

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

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RUSSIAN FEDERATION

Politics

Russia - Iran To Boost Relations

□ Iranian President Mohammad KHATAMI is meeting with Russian President Vladimir PUTIN today in Moscow. Both sides hope this visit, the first by an Iranian leader in nearly 40 years, will boost relations and provide a strategic advantage against the West. Talks will focus on expanding economic contacts, trade, military technology sales, and an agreement on energy issues related to the Caspian Sea. Russian defense industry officials have talked of new weapons contracts with Iran worth a possible \$7 billion. Sergei PRIKHODKO, deputy head of PUTIN's administration, said abandoning the 1995 deal with Washington meant Russia would choose its partners in military cooperation. "Such cooperation poses no threat to anyone's interests. But unfortunately there have often been attempts to speculate on this to complicate Russian-American and American-Iranian relations," he said. Iran had expressed interest in buying S-300 air defense missiles, fighter jets, helicopters, patrol boats and other weapons. The US has been critical of Russia's participation in building the Bushehr Nuclear Plant in Iran, expressing concerns of weapon technology proliferation. Moscow has also dismissed repeated US demands that it cancel the \$800 million Bushehr Nuclear Plant contract. Iran hopes to convince Russia to back a plan to give an equal share of the Caspian's wealth to all states around it. Russia and Iran are united in wanting to block Western-backed plans to transport Caspian oil to world markets through the Baku-Ceyhan pipeline, which bypasses Russia and Iran. Russian companies hope the visit will lead to orders for oilrigs needed to explore Iran's oil and natural gas resources. *Tatneft*, *Rosneft*, *Surgutneftegaz*, and *Slavneft* also are looking for opportunities in oil-rich Iran, which holds 89.7 billion

barrels of oil reserves, or about 8.7 percent of the world's total. Ahead of talks, PUTIN pointed out, "Relations between Iran and Russia have acquired a new impetus." Russia's Economy Ministry said trade between Russia and Iran totaled \$900 million in 2000, of which \$600 million was in goods. Russia exported \$550 million of commodities, machinery and other goods to Iran, and imported \$50 million of goods from Iran, mostly pistachio nuts, dates and other food items. KHATAMI will meet Prime Minister Mikhail KASYANOV and Foreign Minister Igor IVANOV. He will also visit St. Petersburg and Kazan, Tatarstan.

Azerbaijan Hands Over Chechen Rebels

□ Acting in accordance with a treaty on joint assistance in law enforcement, police in Baku handed over to Russian authorities two Chechen rebel suspects, Ruslan AKHMADOV and Badrudi MURTAZAYEV who were arrested in Baku on March 7th and handed over the same day. Police say the pair used forged passports to flee Russia and settle in Azerbaijan's capital, Baku. Russia's Deputy Interior Minister, General Vladimir KOZLOV told *ORT*, "They both had on them Russian passports containing data on other persons with their own photos inside [instead of the original ones]. We are investigating that, too, since the passports had been issued by a [Russian] police station." AKHMADOV and MURTAZAYEV have been sought for the crimes committed against Russian soldiers and civilians during Russia's military campaigns in Chechnya. AKHMADOV and

his brothers Ramzan, Apti and Rizvan are being held responsible for more than 30 abductions and three murders of Russian and foreign citizens in Chechnya. The AKHMADOVs led the Urus-Martan clan of rebels that specialized in kidnapping people for ransom □ a lucrative business police allege they had agreed to split with Chechen field commander Arbi BARAYEV, United Press International reported. AKHMADOVs' captives included Russian Police General Gennady SHPIGUN, who was found dead, Itar-Tass news agency correspondent Vladimir YATSINA, two Polish ecologists, British and New Zealand citizens working in Chechnya and many others. Police said AKHMADOV also supplied weapons and ammunition to rebels, as well as in organizing terrorist acts throughout Chechnya. His brother Rizvan is suspected of abducting US aid worker Kenneth GLUCK, who was freed February 3rd by Russia's Federal Security Service (FSB). MURTAZAYEV is charged with kidnapping and murder, based on a video showing him and another rebel executing a captured Russian army officer. He is also believed to be a top aid to Chechen warlord Shamil BASAYEV. Sergei YASTRZHEMSKY, Russia's main Chechnya spokesman, told Interfax news agency, "If other neighbors of Russia followed Baku's example, the tension in Chechnya could be relieved faster." These remarks appear to be aimed at Georgia, which Moscow accuses of harboring Chechen rebels. Azeri President Geidar ALIYEV said his country would continue to cooperate with Russia under the law enforcement accord and that his nation is grateful to Russia for extraditing 300 Azeri citizens, detained in Russian last year.

Economy

Ruble = 28.67/\$1.00 (NY rate)

Ruble = 28.67/\$1.00 (CB rate)

Ruble = 26.61/1 euro (CB rate)

Rus-IMF Reach One-Year Cooperation Agrmt.

□ The Russian government and a mission of the International Monetary Fund (IMF) have reached outline agreement on a one-year cooperation program. "Yesterday's [Sunday] talks with the IMF's Moscow representative office ended after two at night, but we have managed to complete agreeing the program at this level," Gennady YEZHOF, spokesman for Deputy Prime Minister Alexei KUDRIN, told Reuters. He added, "Now the program

will go to Washington." He said the one-year deal was part of a three-year economic plan, currently in the works. Prime Minister Mikhail KASYANOV has said Russia needed a three- to four-year program with the IMF to help the country deal with a crippling debt burden in 2003. Russia's relations with the IMF chilled after the 1998 economic crisis, which undermined the country's IMF-agreed program. The government needs the deal with the Fund urgently to start talks on restructuring a \$40 billion Soviet-era debt to the Paris Club of creditor nations.

Russia To Pay First Quarter Paris Club Debt

□ Russia will pay about \$200 million to the Paris Club of creditor nations today and make the rest of debt payments due in the first quarter by the end of March. Today's payment to the Club will include about half of missed January debt payments and debt falling due in March. Finance Minister Alexei KUDRIN said last month that Russia had to repay the Paris Club \$298 million in overdue January debt and would pay \$41.5 million in March. The remaining part of missed January debt payments was likely to be made by the end of March, Reuters reported. The Finance Ministry could not immediately confirm the information. Russian news agencies said on Sunday the Finance Ministry would pay \$330 million to the Paris Club on Monday, covering all missed January payments and a scheduled March payment. Russia is hoping to reschedule its Soviet-era debt to the Paris Club, estimated at about \$40 billion. Russia is due to pay some \$3.8 billion to the Paris Club in 2001.

Business

Russia To Maintain Rostelecom's Monopoly

□ Russia has told a working group on the country joining the World Trade Organization (WTO) that it wants to keep *Rostelecom's* position as a fixed-line telephone monopoly, *Vedomosti* reported. While the WTO wants to see an end to *Rostelecom's* monopoly on long distance telephone services, Russia wants to keep that monopoly for at least 10 more years, according to Deputy Economy Minister Maxim MEDVEDKOV. The company's shares have fallen more than 70 percent in the past year, partly on investor concern a reorganization plan at its parent company, *Svyazinvest*, may cut profit by ending *Rostelecom's* monopoly. Russia owns 75 percent minus one share in *Svyazinvest*, a holding

company for the country's telephone operators. Russia also is resisting WTO calls for it to fully open its insurance market to foreign competition, Vedomosti said. While Russia has removed some restrictions on foreign insurance firms, some members of the working group want Russia to remove all such limits.

EUROPEAN REPUBLICS

US Calls For Restraint In Ukraine's Violence

□ The US, reacting to clashes between police and scores of protesters against Ukrainian President Leonid KUCHMA on Friday, called for both sides to restrain from violence. State Department spokesman Richard BOUCHER said, "Ukrainian officials have stated their commitment to resolve political issues by constitutional means and to engage in a dialogue with the opposition... "We think that the current political atmosphere presents Ukraine and its leaders with a test of their commitment to the rule of law and democracy and human rights... We call upon all parties to exercise restraint and of course we look to the Ukrainian authorities to carry out their pledge to solve things by constitutional means and dialogue." Thousands of people took to the streets on Friday in the biggest march yet to demand the resignation of KUCHMA. Scores of demonstrators suffered head and back injuries as police lashed out with batons, defending themselves against attack from bottles, stones and heavy wooden sticks, Reuters reported. The US has urged KUCHMA to conduct a speedy investigation into the murder of Georgy GONGADZE, which sparked calls for KUCHMA's removal.

EBRD Predicts Ukrainian Economic Slowdown

□ The European Bank for Reconstruction and Development (EBRD) said it expects growth in Ukraine's gross domestic product (GDP) to slow this year, following a similar slowdown in Russia, Ukraine's major trade partner, daily Kievskie Vedomosti reported. The Bank expects Ukraine's economy will grow 4 percent in 2001, after increasing an annual 6 percent last year, while Russia's GDP will probably increase 4 percent in 2001, after an annual 7.6 percent growth last year. Ukraine's consumer

prices are expected to grow an annual 17.5 percent in December this year, after growing 25.8 percent last December. The government forecasts increase in consumer prices won't exceed an annual 13.6 percent in December. Ukraine's economy began to grow in late 1999, after a decade in decline. Growth has been fueled by exports. The devaluation of the hryvnia in 1998 and 1999 made Ukrainian goods cheaper and more competitive on international markets. Ukraine expects 4.2 percent increase in GDP this year from 2000. Julian EXETER, EBRD senior economist said, "I am reasonably confident that growth in Ukraine will continue this year because growth in incomes will boost domestic consumption. We also expect agricultural production will increase this year."

The EBRD has encouraged to Ukraine to press ahead with reforms to attract foreign capital. EXETER said the government had achieved vital progress in fiscal reform, reducing the number of tax exemptions and improving payment discipline but said industrial restructuring had remained slow. He urged the government to take steps in approving a new land code and a mortgage law in order to attract foreign investments into the troubled agricultural sector. EXETER said the EBRD, which had already committed over one billion euros (\$930 million) to Ukraine, would like to expand its activities in the private sector in the medium term but said a lot remained to be done to improve the business climate in Ukraine, Reuters reported.

Russian Journalist Killed In Tallinn

□ The publisher of a leading Russian-language daily newspaper Estoniya, Vitali HAITOV, was shot and killed Saturday in one of the highest-profile murders since Estonia regained independence 10 years ago. Vitali HAITOV was shot twice in the head just after 3:30 p.m. local time while sitting in his four-wheel-drive vehicle in a suburb of Tallinn. Police knew of no motive for the attack and have no immediate suspects. The newspaper reached the 500,000 Russian-speaking minority in Estonia. He also published a weekly called Vesti Nedelya Plus and had other business interests, including real estate. Last year, his 32-year-old son, Mar-ian, was fatally shot in the head while sitting in a Mercedes in Tallinn. No one has been charged in that killing.

Estonian Jobless Rate Fell Slightly

□ Estonia's unemployment fell by 844 people from January, bringing the unemployment rate down to 6.5 percent from 6.6 percent in the previous month, the Labor Market Board said. In February, 56,611 people were registered as unemployed, compared with 57,455 people in January. In February, 2000, the unemployment rate was 5.6 percent.

~~SOUTH CAUCASUS & CENTRAL ASIA~~

Abkhazian Elections Denounced As Illegitimate

□ Georgia has denounced regional elections held in Abkhazia on Saturday, calling it illegitimate. Georgia condemned the vote, saying it excluded the quarter of a million mainly ethnic Georgian refugees who fled the region after it declared independence in 1991. Abkhaz forces drove out Georgian troops in a 1992-93 war. No country has recognized the independence of Abkhazia. Avtandil NAPETVARIDZE, special envoy of Georgia's Ministry of Foreign affairs said, "These so-called elections cannot be legitimate. They are absolutely unacceptable for us as thousands of refugees could not take part." Georgia has raised similar objections to parliamentary and presidential elections in Abkhazia in the past. The UN Security Council and the Council of Europe, a human rights body based in Strasbourg, backed Georgia's position. A Security Council statement last week called the election "unacceptable and illegitimate." The Council of Europe said on Friday, "It is not in the interest of the Abkhaz side to be seen as confronting the international community and undermining efforts to achieve an early and comprehensive settlement of the conflict by peaceful political means." Russia, which maintains a force of 1,500 peacekeepers patrolling Abkhazia's border with the rest of Georgia, also denounced the election. The Russian statement said the vote took place, "with the Georgian-Abkhaz conflict unresolved and along with it the situation of much of the population of Abkhazia forced to live outside its territory as

refugees. The Russian Foreign Ministry therefore believes that the staging of such an election was illegitimate, untimely and unhelpful in the search by parties to the conflict to find mutually acceptable solutions to their problems."

Turkey-Azerbaijan Sign 15-Year Gas Agrmt.

· Today, Turkish President Ahmet Necdet SEZER and Azeri President Geidar ALIYEV signed an intergovernmental agreement with energy ministers from both sides for Azerbaijan to provide Turkey with 15 years of gas supplies from the Shakh Deniz fields in the Caspian Sea beginning in 2004. After that agreement officials from *Botas*, Turkey's state pipeline concern, and *State Oil Company of Azerbaijan (Socar)* signed a gas purchase agreement, defining commercial terms of the deal. SEZER said, "The Shakh Deniz project will pave the way for other pipeline projects that will be the backbone of an East-West energy corridor." ALIYEV said Azerbaijan could in future sell Turkey more gas, "maybe 15-20 billion cubic meters a year," through other pipelines to be built. He said another project, to pump Caspian oil to Turkey's Mediterranean coast, would definitely be complete despite some Western concerns over its commercial viability. A senior *Botas* official said gas from Shakh Deniz, being developed by a consortium led by *BP Amoco* and *Statoil*, would be transported to Turkey on a pipeline to be built from Baku through Georgia to Erzurum, where it will intersect another line from Iran. "The gas from Azerbaijan will be the cheapest among all gas deals Turkey has struck so far," the official said, declining to elaborate on the price, Reuters reported. Members of the consortium: *BP Amoco* 25.5 percent, *Statoil* 25.5 percent, *Socar* 10 percent, *TotalFinaElf* 10 percent, *LUKAgip* 10 percent, Iran's *OIEC* 10 percent and *Turkish Petroleum (TPAO)* nine percent. Other gas supplies for will come from Russia via the under Black Sea pipeline, Blue Stream and a pipeline due to be completed this summer from Iran. Meanwhile, a project to buy Turkmen gas is awaiting Turkmenistan's approval.

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