

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **US Student Arrested With "Spy Links"**

• A Russian court today is hearing a bail appeal for John TOBBIN, a US student arrested on February 1<sup>st</sup> in Voronezh for buying drugs. He was earlier denied bail. TOBBIN was conducting work on a post-graduate thesis at Voronezh University on a Fulbright scholarship. However, Russia's Federal Security Service (FSB) has claimed that TOBBIN has links to US military intelligence. A FSB officer in Voronezh said, "It was found out during the investigation that before going to Russia, TOBBIN entered the institute of the US Department of Defense in Monterey in 1996, where he received the diploma of a specialist in the Russian language. After that he studied at the military intelligence school in Fort Huachuca, New Mexico, until 1998. According to the existing information, he was allowed to work with classified documents of the US Department of Defense, starting from May, 1997." The US embassy confirmed an American citizen had been detained in Voronezh but could give no details of the charges. Voronezh FSB spokesman Pavel BOLSHUNOV said, "The Russian Security Services believe the American was, apparently, carrying out work to familiarize himself with the country and language before receiving his main assignment." This case promotes the spy v. spy mania and comes nearly a week after the US arrested FBI agent Robert HANSSEN for providing intelligence secrets to the USSR and Russia for over 15 years. An FSB officer said TOBBIN came to Russia "obviously to study the country and the Russian language, the way it is usually done." If true, the Russian FSB has provided an invaluable service to the US government by weeding out a drug user from either potential or actual federal employment.

#### **Kursk Note Blames Misfiring Torpedo**

• Izvestia has reported that a second note left by a sailor on the Russian Kursk reveals that the nuclear submarine sank after a torpedo misfired. The letter, written by Lieutenant Rashid ARYAPOV, describes how the submarine "somersaulted" after the explosion. A number of crew were injured by pieces of equipment torn from their stowage places, Izvestia said. Unidentified officers of the Northern Fleet revealed the details of the note, written on a book page and wrapped in plastic. All 118 crew died when the Kursk sank August 12<sup>th</sup> last year in the Barents Sea. Russian Navy official initially blamed the accident on a collision, "with an underwater object, possibly another foreign submarine." This theory continues to be promoted by Sergei IVANOV, head of the Russian National Security Council. The US Navy said its vessels detected two explosions and the likely cause was a torpedo exploding and triggering a second blast. Earlier this month, the Russian government was studying the Kursk's torpedoes and weapons launch systems in connection with the vessel's sinking. The Kursk was carrying torpedoes powered by a liquid peroxide fuel that had been rejected for use by the British navy as being too unstable, the *BBC* reported.

#### **Radioactive Container Seized In Yekaterinburg**

• Customs agents in Yekaterinburg on Sunday seized a 145-kilogram radioactive container at the city's Koltsovo Airport. Customs officials declined to specify what, if anything, was

inside the container, which was shipped from San Francisco. Yekaterinburg prosecutor's office is considering a criminal case on the mishandling of environmentally hazardous substances. Transport prosecutor Valery ZARECHNOV said, "according to preliminary information, the talk is about the return of the container for radioactive materials sent to the US from the local Beloyarsk nuclear power plant under an agreement. Before forwarding the container the Americans should have carried out its decontamination, but probably forgot to do that. As a result, the container arrived on a plane of Chelyabinsk Airlines through Hanover back in Russia." He said a minimum admissible radiation level was 11 microroentgens an hour, while the container emitted 14 microroentgens and its lead 107 microroentgens an hour. ZARECHNOV said there were no harmful consequences.

### Economy

<p><b>Ruble = 28.76/\$1.00 (NY rate)</b>  <b>Ruble = 28.76/\$1.00 (CB rate)</b>  <b>Ruble = 26.28/1 euro (CB rate)</b></p>
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### **Germany Delays Credit Guarantees To Russia**

- Germany postponed the approval of hundreds of millions of deutsche marks (DM) in new export credit guarantees to Russia. Berlin officials said the postponement was part of a more cautious policy shift towards Russia. It is expected that *Hermes*, the export credit guarantee group, will be instructed to stop future guarantees to Russia, if Russia does not make up the large shortfall in interest and capital repayments by the next inter-ministerial committee meeting on March 15<sup>th</sup>, the Financial Times reported. Officials declined to state whether the postponement was a unilateral move or a coordinated policy with other Paris Club lenders. Russia owes \$48 billion to the Paris Club, with 40 percent of that owed directly to Germany. The German Finance Ministry has received less than a third of the 18 billion DM (\$830 million) due from Russia in interest and capital for January and February.

### **Italy Accepts Debt-Investment Benefits Offer**

- Russian Prime Minister Mikhail KASYANOV said on Tuesday that Italy had taken advantage of a proposal by Moscow to swap some debt to the Paris Club of state lenders for investment benefits in

his country. "In Italy we have at least one project in operation using the scheme and it's quite successful," KASYANOV told *Reuters Television*, adding the project was in the range of \$40 to \$70 million. He did not elaborate. KASYANOV initially offered the debt for investment scheme to Germany, which accounts for some 40 percent of Russia's \$40.2 billion debt to the Paris Club of creditor nations, and several such projects are currently under discussion. "We have signals from a few big companies in Europe to undertake those efforts," KASYANOV said. Italy is Russia's second largest Paris Club creditor with debt totaling \$9.5 billion.

### **Russia- WTO Talks Continue**

- The Russian government continued talks with the World Trade Organization (WTO) on foreign investors gaining access to the country's commodities and agricultural markets, according to an Economy Ministry spokesman. WTO members said they were interested in Russia's proposals on such access, and will give them, "detailed and serious consideration," said Deputy Economy Minister Maxim MEDVEDKOV. Russia estimates its failure to join the WTO costs it about \$3 billion a year through trade and export restrictions. It first applied for membership in 1993, though the pace of talks slowed amid government reshuffles and a contracting economy after the state's August, 1998 Treasury bond default. The country faces more than 100 restrictions on its metals, fertilizers, and nuclear equipment exports.

### Business

### **Chubais Calls For Greater State Role**

- Chairman of *Unified Energy Systems of Russia (UES)* Anatoly CHUBAIS has called for the state to take a larger role in the fuel and energy industry. He believes this, "is absolutely necessary." He added, "There are piles of state tasks in the fuel and energy industry." The state should supervise the development strategy and forecast the balance of energy resources, he said. CHUBAIS, however, cautioned that the larger role of the state in the fuel and energy industry "must keep within the normal modern market formats." He noted that the state must not alter production and transmission of electricity. "The more stable is that interest in the company's capital, the less new shocks occur." CHUBAIS also pointed out the need for immedi-

ate investments in the coal mining industry. He said the Russian power industry could not survive another winter without significant investment. The growth of the Russian power industry is limited by the actual capacities of the coal mining industry, CHUBAIS said. He warned that the problem will fully ruin the national energy safety in five years. CHUBAIS cited as an example the Primorye power plant, where 6-7 malfunctions of power equipment had occurred since February 12<sup>th</sup>.

#### **GM To Invest \$100M In JV With AvtoVAZ**

- *General Motors (GM)* will invest \$100 million in a joint venture with Russia's *AvtoVAZ* to produce a compact sport-utility vehicles. The companies are setting up a \$332 million venture to produce 75,000 Niva vehicles annually by 2004. *GM* and *AvtoVAZ* will each hold 41.5 percent stakes in the venture while the European Bank for Reconstruction and Development (EBRD) will take a 17 percent share in return for financial support. *GM* is betting economic growth in Russia will boost demand for vehicles. Russia's car market will expand by about 27 percent in five years to 1.19 million cars from 935,000 cars this year, according to a Standard and Poor's DRI estimate. David HERMAN, *GM* vice president for the Russian region said, "The investment is part of our long-term business strategy for the Russian market." He added, "*GM* is taking an intelligent, reasoned approach to a market with a huge potential by building on the proven engineering expertise of *AvtoVAZ*." The venture will be located at the *AvtoVAZ* plant in Togliatti, Russia. Manufacturing is expected to begin at the end of

#### **EUROPEAN REPUBLICS**

#### **Ukraine Launches Gongadze Investigation**

- Ukrainian prosecutors, after months of stalling, have launched a murder investigation into the death of reporter Georgy GONGADZE. According to a statement, "prosecutors' office...has taken the decision to launch a criminal case into the pre-meditated murder of G. GONGADZE." This marks a sudden change in pace in the investigation, which has been criticized by the European Union (EU) and US. Ukraine has accepted an offer for FBI assistance in the probe. Supporters claim that prosecutors and investigators were ordered by President Leonid KUCHMA to drag their feet on the case. The move for the investigation follows the official identification

of a headless corpse, burned with acid and found in a shallow grave in November, is that of GONGADZE on Monday. Deputy state prosecutor Oleksiy BAHANETS announced the ruling and ordered that GONGADZE's mother and wife be recognized as victims in the case. Speaking on condition of anonymity, a prosecutor's spokeswoman said that the ruling was based on unspecified expert evidence. Ukrainian prosecutors who examined the body said previously that DNA and other tests showed a 99.6 percent probability that it was GONGADZE, but refused to rule conclusively. GONGADZE's murder has led to nationwide opposition protests, calling for the resignation of President KUCHMA.

Today, in a letter published in the *Financial Times*, KUCHMA denied his involvement in GONGADZE's murder and said that the guilty will be found and punished. He said that the scandal surrounding the murder is being used as a, "political weapon with the purpose of destabilizing the country." He added, "We in Ukraine believe that freedom of the press is a characteristic constituent feature of a democratic country. The provocation against me was done just when the Ukrainian economy has begun to rise from a crisis, when positive economic growth has become visible for the first time, when land privatization has begun to yield tangible results, when many have shown interest in investment in the Ukrainian economy, when the president, government and parliament have made joint steps down the road of economic reforms."

#### **Estonian Rail Sale Doomed?**

- Estonia's privatization agency said today it expected talks for the sale of 66 percent of state rail firm *Eesti Raudtee* to *RailEstonia*, now stalled in the courts, to fail and discussions to move to the second choice bidder. "It is clear now that February 28<sup>th</sup>, the deadline to sign the deal, will not be met due to the court case," agency spokeswoman Katrin KIVI told Reuters. "One possibility is the talks with *RailEstonia* will be ended and the second best bidder will be approached. We can presume it will happen this way. The final decision is to be made tomorrow by the agency's council," she said. Tallinn administrative court Judge Karin KALMISTE in January suspended the sale, pending the outcome of a suit from *RER*, one of the losing bidders, to re-run the tender. Formal hearings in the case open on March 14<sup>th</sup>. The second choice bidder for the



*Raudtee* stake was *Baltic Rail Service*, a UK-US-Estonian consortium.

### SOUTH CAUCASUS & CENTRAL ASIA

#### **Chevron To Participate In Baku-Ceyhan**

- Georgian President Eduard SHEVARDNADZE announced during his national radio address Monday that *Chevron Petroleum Company* will take part in the implementation of the Baku-Tbilisi-Ceyhan project as a whole. It will also do all the basic engineering jobs linked with the construction of the pipeline. SHEVARDNADZE added that the problem of boosting the transit transportation of Kazakh oil via Georgia was also discussed during his meeting with a delegation of *Chevron* leaders in Tbilisi last week. *Chevron* has transported by rail in recent years more than 9 million tons of oil via Georgia, which had considerably increased the country's budget revenues. President SHEVARDNADZE noted that transit transportation of Kazakh petroleum from Tengiz [Kazakhstan] to the Russian port of Novorossiisk did not interfere with the use of the Georgian route. He described as "groundless and primitive" the claims of some media sources and politicians that Georgia, "may jeopardize Russia's transit facilities and potential," Itar-Tass reported. Richard MATZKE, Vice Chairman of *Chevron*, is not visiting Batumi, Georgia.

#### **Azerbaijan Sets Up Gabelinskaya Commission**

- Azeri President Geidar ALIYEV on Monday ordered the creation of a government commission to probe into the impact of the Gabelinskaya radar station on the environment and people's health. The station, built in 1985 as part of an early warning system, is Russia's only military facility in Azerbaijan. The agreement for the joint commission was reached during Russian President Vladimir PUTIN'S first visit to Baku. The Commission will include the leaders of medical research institutes, representatives of the Health, Defense, Foreign, Economics Agricultural Ministries and the State

Committee for the Environment and Control over the use of Natural Resources. It will work with Russian counterparts.

#### **Armenia Opens An Embassy In Iraq**

- Iraqi News Agency (INA) reported that Armenia has opened an embassy in Baghdad. Armenian Foreign Minister Vardan OSKANYAN said at the opening ceremony that the government and people of Armenia support Iraq and call for the lifting of the stringent international sanctions on it. The UN Security Council imposed the economic sanctions on Iraq after its invasion of Kuwait in 1990. Nouri AL-WAIS, Iraqi foreign undersecretary, expressed appreciation for the stand of Armenia, saying that Iraq is to open its embassy in Armenia soon. The Armenian Foreign Minister held talks with Iraqi Deputy Prime Minister Tareq AZIZ on Sunday.

#### **Iran To Increase Turkmen Gas Imports**

- Iran plans to increase gas imports from Turkmenistan in 2001 by up to 13 billion cubic meters. The request was discussed in a meeting between experts from Turkmenistan's Ministry of the Oil, Gas Industry and Mineral Resources and Iran's *National Gas Company* on Saturday. The Turkmen Ministry said that more than 6 billion cubic meters of gas have been sold to Iran since December, 1997, following the building of the Korpedzhe-Kurt Kui gas pipeline. It is estimated that approximately 2.7 billion cubic meters were transferred in 2000. Under the sale agreement signed for 25 years, Turkmenistan will supply 6 billion cubic meters of gas to Iran in 2001 at a price of \$40 per 1,000 cubic meters. Iran needs more gas to fuel its power plants and industrial enterprises in the north and provide the population with gas. The two sides discussed ways to bring the gas pipeline's operation to full capacity of 8 billion cubic meters a year. According to the agreement, this is expected to happen in 2002. Iran and Turkmenistan plan to increase the pipeline's capacity to 13 billion cubic meters a year, in the future.

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