

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Putin Party Bill Wins Duma Support**

• In a vote of 280 to 109 with four abstentions, the Russian State Duma approved in the first reading on Wednesday the Kremlin's bill that sets tough rules for forming and funding political parties. Under the bill, a political party must have at least 10,000 members nationwide and no fewer than 100 members in more than half of Russia's 89 provinces. Parties that receive more than 3 percent of the vote would receive state financing. The bill would also require party officials to submit regular financial reports to the state tax service. According to the Associated Press, the bill allows some private donations, but sharply limits their size and who can give, especially foreign contributors.

The Kremlin says the law, if passed by the Duma in second and third readings, will ensure order in a chaotic political scene, make it easier to form governments and rule out undue influence by lobbyists. President Vladimir PUTIN has said the bill would promote the creation of effective political parties. Alexander VESHNYAKOV, head of Russia's Central Election Commission, stated it would "clean up the electoral process in Russia" and guarantee political pluralism. Opponents, however, contend it would push most of Russia's parties out of existence and make the rest dependent on government handouts. "This bill on parties must be more suitably called a bill on shutting down political parties," said Oleg SHEIN, a lawmaker from the moderate Regions of Russia faction. A poll conducted on the same day suggested that most Russians are largely indifferent to the measure: 23 percent of those questioned prefer a one-party system, 22 percent want a two-party arrangement, 21 percent back three, and 15 percent support a large number of parties. But the

poll also showed, RFE/RL Newswire reported, that respondents believe, "political parties have not done Russia much good."

#### **OSCE Granted Access To Chechnya?**

• Russian Foreign Minister Igor IVANOV on Wednesday granted permission for the Organization for Security and Cooperation in Europe (OSCE) to set up a mission in Chechnya, "in the near future." He did not specify the date, but added that, "some technical points need to be worked out." His statement came after a meeting with Romanian Foreign Minister Mircea GEOANA, whose country holds the rotating presidency of the OSCE. GEOANA said he had appointed Alexandru CORNEA, Romania's former ambassador to Ukraine, to head the six-person Chechnya mission. Moscow has permitted teams from the European Union (EU) and elsewhere to travel to Chechnya, but has limited the groups' movements. Human rights advocates remained skeptical Wednesday, saying OSCE has had a mandate for a group inside Chechnya but has been prevented from going in. Diederik LOHMAN of the Moscow office of Human Rights Watch explained, "Russia publicly claims that it wants the OSCE assistance group back in Chechnya, but it has created administration and security obstacles that prevent the group from returning," the Associated Press reported. Kenny GLUCK, a US aid worker for Medecins Sans Frontieres (MSF-Doctors Without Borders) whose kidnapping and release is considered suspicious, said his captors treated him well and claimed that

it was a mistake to kidnap an aide worker. Describing his release he said, "I was driven by car for some time, during which I was repeatedly apologized to and told that my kidnapping had been a mistake, that I was ordered to be freed without any conditions or ransom. They said that no international humanitarian agencies would be attacked in the future." GLUCK's abduction caused international humanitarian organizations to suspend their operations in Chechnya.

Meanwhile, military strikes by federal troops and hit-and-run operations by Chechen rebels continue daily. On Wednesday, a rebel ambush and mines killed eight Russian soldiers. In addition, three civilians were shot dead outside a school in the capital, Grozny. Three men, wearing ski masks and camouflage uniforms, rushed onto the grounds of the elementary school, killed the adults and stuffed the bodies in a car and fled. Snipers have killed at least 17 civilians in the city over the past month.

#### **Russian Border Guards To Be Reduced**

- Director of Russia's Federal Border Guard Service Konstantin TOTSKY said that over the next few years the number of border guard troops in Russia will be reduced by 15,000. The decision to cut the number of border guards was made at a session of the Russian Security Council on November 9<sup>th</sup>. The cuts will apply to border guard units in the Northwest Arctic, Kaliningrad regional border guard departments whose personnel will be cut from 15 to 30 percent. TOTSKY, however, said that the number of units on the border with Ukraine and Kazakhstan will be increased to prevent contraband, illegal migration, illegal exports from Russia. By the year 2006, the number of Russian border guard troops will total 168,000 servicemen and 14,500 civilian personnel. The planned cuts are to be completed by the year 2010, TOTSKY said.

#### **Economy**

<p><b>Ruble = 28.47/\$1.00 (NY rate)</b>  <b>Ruble = 28.550/\$1.00 (CB rate)</b>  <b>Ruble = 26.22/1 euro (CB rate)</b></p>
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#### **Russian 2000 Oil Output Increased**

- Russian crude oil output increased by almost six percent in 2000 compared to 1999, while natural gas production fell by 1.5 percent, the State

Statistics Committee announced Monday. Crude oil output in 2000 was 313 million tons (around 6.27 million barrels a day) and gas production was 555 billion cubic meters, according to committee figures obtained by Reuters. Russian Energy Ministry figures for 2000 put combined oil and gas condensate production at 323.28 million tons, but the Statistics Committee said it issues one set of figures on which it does not comment further. Motor gasoline production increased by 3.6 percent to 27.2 million tons and gas-oil output was up 4.9 percent to 49.1 million tons. Fuel oil production fell 1.7 percent to 49.2 million tons. Gas condensate output increased by 3.8 percent to 10.4 million tons in 2000, according to the figures.

#### **Alfa Bank To Buy SBS-Agro Unit**

- *Alfa Bank*, Russia's largest private bank, is close to buying the Dutch unit of fellow Russian bank *SBS-Agro*, according to Valery MIROSHNIKOV, deputy director of a state bank restructuring agency. *Alfa Bank* received the Dutch Central Bank's approval to buy 100 percent of *Amsterdam Trade Bank* from *SBS-Agro*, he said. *Alfa Bank* refused to comment, the agency said. "Alfa Bank's acquisition of these shares is now in the final stages," MIROSHNIKOV told *Ekho Moskv*y radio. "All that's left to do now is to agree this with the Central Bank of Russia." *Alfa Bank* has been expanding market share in Russia after being one of the country's few banks to go on meeting its obligations after the financial crisis in August, 1998. *SBS-Agro*, formerly Russia's top private bank, stopped paying on \$3 billion of obligations in 1998. The state agency for bank restructuring has since tried to work out a debt repayment plan, though the bank's license was never revoked.

#### **Business**

#### **Spain To Freeze Gusinsky Assets?**

- Russian prosecutors has officially requested that Spain freeze assets belonging to Media Most founder Vladimir GUSINSKY. Deputy General Prosecutor Vasily KOLMOGOROV said the paperwork had been submitted to the Spanish legal authorities through diplomatic channels. GUSINSKY is under police guard in his luxury villa in southern Spain, fighting extradition to Russia on fraud charges. KOLMOGOROV said the request was linked to the fraud investigation into GUSINSKY. Such a request could take days to reach the court. The Spanish

Foreign Ministry was not immediately able to confirm the Russian move, Reuters reported. GUSINSKY, a former theatre manager turned media magnate, is also battling to keep his group out of the hands of *Gazprom*, the state-dominated natural gas giant. GUSINSKY wants to sell a 25 percent blocking stake in his flagship *NTV* television station, the only national channel not under Kremlin control, to a consortium led by *CNN* founder Ted TURNER and billionaire US financier George SOROS.

#### **EBRD To Hold Back Gazprom Loan**

- The European Bank for Reconstruction and Development (EBRD) will withhold a \$250 million loan to improve pipelines from Russian gas monopoly *Gazprom* until it meets more conditions on financial disclosure. The EBRD declined to give details on its requirements. EBRD spokesman Jeff HIDEY said, "We have been having discussions with them about a number of issues, including their relations with other companies and transparency." The EBRD's demand is the latest in a growing number of calls for the world's largest supplier of natural gas to make its business practices more open to scrutiny by institutions, the government, and investors. *Gazprom's* links with *Itera Holding* have raised questions. Both *Gazprom* and *Itera* say they have a normal business relationship. Shareholders believe that *Gazprom* has subsidized *Itera*, helping its rival boost revenue to an expected \$8 billion in 2000 and more than double its gas production for that year to 16.7 billion cubic meters, Bloomberg News reported. Three audits into these relations are being conducted by the Audit Chamber, *Price-waterhouseCoopers* on behalf of *Gazprom*, and *Deloitte & Touche* on behalf of minority shareholders. *Gazprom* has been failing to cooperate with *Deloitte & Touche*. *Gazprom's* ADRs fell as much as 6.9 percent, or 45 cents, to \$6.10 in London.

#### **Weapons Exports Reach \$4 Billion**

- Deputy director of *Rosoboronexport* Viktor KOMARDIN said that weapons exported Russia in 2000 reached a record high, with sales of \$4 billion. That's 17.6 percent more than 1999's exports of \$3.4 billion. Sales to India accounted for about one-third of the 2000 revenue. KOMARDIN was in India to prepare a contract for T-90S tanks and other weapons worth more than \$1 billion. He said the contract, to be signed in the first quarter of the year, would exceed \$1 billion. Russia also plans to

start selling Su-35 fighter jets on the open market as early as 2004. Russia's annual arms exports comprise just a fraction of the approximately \$20 billion exported by the Soviet Union each year in the 1980's. Russia is currently the world's fourth-largest arms exporter, behind the US, Britain, and France.

### EUROPEAN REPUBLICS

#### **Rus-Belarus-Baltic Energy Integration**

- On Wednesday in Vilnius, Russia, Belarus, Lithuania, Latvia and Estonia signed an agreement to integrate their energy systems Anatoly CHUBAIS, board chairman of the *United Energy System (UES)* who represented Russia, said that the agreement is, "rather important for Russia because it allows it to supply energy to the Kaliningrad region." The leaders of Baltic energy systems noted that the document benefits everybody. It "permits to ensure stable work of the energy systems under peak loads or in emergency situations." In addition, the document regulates juridical issues related to the activity of the five energy systems. In 1999, the Lithuanian conservative government refused to sign the agreement, stating that it could prevent its accession into the European Union (EU). This sentiment was again expressed by Lithuanian parliament speaker Vytautas LANDSBERGIS. Lithuania has already said it will participate in building an electricity export route to Western Europe via Poland. CHUBAIS said the prospects for exporting Russian electricity to Western Europe via the Baltics was not discussed at Wednesday's session, but Russia could participate in the construction of the transit infrastructure. Russian President Vladimir PUTIN will visit Ukraine together with CHUBAIS on Monday to sign a similar agreement to that reached with the Baltic States. "We will re-establish the single energy system [of the former Soviet Union], starting with the Baltic States, then with Ukraine," a source at *UES* told journalists on Wednesday.

#### **Ukraine Fails To Sell Alumina Maker**

- Ukraine has unsuccessfully ended a tender of its remaining 10 percent stake in *Mykolayivskiy Hlynzemniy Zavod*, Europe's top alumina producer, after it was unable to sell it even at a



lower price, daily newspaper *Kievskie Vedomosti* reported. Earlier this week, the government made its 11<sup>th</sup> attempt to sell the stake since November. The only bidder, a Ukrainian bank called *Kredit-Dnepr*, later decided not to buy it. Earlier this week, the government lowered the price by 9.09 percent from an initial asking price of 83.8 million hryvnia (\$15.4 million). *Ukrainsky Alyuminy*, the Ukrainian unit of *Rusksy Alyuminy*, a company consolidating control of more than 70 percent of Russia's aluminum production, owns 49 percent of the Ukrainian company. Together with *Rusksy Alyuminy*, it controls the plant.

#### Ukraine-Iran Cooperation Talks

- On a two-day working visit to Iran, Ukrainian Prime Minister Viktor YUSHCHENKO met with Iranian President Mohammad KHATAMI for talks on cooperation. According to Xinhua News Agency, KHATAMI said that Iran and Ukraine can jointly cooperate for transferring Iran's gas to Europe. Laying of a gas pipeline via Ukraine to Europe can play an effective role in establishing security and stability in the region, KHATAMI stated. He also called for new ways to further Tehran-Kiev cooperation in political, economic, commercial and cultural fields. Iran's First Vice President Hassan HABIBI assured YUSHCHENKO that Iran is the "most secure, most economical and best route" for transfer of oil and gas from northern Caspian states to international markets.

On Wednesday, YUSHCHENKO was scheduled to attend a special ceremony to launch the first Iranian-made passenger plane which has a range of 2,000 kilometers and a 52-passenger capacity. It will go into service during celebrations marking the 22<sup>nd</sup> anniversary of the Islamic revolution. According to Itar-Tass, Ukraine won the contract to produce the plane in a tender that involved nine foreign companies. The designing of the nine million US dollar plane began in Ukraine in 1993. Twelve such planes are to be built by the year 2005.

#### Lithuanian Economics Min. Resigns

- Lithuanian Economy Minister Eugenijus MALDEIKIS, who has been under fire for a Moscow trip that critics say violated government protocol, submitted his resignation Tuesday after meeting with leaders of his party. The meeting held

in Moscow was with executives of Russian gas monopoly *Gazprom*, which is interested in bidding for a stake in Lithuanian gas utility *Lietuvos*, slated for privatization this year. The economy minister is one of the top power posts in the Lithuanian cabinet, playing a key role in the restructuring and eventual privatization of energy sector utilities. The state ethics commission cleared MALDEIKIS last week of allegations of ethics violations, but said he had violated some protocol requirements. MALDEIKIS said he was stepping down for personal reasons. He is the second minister to resign from Prime Minister Rolandas PAKSAS' coalition government. Gintaras STRIAUKAS, another member of the Liberal Union, quit his post as transport and communications minister on January 22<sup>nd</sup>. President Valdas ADAMKUS, who is abroad and due to return on February 14<sup>th</sup>, must approve MALDEIKIS' resignation.

#### SOUTH CAUCASUS & CENTRAL ASIA

##### Georgia Pushes For Russian Withdrawal

- While visiting Vilnius, Georgian Defense Minister David TEVZADZE said that Georgia wants all Russian troops to leave bases on its territory within three years, Agence France-Presse reported. Georgia and Russia are headed for another round of base negotiations at the end of February. Russia wants to keep two military bases for a further 15 to 20 years because of internal economic difficulties. TEVZADZE believes, "Three years would be enough to withdraw the troops." Georgia has been active in the North Atlantic Treaty Organization's (NATO) Partnership for Peace cooperation program. Despite Russian opposition, Georgian President Eduard SHEVARDNADZE indicated that Georgia will ask for NATO membership in 2005.

During TEVZADZE's visit in Vilnius, Georgia and Lithuania will sign an agreement on cooperation in the field of defense. The agreement also declares Georgia's support for Lithuania's bid to join NATO in 2002. He will meet with Defense Minister Linas LINKYAVICHUS, Commander of the Armed Forces Jonas KRONKAYTIS, the Chairman of the Parliamentary Committee for National Security and Defense Alvidas SADYATSKAS, and Foreign Minister Antanas VALENIS, Prime News Agency reported.

### Babilashvili To Resign

• Georgian Prosecutor-General Jamal BABILASHVILI today formally requested to be released of his duties one month before his term expires. RFE\RL reported that late last year parliamentary deputies launched a campaign to impeach BABILASHVILI for overstepping his official powers. Georgian President Eduard SHEVARDNADZE has backed a Georgi MEPARISHVILI to replace BABILASHVILI. MEPARISHVILI, head of the Parliamentary Committee for Legal Issues and Administrative Reforms, met today with Chairman of the Parliament Zurab ZHVANIA regarding the possibility of his appointment. BABILASHVILI has held the position since 1994. Justice Minister Mikhail SAAKASHVILI said he will announce a replacement later this week.

### UzDaewooAuto Affected By Bankruptcy

• *UzDaewooAuto*, the auto manufacturing subsidiary set up in Uzbekistan, has been seriously affected by South Korean conglomerate *Daewoo's* bankruptcy. *Daewoo's* share in the joint venture is 50 percent. Representatives from the joint venture are working to resolve a series of problems. *UzDaewooAuto* produced 30,700 automobiles in 2000 versus 58,300 cars made in 1999. According to Akhmajon KHAKKULOV, the deputy chief of *Uzavtosanoa*, the Uzbek automobile plant has the advantage of unique technology over *Daewoo's* plants in Vietnam, Iran, Poland and Romania, since production of the car body occurs in Uzbekistan, making the Uzbek plant less dependent on *Daewoo* supplies than other *Daewoo* plants. *UzDaewooAuto* exported 12,500 automobiles worth \$68 million in 2000 against approximately 10,000 autos worth \$54 million in 1999, United Press International reported. The main importer of Uzbek cars is Russia. Over the last five years, *UzDaewooAuto* exported 42,000 cars to Russia, where the company holds the first place among cars imported to Russia. *UzDaewooAuto* plans to produce the first of a new Matiz model by September, and hopes to build 7,000 Matiz cars this year, 3,000 of which will be

exported.

### Uzbek Airways Approves Japanese Flights

• *Uzbekistan Airways* will make a regular weekly flight between Tashkent and Osaka, Japan, beginning on April 28<sup>th</sup>. A 182-seat Boeing 757 will fly between a Tashkent airport and Kansai International Airport outside Japan's second largest metropolitan area on Saturdays as the first regular flight to Japan from the Commonwealth of Independent States (CIS). The Uzbek air company decided to chose the Osaka's Kansai International Airport over Tokyo's Narita Airport due to lower landing tariffs for international flights to begin this spring.

### Turkmen Expands Boeing Fleet

• *Turkmenistan Airlines* on January 30<sup>th</sup> received a *Boeing 757-200*, bringing it one step closer to building an all-*Boeing* passenger airline fleet. The airline currently offers passenger and freight service to destinations on three continents with a fleet that includes *Boeing 757s* and *737s*. Doug GROSECLOSE, vice president of International Sales, *Boeing Commercial Airplanes Group* said, "We deeply appreciate the trust President NIYAZOV and the airline leadership have placed in the *Boeing Company* as their partner in the continued success of Turkmen aviation." According to a press release, *Turkmenistan Airlines* Chief Executive Ilyas BERDIEV said, "This latest acquisition will help us realize our goal of expanding passenger service into the North Atlantic. We also will enhance our domestic service with the delivery of three new 717-200s in the next few months as we transition to an all-*Boeing* passenger fleet." The *Boeing 757-200* has been praised for its reliability, versatility, and accepted standards for almost any airport in the world. Turkmenistan was the first republic of the former USSR to purchase a *Boeing* airplane with the acquisition of a *737-300* in 1992.

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