

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russia Should Pay Paris Club Debts**

• Russian Federation Council Speaker Yegor STROYEV said that there were, "quite enough" sources of money to pay off Russia's Soviet-era debt to the Paris Club creditors. He also said, "it is quite possible to agree with the club on putting all the debts on one scale and finding a compromise variant to solve the problem." STROYEV stressed the importance of having "every-day painstaking work with foreign investors, finding sources and paying, without going into conflict with the West... We are sitting on a sack full of gold and bemoan our poverty."

The Group of Seven (G-7) industrialized countries has increased pressure on Russia to make debt payments of \$5.9 billion it owes to creditor countries this year. Italian Treasury Minister Vincenzo VISCO, president of the G-7 this year, wrote to Russian Finance Minister Alexei KUDRIN saying the group sees no reason to grant Russia debt relief, pointing out that the Russian economy is strong enough for a full debt payments this year.

#### **Debt For Debt Swap And WTO Membership**

• In Munich, Russian Security Council Secretary Sergei IVANOV argued for the restructuring of Russia's debt to the Paris Club. He said that the willingness of the Club to restructure Russia's debt would help secure long-term stability. "I'd like to remind you that since 1992 Russia has paid its creditors more than \$18 billion of the former Soviet debt, including \$12.3 billion of aggregate interest. A major part of these payments were made in fact for debts of other republics of the former USSR, which make no payments to their creditors and some of them do not renounce claims for their share in

the foreign assets of the former USSR." He also stressed Russia's interest in joining the World Trade Organization (WTO). IVANOV said, "We attach priority importance to joining WTO on conditions acceptable for our country as well as to full-scale participation in regulation of world trade."

**Policy Initiative:** One possibility would be for Russia to propose a debt for debt swap. Under this proposal, Russia would forgive former Soviet Republics debts to the Soviet Union, which Russia absorbed, and the republics would relinquish their claim on Soviet assets. The Paris Club in return would forgive an equal amount of the debts to Russia. This would remove Russia's financial hold over the former republics, provide Russia with some debt forgiveness, and earn Russia Western support in membership talks. Russia must first win International Monetary Fund (IMF) approval of its monetary policy, before the Paris Club will pursue debt negotiations. This debt swap would be a strong indication of Russia's commitment to, "help secure long-term stability" of the former Republics and help dispel what Secretary IVANOV described as the "absolutely unfounded accusations of 'imperial ambitions,'" that many believe is the hallmark of the PUTIN's Presidency. On Monday, Prime Minister Mikhail KASYANOV ordered the government to draft changes to the 2001 budget for the distribution of revenues to meet debt payments. An IMF mission led by Gerard BELANGER is currently in Moscow reviewing Russia's monetary policy.

**Russia Switzer-**

### land Cooperate On Borodin Case

- Swiss top prosecutor Bernard BERTOSSA discussed the case of former Kremlin aide Pavel BORODIN with a Russian investigator who handed over more documents for a Swiss money laundering inquiry. BERTOSSA declined to comment on whether the investigator, Ruslan TAMAYEV, had pressed for an end to moves to extradite BORODIN. "Mr. TAMAYEV has brought us part of the documentation we asked for in a recent request for judicial assistance," BERTOSSA said. "It concerns the *Mercata* affair." According to Reuters, TAMAYEV came to Geneva a day after Switzerland formally requested the extradition of BORODIN, held in the US on a Geneva arrest warrant for suspected money laundering. Geneva prosecutors have alleged that BORODIN gained kick-backs in connection with contracts awarded to two Swiss-based companies, *Mabetex* and *Mercata*, for Russian building projects, including one involving renovation of the Kremlin. Russian Foreign Minister Igor IVANOV has said Moscow would continue to press to have BORODIN released.

### Economy

<p><b>Ruble = 28.45/\$1.00 (NY rate)</b>  <b>Ruble = 28.49/\$1.00 (CB rate)</b>  <b>Ruble = 26.58/1 euro (CB rate)</b></p>
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### Russia Reviews Cutting CB Independence

- The Russian government and lawmakers are reviewing plans to cut the Central Bank's independence, by changing its status to that of a state body and making its charter capital and other assets federal property, *Vedomosti* said. The change is based on President Vladimir PUTIN's proposal, which was sent to the Russian State Duma in September. The amendments also would allow the government to decide auditing standards for the Bank, set employee numbers, salaries, and distribution of profit. According to the proposal, the Central Bank would remain in charge of monetary and exchange rate policy, though the government could influence it through its increased powers. Deputies have expressed concern over changing the status of the Bank's assets. The Russian Central Bank is independent in conducting monetary policy and managing its property. Some lawmakers have accused the Bank of concealing profit to avoid paying half any earnings into the federal budget as

required by the law on the Central Bank.

### Business

#### Rich Considers Alfa Group Merger

- Thomas FRUTIG, a director of several of Marc RICH's companies, confirmed that *Marc Rich International* is in preliminary talks to merge with *Crown Resources*, a unit of Russia's *Alfa Group*, the *Financial Times* said. Marc RICH, the owner of the company, is the focus of controversial presidential pardons made by former US President Bill CLINTON during his final hours in power. RICH fled to Switzerland in 1983, after being charged with evading more than \$48 million in taxes and faced US prosecution for allegedly violating sanctions by trading oil with Iran. RICH was a dominant player in Russian commodities trading in the early 1990s, earning him special oil deals at less than 1 percent of world trading prices. His fugitive status had deterred many US businessmen from dealing with him. Elliot SPITZ, managing director of *Crown*, said *Crown* was looking for a partner and wanted to expand in energy, ferrous and non-ferrous metals. A merger with *Marc Rich Investments* would give *Crown Resources*, which has a powerful presence in Russia, access to more overseas trading in oil and metals. Those close to RICH speculate that there is some urgency for in the talks due to RICH's deteriorating health and want to retire, *The New York Times* reported. *Alfa Group* markets Russian oil mainly from *Tyumen Oil*, which is also owned by *Alfa Marc Rich Investments*, offices in London, Moscow, Singapore, and Caracas, was set up in 1996 with \$9 billion in revenue.

#### Media Most And Its Bank Raided

- Russian investigators for the prosecutor-general's office searched the offices of *Media Most*, its *TNT* regional network, and its bank, *Image Bank*, seizing financial documents and looking for evidence in to support the fraud case against the group's chairman Vladimir GUSINSKY. Russian Deputy Prosecutor-General Vasily KOLMOGOROV on Tuesday again insisted the case had no political motivations. "I investigate criminal cases, there are no political cases here in Russia—that's stated by federal law," KOLMOGOROV said on *ORT State Television*.

## EUROPEAN REPUBLICS

### Ukrainians Call For Kuchma To Quit

- An estimated 5,000 marchers, braving sub-zero temperatures, took to the streets of Kiev on Tuesday, demanding that Ukrainian President Leonid KUCHMA step down. Their calls arise over allegations that KUCHMA ordered the killing of Georgy GONGADZE, an Internet journalist critical of the President. KUCHMA has fiercely denied he issued orders to silence the journalist. The protesters trudged through deep snow before gathering on the main street, where some set fire to portraits of KUCHMA and a 6-foot-tall effigy dressed in the striped robe of a prisoner. The GONGADZE case has developed into the biggest political scandal in Ukraine in a decade, even raising suspicions that the tapes were part of a larger "active measure" being orchestrated by Russian intelligence officers. The European Union (EU) called for, "a full and transparent inquiry into the disappearance of Mr. GONGADZE. Such an inquiry would generate greater confidence in the Ukrainian authorities handling of the case." The EU statement also urged Ukraine to ensure a, "safe, secure and harassment-free environment for journalists to operate in." Prosecutors were quoted by Russia's Interfax news agency over the weekend as saying that parts of the recordings were genuine, but there were signs of editing so the conversations could not be considered real, Reuters reported. Hundred of protesters on Sunday rallied next to a tent camp opposition supporters set up in December.

### Ukraine Rejects Russian Sphere Of Influence

- Ukraine's Foreign Minister Anatoly ZLENKO, at a Munich conference, said that Ukraine was not falling into a new Russian sphere of influence. He said, "Notions of so-called red lines of security seriously jeopardize security. This is language which Ukraine shall always reject. We do not feel ourselves as a 'natural post-Soviet space,' nor do we like to be someone's 'legitimate sphere of interest.'" He downplayed announcements by Russian Defense Minister Igor SERGEYEV, following his trip to Kiev in January, for a joint fleet squadron and a joint navigation-control center in the Black Sea. The Financial Times in January reported that Russia and Ukraine had signed military cooperation accords leading to a new level of bilateral defense

ties. Russian Colonel General Leonid IVASHOV alluded that the agreements' goal was "joint parrying of foreign threats." Others hinted that this was a major shift in Ukraine's security priorities. ZLENKO said, "No binding bilateral agreements were signed during this visit... Ukraine continues to have no agreements with Russia on joint security or defense, or joint combat operations." He noted that there was already a control center envisaged by a 1997 bilateral document and that the joint fleet squadron pertains only to search and rescue operations. ZLENKO added, "it is the right of each state to seek its own methods of providing the best solutions its national security." He reiterated Ukraine's commitment to build good relations with the US and European Union (EU).

It should be noted that Georgian Defense Minister David TEVZADZE has completed two-days of talks in Ukraine with his counterpart Alexander KUZMUK. The two signed a cooperation agreement between their ministries for 2001. In addition, both nations are preparing for the GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova) Summit scheduled for March 6<sup>th</sup> and 7<sup>th</sup> in Kiev. **Intercon** sources report that member nations will consider a joint declaration requesting US assistance to integrate a consistent non-proliferation and export control program. The security assistance funding could be used to build a collective capacity for common training and mobile equipment to facilitate rapid non-invasive inspection of trucks and cargo at or near their borders.

### Odessa To Open New Hotel In March

- A new five-star hotel will open in the Black Sea city of Odessa. The 158-room *Kempinski* is scheduled to open on March 30<sup>th</sup>. It will have a special lounge on the 18<sup>th</sup> floor overlooking the city, a nightclub, and a casino. There will also be a business center, a ballroom, three meeting rooms, and a fitness center with an indoor pool.

## SOUTH CAUCASUS & CENTRAL ASIA

### NATO PfP Conducts Military Drills

- An international conference for planning the Cooperative Partner drill under the NATO Partnership for Peace Program is underway in the Tabakhmela settlement, near Tbilisi. The drill will take place on the Georgian Black Sea coast in summer. Repre-

representatives of the NATO headquarters and member countries are attending the conference. The US, France, Turkey, Greece, Italy, Georgia, Bulgaria, Romania, Ukraine, Azerbaijan, and Sweden will assign their units to the exercises. The drill will involve 30 to 40 ships, up to 15 warplanes, cargo planes and helicopters, and marines.

#### Tyumen-Kazakh Talks Over Oil Supplies

- *Tyumen Oil Co.* is in talks with *Aktobemunaigaz*, a Kazakh-Chinese exploration company, for the resumption of oil supplies to the *Orsk Refinery*, *Izvestia* said. On January 29<sup>th</sup>, *Transneft* forced *Aktobemunaigaz* to stop delivering crude from Kazakhstan for processing to Orsk, the sole refinery of oil producer *Onaco*, acquired by *Tyumen* for \$1.1 billion last September. *Transneft* claimed that its pipes were overloaded with oil and that *Aktobemunaigaz* was not taking equivalent volumes from the Russian network, under a swap arrangement started in Soviet times. The Kazakh company was forced to cut oil output by more than 50 percent from its usual 52,000 barrels a day, shutting 10 percent of its wells.

#### Kazakhstan Predicts Major Oil Investments

- Kazakh Economics Minister Zhaksybek KULEKEYEV announced today that the nation plans to attract \$65 billion to \$70 billion-investment in its oil and gas sector over the next decade. He pointed out that Kazakhstan's natural resources, educated and trained workforce will attract investors. Since 1991, Kazakhstan has received \$10 billion in foreign investment. High investment estimates are linked to the untapped Kashagan field on the Caspian shelf, which could make Kazakhstan a leading oil producer within the next 20 years. But the *Offshore Kazakhstan International Operating Company (OKIOC)*, which is now test drilling on Kashagan, has yet to name the operator of the project or to decide whether it contains commercially recoverable reserves. Kazakhstan also plans to raise this year's crude output to 37-40 million tons (745,000 to 800,000 barrels per day) from 35.3 million tons

(710,000 bpd) last year, due to a new pipeline from the giant Tengiz oilfield to Russia's port of Novorossiisk. The pipeline, to be launched by *Caspian Pipeline Consortium (CPC)*, is also expected to be a key factor behind this year's targeted four percent growth in Kazakhstan's GDP.

#### Turkmen-Kazakhstan Fail To Reach Debt Agmt.

- Turkmenistan and Kazakhstan failed to agree on mutual settlements at talks conducted in Ashgabad. The government delegations were led by Turkmen Deputy Prime Minister Ella KURBANMURADOV and Kazakh First Deputy Finance Minister Bolat ZHAMSHIYEV. The Kazakh delegation arrived in Ashgabad on January 27<sup>th</sup>. A protocol signed at the end of the talks revealed a polarity of views on working out a mutual debt payment mechanism. A meeting of the joint intergovernmental commission to be followed by a presidential summit will mark a new stage in the Turkmen-Kazakh debt dispute.

#### Turkey-Armenian Airspace Dispute

- Turkey and Armenia entered an airspace dispute after *Armenian Airways* Director Stanislav MKRTUMYAN charged that Turkey on Friday closed its airspace to an Armenian plane, which was flying from Yerevan to Athens, without giving any reason. Turkey on Saturday denied that it had closed its airspace to *Armenian Airways* international flight. Turkish officials dismissed Armenia's claim as "ridiculous," saying Ankara had never taken such decision as to "close its airspace." In accordance with the international aviation rules, the officials argued, an airways has to apply to the relevant authorities of the country for the airspace it will pass in international flights at least three days before the flight. The Armenian airline had not applied before its Friday's flight to Athens and it could not get permission from Turkey for the flight in question. The row on air flight between Turkey and Armenia follows a bitter wrangling between Turkey and France due to the latter's adoption of a resolution recognizing a genocide perpetrated against Armenians by Ot-

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