

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia Branded Missile Proliferator

• The strain between Russia and the US over plans for a National Missile Defense system (NMD) intensified as US Defense Secretary Donald RUMSFELD identified Russia as an advanced missile proliferator. Speaking on the PBS show "The News Hour With Jim LEHRER," RUMSFELD said, "But let's be very honest about what Russia is doing. Russia is an active proliferator. They are part of the problem. They are selling and assisting countries like Iran and North Korea and India and other countries with these technologies which are threatening other people, including the United States and Western Europe and countries in the Middle East." RUMSFELD said that it made no sense for Russia to be exporting missile technologies on the one hand, and protesting US attempts to defend itself against missiles on the other. He also repeated the US contention that the proposed missile defense shield would protect the nation only against small-scale attacks, not the massive sort that Russia could launch. The Russian Defense Ministry's international relations head, Colonel-General Leonid IVASHOV, rejected the notion that they are proliferating nuclear weapons. He stressed, "Russia is irreproachably fulfilling its international obligations, including under the regime of nonproliferation of missile technologies." Segodnya suggested that Moscow has brought its current problems on itself in this sphere by adopting a generally anti-American line since last summer.

Russia To Withdrawal, Chechens Attack

• First deputy chief of Russia's general staff Valery MANILOV announced today that Russia has drawn up a plan to withdrawal troops from Chechnya. He said, "a plan and schedule for withdrawing extra military units from Chechnya has been worked

out and sent...to those who will implement it." He added, "We are starting from the premise that the withdrawal will be gradual, that there will not be any abrupt or rushed withdrawal of troops." He did not say how many troops would be withdrawn or under what timetable. Russia first announced that the military phase of the conflict was over last March and promised deep cutbacks of troops. But official figures state that only 80,000 Russian troops are reported to be in Chechnya. Other sources believe that the force could be as large as 100,000 to 200,000 soldiers. Despite the occupation, Russian troops have failed to end Chechen attacks. Rebels opened fire on Russian positions and checkpoints 25 times on Wednesday. The strikes killed five soldiers and wounded 12 others. Seven Russian soldiers were killed and 10 were wounded when military vehicles struck mines or were ambushed on the roads. Two more soldiers were wounded in Grozny. Chairman of the Audit Chamber Sergei STEPASHIN has said that the chamber will release information on what was done with the 88 percent of the 14 billion rubles (\$500 million) officially budgeted for Chechnya in the immediate future. He said that the figures on the cost of the war are "classified at the moment." STEPASHIN alluded to an enormous figure. "In an interview with NTV, STEPASHIN said, "I will say, however, that we could have paid off a great deal of our debt to the Paris Club had it not been for the vast additional spending on bringing about order in the Chechen Republic...Any war is very costly, not just in human terms, but in financial terms

as well. Russia's debt to the Paris Club, including Soviet-era debt, is approximately \$48 billion.

The chief of the pro-Moscow government in the region, Akhmad KADYROV, said that he wanted to ban independent humanitarian groups from working in Chechnya. "From now on, the Chechen authorities do not intend to permit the independent operation of humanitarian organizations." International human rights groups and the Moscow-installed Chechen authorities say Russian soldiers' discipline has deteriorated and the troops have committed abuses that further alienated the local population. Last month President Vladimir PUTIN transferred overall responsibility for Chechnya from the army to the Federal Security Service (FSB).

Nemstov Presents Chechen Peace Plan

- Russian State Duma deputy and leader of the Union of Right Forces Boris NEMSTOV met with Russian President Vladimir PUTIN over the weekend to discuss a peace plan for the Chechen conflict. NEMSTOV has called for a "governor-general," a civilian to be appointed to Chechnya. This position would have the authority over both military forces and civilian government. He would be allowed to open any peace negotiations he chose, including with Chechen President Aslan MASKHADOV. The "governor-general" would have two-years to restore civil order. The Financial Times reports, if after that period of time there appeared to be no chance for peace, Chechnya would then be partitioned into a northern half that would be reattached to Russia and a southern half that would be fenced off. NEMSTOV's plan has the backing of the Russian military, but not from the Interior Ministry. "Chechnya is a serious problem for him. He won election because of the Chechen War. He will lose the next election if nothing happens [to end it]. That is why finally this plan will be useful to him."

KGB To Work Outside Of The Law

- NTV evening program's "Top Secret" on Wednesday was devoted to spies and traitors, highlighting among others GORDIEVSKY, BARONOV, and Oleg KALUGIN. Former KGB officers were interviewed and asked about their opinions concerning these "traitors." Three different responses were given when asked about KALUGIN's status. The first officials said that KALUGIN is like a rat running from a sinking ship. The second asserted that KALUGIN,

who once represented the Krasnodar region in the early 1990s, should have stayed in the country as a Russian State Duma deputy fighting to make reforms rather than criticizing Russia from abroad. The third official, former Chief of Soviet Intelligence Leonid SHEBARSHIN, said that KALUGIN was a traitor. When asked if KALUGIN had been officially charged, SHEBARSHIN said he had not been. He added that, "we the veterans will find ways to settle scores with him." The next clip showed a man being hit on the head. SHEBARSHIN replaced outgoing KRUCHKOV and later was dismissed by the KGB reformer BAKATIN after the 1991 putsch. SHEBARSHIN now runs a small private company in Russia, but is listed as an official advisor to the intelligence service. **Comment:** SHEBARSHIN's brazen remarks indicate that former KGB officers have been emboldened by the support of Russian President Vladimir PUTIN and the raising of Federal Security Service (FSB) officials and former KGB officers to high-level positions. The old KGB is back and some are willing to act as they did previously outside the law as rogues uncontrolled by governmental constraints.

Economy

<p>Ruble = 28.701/\$1.00 (NY rate) Ruble = 28.68/\$1.00 (CB rate) Ruble = 26.05/1 euro (CB rate)</p>
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Putin Promises No Rise In Income Tax

- Russian President Vladimir PUTIN promised on Tuesday he would not raise Russia's 13 percent flat income tax rate any time soon. He said, "We guarantee that this 13 percent tax rate is serious and will remain in place for years. We guarantee it." Reducing the tax rate from an average 35 percent to a flat tax of 13 percent was one of PUTIN's main reforms aimed at persuading residents to stop hiding their wealth. Some have suggested that the flat tax would be only a temporary measure and rates would be raised again as soon as more taxpayers got into the habit of declaring their income, Reuters reported. "It is stability and predictability (that are needed), without which further investments would be impossible, it is consistency." He called for further clarification of Russia's tax regime. The Tax Ministry said tax collection revenues almost doubled to 628.5 billion rubles (\$21.91 billion) in 2000, with the total rising 75 percent to 700 billion rubles if payments to

special extra budgetary funds are included. PUTIN said controls should be tightened, but authorities should act on a strictly legal basis.

Business

Tyumen To Develop New Deposits In Siberia

- *Tyumen Oil (TNK)* announced Wednesday that its new *TNK-Uvat* subsidiary plans to develop the Kalchinskoye, Irtyskoye, and Yuzhno-Pikhtovoye oil deposits in Western Siberia under a production sharing agreement. *TNK* holds a 99.7 percent stake, while *SINCO*, *Novosibgeologya*, and *Tyumenneftegas*, each holding 0.1 percent. According to a company press release, the main goal of *TNK-Uvat* is to explore and develop oil deposits in the southern portion of the Tyumen region. After finalizing the PSA, *TNK-Uvat* will begin extensive exploration of the territory, boosting development of the local infrastructure, increasing tax revenues and creating new jobs. The proven reserves in the three new sites total nearly 100 million metric tons, or 713 million barrels of oil. Proven reserves in the C1 and C2 areas of Kalchinskoye licensed site total 22 million metric tons. Localized C3 area reserves exceed 70 million metric tons. The proven reserves of Irtyskoye licensed site total 5.3 million metric tons. These reserves will be categorized following the completion of a seismic exploration currently in progress. At the Yuzhno-Pikhtovoye site, where part of Pikhtovoye oil deposit is located, proven reserves total 0.4 million metric tons, while the aggregate reserves exceed 50 million metric tons. *Tyumen Oil*, established in 1995 and owned by the Russian *Alfa Group* and *US-Russian Access/Renova*, has crude oil reserves of more than 8.2 billion barrels and refines more than 660,000 barrels per day. It ranks No. 2 in reserves and No. 4 in production among Russian oil companies, and was named the world's "Best Oil and Gas Company" of 2000 by Financial Times Energy.

Putin Signs Into Law Kovykta Gas PSA

- Russian President Vladimir PUTIN signed into law a bill to include the Kovykta gas deposit in a production sharing agreement (PSA) deal involving *BP Amoco*. The license to develop the deposit is currently held by *Rusia Petroleum*, of which *BP Amoco* owns over 30 percent. Other shareholders in the project are Russia's *Interros* banking and industrial group, *Sidanko*, and *Tyumen*. The

Kovykta field holds 340 billion cubic meters (bcm) of proven gas reserves and 1.2-1.5 trillion cubic meters of potential reserves. It has the potential to export up to 20 bcm a year to China and 10 bcm a year to South Korea. Capital spending on Kovykta is estimated at \$5.5 to 6.0 billion and it would cost another \$6.0 to \$6.5 billion to build an international gas pipeline to carry its gas to South-East Asia.

EUROPEAN REPUBLICS

Forum Calls For Tymoshenko's Release

- The National Salvation Forum, a grouping of dozens of politicians and public figures, was set up in a wave of anti-KUCHMA protests, demanded the release of one of its leaders Julia TYMOSHENKO, who was arrested and charged with giving about \$79 million in bribes to her one-time close ally, former prime minister Pavel LAZARENKO. TYMOSHENKO has denied the charges. According to a Forum statement, instead of arresting, "criminals from the entourage of President Leonid KUCHMA," authorities have applied, "the full power of their punitive-repressive system against a woman." The Forum said the arrest was to punish her for opposition activities and for reforms in the energy and coal sectors. In addition, the Forum slammed Prime Minister Viktor YUSHCHENKO for signing a statement condemning the Forum, calling it a betrayal of TYMOSHENKO, his one-time close aide on reforms. YUSHCHENKO said he signed the document because he believes, "the path of undemocratic transformations, disinformation, and violent pressure" leads to "deadlock." The statement, also signed by KUCHMA and Parliamentary Speaker Ivan PLYUSHCH, calls on Ukrainians to pull together during the crisis. It claims that the, "unprecedented political campaign has all the features of psychological warfare." It adds that the current turmoil is being controlled by outside forces. "Ukraine and the world are yet to find out who ordered, organized, and performed this provocative action and what was the moving force of it. However, now we can see the involvement of

domestic politicians and political forces who pursue nothing but their own interests and ambitions, egoistic aspirations and expectations.”

Lithuania To Sell National Airline

- The Lithuanian government approved a plan to sell *Lietuvos Avialinijos*, the national air carrier, by the first quarter of next year. The approval, which nullified the former government's plan to sell 49 percent of the airline to a foreign air carrier, means that the entire state company could be sold at once, though a final decision has not been made. Transport and Communications Minister Dailis BARAKAUSKAS said, “Anything between 1 and 100 percent of shares may be sold to a strategic investor depending on the recommendations of experts.” The sale program should be prepared in the third quarter, while the government will prepare a tender to choose an adviser, BARAKAUSKAS said. *Lietuvos Avialinijos*, which is 100 percent state-owned, posted an un-audited loss of about 20 million litas (\$5 million) in 2000, after a 24.6 million-lita loss in 1999, Bloomberg News reported.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia To Sue Former Intelligence Chief

- The Citizens' Union Party of Georgia (CUG) plans to file a lawsuit against former national intelligence chief Irakly BATIASHVILI for slander and false accusations. The CUG rejects allegations made by BATIASHVILI that former Russian first deputy prime minister Nikolai AKSENENKO provided \$1 million to the CUG during the run-up to the October, 1999 Georgian parliamentary elections. He alleges that these funds were used to pay for Russian public relations experts or image-makers. RFEVRL reported that BATIASHVILI claims to have evidence to substantiate his allegations.

Meanwhile, **Intercon** sources report that the Georgian parliament will consider legislation similar to that in Germany and the Czech Republic that would force individuals, who were agents of the Soviet

KGB and not working with the Georgian special services from holding high office. The aim of the legislation is to prevent these agents from carrying out directives from foreign forces and meddling in the internal affairs of political life in Georgia.

Georgian-Italian Business Conference Opens

- A Georgian and Italian business conference on economic cooperation opened at the *Sheraton Metekhi Palace* today in Tbilisi. Mauro FABRIS, Minister of Industry and Foreign Economic Relations, leads the Italian delegation of government officials and about 30 businessmen. The purpose of the delegation's two-day visit is to promote deeper bilateral trade and economic relations and study possibilities for Italian investments in the economy of Georgia. The delegation is to meet with Georgian President Eduard SHEVARDNADZE, Minister of State George ARSENISHVILI, Parliament Speaker Zurab ZHVANIA, as well as a number of Cabinet ministers and departmental chiefs.

Caspian Sea Summit Planned For March

- A summit of Caspian Sea's littoral states will take place in Turkmenistan on March 8th and 9th to consider the Sea's status. The initiative of the Turkmen President has been supported by Kazakhstan, Azerbaijan, Moscow and Teheran. The question of the Caspian Sea status requires a final political decision to be taken at the top level. The definition of the status will enable all Caspian nations to start the development of natural resources. Turkmenistan believes that “the division of the sea [the bed and waters] into national sectors is the only acceptable way of defining the status.” The summit will also center on the Caspian security. The Turkmen President would like the sea to be a zone of peace and neighborliness.

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