

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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Daily intelligence briefing on the
former Soviet Union

Wednesday, February 28, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Putin Wins Seoul's Support Against NMD

• In a joint statement released as part of Russian President Vladimir PUTIN's two-day visit, South Korean President KIM Dae-Jung criticized the national missile defense (NMD) system supported by the US BUSH administration. The winning over of a US ally to oppose the system is viewed as a major diplomatic victory for PUTIN. Both leaders said that the 1972 Anti-Ballistic Missile Treaty (ABM) is "a cornerstone of strategic stability and an important foundation of international efforts on nuclear disarmament and non-proliferation." US Defense Secretary Donald RUMSFELD has called the treaty made between the USSR and US a Cold War relic and called for renegotiations of the ABM Treaty. The US is preparing a limited defense system to protect against missile attacks from rogue nations like North Korea. Officials in Seoul believe that the US NMD plan would increase tensions on the Korean peninsula and sidetrack the "sunshine policy" of reconciliation with North Korea. Russia and South Korea renewed a commitment to help curb North Korea's defense program through diplomatic channels, the *Financial Times* reported. The *Chosun Ilbo* newspaper said it was "diplomatically premature that South Korea opposes the revision of the 1972 Anti-Ballistic Missile treaty alongside Russia, against the United States trying to build its National Missile Defense." It added, "Peace on the Korean Peninsula is not realized only with Korean-Russian cooperation." KIM is scheduled to meet with US President George W. BUSH in Washington next week to promote his sunshine policy. In a speech to a joint session of Congress, BUSH said, "To protect our own people, our allies and friends, we must develop and we must deploy effective missile defenses." Back tracking on the

issue, Seoul's Ministry of Foreign Affairs and Trade denied that a joint statement released Tuesday by President KIM and PUTIN revealed a stand on missile defense.

Russian Officer On Trial For Chechen Murder

• Russian army commander Colonel Yuri BUDANOV went on trial today and was charged with kidnapping and murdering Heda KUNGAYEVA, a Chechen teenager, near the village of Tangi-Chu. BUDANOV has admitted to killing her, but denies that the murder was premeditated. BUDANOV has said he detained KUNGAYEVA because he thought she was a sniper and strangled her in a rage while he was interrogating her. Another officer Ivan FYODOROV was on trial for ordering his troops to open fire on Tangi-Chu. Human rights advocates and journalists have reported widespread violations by Russian soldiers and officers in Chechnya, including many cases of murder of civilians, but authorities have investigated only a few cases, the Associated Press reported. Russia's chief military prosecutor Mikhail KISLITSYN said that criminal cases had been opened against 800 servicemen since the beginning of the latest conflict in Chechnya. Only 58 of the cases concerned crimes against local residents. The trial was held in a military court in Rostov-on-Don, a city 620 miles south of Moscow where the Russian military has its regional headquarters. The trial comes during the visit of Alvaro GIL-ROBLES, human rights commissioner for the Strasbourg-based Council of Europe, to the region. Today,

he visited another mass grave holding 10 bodies, all men, on the outskirts of Grozny. Earlier a grave was found with 16 corpses near the Russian military headquarters in Khankala. GIL-ROBLES received assurances from authorities in Moscow that an investigation would take place to find who was responsible for the killings.

Economy

Ruble = 28.72/\$1.00 (NY rate)

Ruble = 28.66/\$1.00 (CB rate)

Ruble = 26.45/1 euro (CB rate)

Foreign Exchange Controls Still Needed

- Russian Central Bank Chairman Viktor GERASH-CHENKO said it is too early to ease foreign exchange controls introduced in 1998 after the ruble's devaluation as some government members have suggested, Kommersant Daily reported. The government has been debating proposals to lift foreign currency controls, including a requirement for exporters to sell up to 75 percent of their proceeds in Russia. Russia introduced foreign exchange controls in 1998 after the ruble plunged more than 75 percent, allowing the Central Bank to increase foreign currency reserves and keep the currency stable. Central Bank reserves have since climbed to \$29.4 billion, near a record, while excess rubles the bank prints to buy foreign currency have contributed to accelerating inflation, according to economists. January inflation was 2.8 percent, the highest monthly rate since 1999.

Russia PM Stresses Need For IMF Approval

- Prime Minister Mikhail KASYANOV said on Tuesday that Russia needed to agree to a three- or four-year economic program with the International Monetary Fund (IMF) to remove concerns over debt repayment in 2003. "This year we have no problem with debt payments at all," KASYANOV said, but added there could be problems in 2003, when foreign debt payments will peak. "We would like to know what will happen in three years. If there is no such program, which would include potential support from the IMF, the Paris Club and other international financial organizations, there is another scenario that is more difficult for Russia." He said the alternative to a medium-term program with the IMF would be a weaker ruble and reliance on revenues from exports of oil, gas and metals,

boosting Central Bank reserves and running a large budget surplus to allow for debt servicing. Russia needs the IMF to approve its economic program before it can begin debt-restructuring talks with the Paris Club. Russia wants the Paris Club to reschedule debt falling due in 2001 and 2002 and strike a comprehensive restructuring later. Russia's foreign debt payments will jump to \$18 billion in 2003 from about \$13 billion in 2001 and 2002, Reuters reported. "We need to work out a medium-term plan for three or four years. The government is going to undertake these efforts in April and May," he said.

Business

Gazprom Borrows For Blue Stream Pipeline

- Russian gas monopoly Gazprom has borrowed 250 million euros (\$231 million) from European banks led by *HypoVereinsbank* to build part of a gas pipeline from Russia to Turkey under the Black Sea. Taking part in the loan along with Germany's second-biggest bank are *Credit Agricole*, France's second-biggest bank, and *Westdeutsche Landesbank Girozentrale*, the largest state-owned German bank. "For the first time since the 1998 financial crisis in Russia, leading European banks have extended *Gazprom* a medium-term loan in European currency, without any insurance coverage from export credit agencies," the Russian gas producer said. *Gazprom* and Italy's *Eni* are developing a \$2.9 billion project to ship 16 billion cubic meters of gas a year to Turkey from Russia through the underwater pipeline. The partners plan to ship 360 billion cubic meters, worth \$25 billion, over its 25-year operating life. The first of two pipelines for the Blue Stream project to link Russia's gas fields to Turkey will be completed by the third quarter of 2001, with the second pipeline to be finished by 2002. *Gazprom*, the world's largest gas company by reserves, plans to ship 2 billion cubic meters of gas to Turkey through the pipeline this year.

Soros Offers Plan On Svyazinvest Stake

- The US-based financier George SOROS proposed to Russian Prime Minister Mikhail KASYANOV and other ministers a plan to convert a stake in *Svyazinvest* he co-owns into shares of regional telephone firms at the heart of reorganization plans for the country's state-run telecommunications holding. *Mustcom Ltd.*, a Cyprus-based company SOROS

helped found, bought 25 percent plus one share of *Svyazinvest* in 1997 for \$1.875 billion; the Russian government owns the rest. SOROS later called it one of the worst investments of his life. He wants Russia to make *Svyazinvest*, which controls most of Russia's regional telephone companies, 100 percent state-owned and give investors stakes in the regional operators. Last year, the government approved a plan to reorganize *Svyazinvest* by merging 76 regional phone companies into seven or eight regional operators. SOROS' *Quantum Fund* owns about 50 percent of *Mustcom*, while *Interros* owns 10 percent and *Morgan Stanley* owns another 10 percent, Bloomberg News reported.

Inkcombank To Sell \$30 Million In Assets

- Russia's *Inkcombank* creditors agreed on the list of the failed bank's assets to be sold to repay depositors, including gold, securities and part of its credit portfolio, *Vedomosti* reported. Creditors, led by Russian bank *Rosbank*, plan to raise \$30 million from the sale, to be completed by mid-March. As of January 1, 2000, *Inkcombank's* assets totaled 56.8 billion rubles (\$2 billion), including 36.9 billion rubles in loans to *Gazprom*, *Unified Energy Systems*, other domestic producers, and some Russian regions. Its assets also included 2 billion rubles in securities and 738 million rubles worth of real estate, *Vedomosti* reported. *Inkcombank* was Russia's second-biggest private commercial bank before it collapsed in 1998.

EUROPEAN REPUBLICS

Ukraine Against GUUAM Military Component

- Ukraine's Deputy Foreign Minister Igor KHARCHENKO said that the Foreign Ministry is against the development of a military component of GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova). At a press conference, he said, "An overabundance of military structures in Europe won't do good to the European security." He added that Ukraine stands for "a common comprehensive system of regional security" based on the existent institutions such as the Organization for Security and Cooperation in Europe (OSCE), NATO and the European Union (EU). KHARCHENKO pointed out that the interests of GUUAM participating countries, Russia and Commonwealth of Independent States (CIS) coincide in the struggle against international terrorism, illegal migration and narcotic drugs.

GUUAM may be on more shaky ground, since the Communist Party won a majority in Moldovan Parliamentary elections on Sunday. Communist Party leader Vladimir VORONIN said the party would hold a referendum on joining the Rus-Belarus Union and making Russian the second official language, after Moldovan. The Communist Party played on a sense of political disorder and the country's extreme poverty during their election campaign. They increased their representation in parliament to 71 of 101 seats, from 40 seats previously.

Rus-Ukraine To Discuss Oil Tariffs

- In early March, Ukraine and Russia will begin talks on possible cut in tariffs on the transportation of Russia oil through Ukraine. Ukrainian deputy prime minister for the power and fuel industries Olga DUBINA and Russian Deputy Prime Minister Viktor KHRISTENKO will hold the talks in Kiev. Ukraine is interested in renegotiating the tariffs because it wants Russia to cancel plans to build an oil pipeline bypassing Ukraine. According to industry analysts, Ukraine is ready to cut the tariffs for transporting oil to southern regions of Russia and Ukraine, while Russia may insist on a lower price for transporting oil to Europe. Russia is the key supplier of oil, natural gas, and nuclear fuel to Ukraine.

Lithuanian Utility To Decide On UES Deal

- Lithuanian power utility *Lietuvos Energija (LE)* Tuesday said it had reached a power export deal with Russia's *Unified Energy Systems of Russia (UES)* that its board would review for possible approval Thursday. *LE* held talks with an international arm of *UES* for five billion KWh would be exported to Belarus and two billion KWh would be sent to Kaliningrad, *LE's* acting CEO Dangiras MIKALAJUNAS told Reuters. Another option in the agreement mentions only Belarus exports. Power exports could start on March 20th at the earliest. Energy exports are key for *LE*, which saw its exports shrink to 1.331 billion kilowatt hours in 2000 from 3.3 billion the year earlier. Lithuania has a massive electricity oversupply thanks to its two 1,300 megawatt (MW) reactors at the Soviet-built Ignalina Nuclear Power Plant, but its export opportunities are limited since it is only linked to the Baltic and Russian grids. It stopped exporting electric energy to neighboring Belarus after Minsk failed to repay a \$50 million debt for supplies in 1998 and 1999. MIKALAJUNAS declined to comment on the price at which Lithuania

was ready to restart power exports despite local media reports that the electricity could be exported to Belarus at 4.3 Lithuanian centas (\$1.075 cents) per kWh. The 12-month deal stipulates power export prices can be revised in six months, taking into account the market situation.

SOUTH CAUCASUS & CENTRAL ASIA

Georgian Ship Detained In Spain?

- A cargo ship, named Anastasia, flying the Georgian flag was seized at the Spanish port Las-Palms-De-Gran-Kanaria, when Spanish Customs Agents discovered 640 tons of undeclared weapons and explosive chemicals. Its Captain and Ukrainian crew members were arrested and later released on bail at a cost of \$840,000. No Georgians were aboard. Georgian Ambassador at large for Internal Affairs Avtandil NAPETVARIDZE said that the boat probably departed from the Russian base in Batumi, Georgia. The Foreign Ministry said that although the ship had a Georgian flag, it was not a Georgian vessel. The Georgian Minister of Transport and Communication Merab ADEISHVILI tried to clarify the situation, explaining that the vessel had been sold to Ukraine. He said therefore Ukraine must bear the full legal responsibility for the ship and its cargo.

Rus-Uzbek Hold Defense Talks

- Chief of the Russian Defense Ministry's international cooperation department Colonel General Leonid IVASHOV met with Uzbek Defense Minister Gafur GULYAMOV to discuss boosting bilateral military-technical cooperation. IVASHOV will visit the Foreign Ministry and meet President Islam KARIMOV. The sides will discuss the military-technical cooperation, measures on terrorism, and the situation in Uzbek areas bordering Afghanistan.

Uzbekistan 2000 Trade Surplus Widens

- Uzbekistan's foreign trade surplus widened to \$317.3 million in 2000, from \$125.1 million in 1999, Foreign Economic Relations Minister Elyer GANI-

YEV said. GANIYEV told Reuters that last year's exports rose to \$3.26 billion from \$3.24 billion in 1999, while imports fell to \$2.95 billion from \$3.11 billion due to lower purchases of energy resources and food stuffs. GANIYEV said the share of the Commonwealth of Independent States (CIS) in Uzbekistan's foreign trade grew to 37 percent last year from 28 percent in 1999. He declined to give details of the structure of the state's trade.

Kyrgyz-Chinese Railway Seeks Investors

- Kyrgyzstan is seeking investment for a \$600 million to \$650 million project to build a railway to China. This would help transform the nation from a "dead end" republic into a Central Asian commercial hub. The planned 300-kilometer (190-mile) line, passing through some of the world's most scenic mountains, would stretch from the southern Kyrgyz town of Jalalabad to the Torugart mountain pass on the border with China. Kyrgyz President Askar AKAYEV first presented the idea in 1992. China is developing its railway system in a bid to improve links between remote inland regions and booming coastal areas. Kyrgyz Transport and Communications Minister Kubanychbek DZHUMALIYEV said, "Our geopolitical situation compels us to look for ways to gain access to the sea and the world transport arteries." Kyrgyzstan, Uzbekistan, and China have been discussing a railway link between their countries, with the European Union (EU) and the Asian Development Bank as possible sources of funds. The Kyrgyz parliament passed a law proclaiming the project a priority for Kyrgyzstan and offering favorable investment conditions. DZHUMALIYEV said Bishkek would be ready to pass laws to guarantee investment security and set up a free economic zones in areas along the line where gold, aluminum, and other natural resources could be mined. "These laws should guarantee a 20-to-25-year lease for the Torugart-Jalalabad railway during which investors will be able to recoup their money," DZHUMALIYEV said.

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