairman Zurab ZHVANIA. Otar SHALIKASHVILI, who has been appointed as assistant to the US Defense Secretary for the military cooperation with Georgia, will be introduced to the Georgian leadership. He is the brother of former head of the US Joint Chiefs of Staff John SHALIKASHVILI.

OKIOC Selects ENI's Agip As Operator

- Members of the *Offshore Kazakhstan International Operating Company (OKIOC)* and the government has selected Italian energy group *ENI's Agip* to be the operator of Kazakhstan's huge Kashagan oilfield. *ENI's* selection is a major coup for the company. An oil analyst at *Commerzbank* in London said, "It is a very complex development and it's going to be a very long term development. And for the likes of [rivals] *Exxon*, *Shell* and *Total* to accept *ENI* as the operator is a big compliment." *OKIOC* discovered oil last July in its first test well at the giant Kashagan field in the Caspian Sea. *OKIOC*, currently drilling its second test well on the field, has come under pressure recently from President Nursultan NAZARBAYEV to select an operator. NAZARBAYEV said last year that Kazakhstan could produce as much as eight million barrels per day of crude, rivaling Saudi Arabia, by 2015, when the country's three most promising fields, Kashagan, Tengiz and Karachaganak, are all at full production. *OKIOC* groups *Phillips Petroleum*, *ExxonMobil*, *BP Amoco*, *BG*, *Royal Dutch/Shell*, *TotalFinaElf*, *Statoil*, *ENI's Agip*, and Japan's *Inpex*.

Meanwhile, *Statoil* announced today that will sell its 4.76 percent stake to *TotalFinaElf*. This followed a recent announcement by *BP Amoco* that it had agreed to sell its 9.5 percent stake in the project to *TotalFinaElf*, which would give the French group a holding of over 28.5 percent if both deals go through. Under a shareholder agreement, each partner has the right of first refusal on its share of any stake that comes on the market. One *OKIOC* official predicted

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