

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russian Security Chief Visits Washington**

□ Russia's influential Security Council Chief Sergei IVANOV held meetings on Wednesday with his US counterpart, White House National Security Adviser Condoleezza RICE and Secretary of State Colin POWELL. IVANOV attempted to reassure POWELL that Russia will be careful not to spread dangerous technology around the world. POWELL stated that the US is concerned about Russia's potential sale of both conventional and more sensitive items to Iran, following an arms agreement reached earlier this week between Russian President Vladimir PUTIN and Iranian President Mohammad KHATAMI. State Department spokesman Richard BOUCHER said the US wants to know what the arms sales involves and said Russia would be ill-advised to renew arms sales with Iran. He said that Russia could face sanctions if it sells advanced technology to Iran. IVANOV said only defensive weapons would be sold to Iran. "Personnel carriers, tanks, anti-air missiles, which are very legitimate," IVANOV said. US President George W. BUSH on Tuesday that said, "Russia is not an enemy," but "they may be a threat, if they decide to be....It's going to be very important for my administration to make that very clear to Mr. PUTIN." The Security Chief's Washington trip is the highest-level visit either side has made to the other's capital since BUSH took office in January. BUSH is scheduled to meet PUTIN only on the sidelines of large gatherings of world leaders at the Group of Eight Summit in Italy in July and a summit of Asian/Pacific leaders in China in October. **Comment:** It should be noted that IVANOV is the man promoting the claim that the Kursk had been sunk due to a collision with a Western submarine. Some experts refer to him as the inheritor of the tradition to maintain ideological purity against the

West, which former Politburo member SUSLOV represented.

#### **Unity Deputy Wounded In Drive-by Shooting**

□ Unity Party deputy Bashir KODZOYEV was shot in the chest and arm as his car was driving through central Moscow, near the Sandunovsky bathhouse north of Red Square. His driver was killed and KODZOYEV was hospitalized. Party officials said the deputy is in satisfactory condition. Police said the unidentified gunmen opened fire on his passing car from the third floor of a building and escaped. No reason was given for the attack. KODZOYEV is an ethnic Ingush, a Caucasus people whose home territory lies next to separatist Chechnya. He attended university in Siberia and was deputy chairman of a parliamentary committee dealing with problems in Russia's far north. Moscow has seen a number of gun attacks on prominent people, though local officials have said the city is safe for visiting dignitaries. Deputy Mayor Josif ORDZHONIKIDZE was shot and seriously wounded in an attack last December that killed his driver.

#### **Rus-Poland To Agree On New Pipeline**

□ Russia and Poland are close to an agreement on the route of a new pipeline that could ship 60 billion cubic meters of gas per year to Western Europe, the Polish daily Gazeta Wyborcza reported. Deputy Prime Minister and Economics Minister Janusz STEINHOFF said, "I talked to Deputy Prime Minister Viktor KHRISTENKO on gas imports,

and we agreed all issues should be solved before Prime Minister Mikhail KASYANOV visits Poland in May." *Gazprom*, the world's largest gas company by reserves and Ukraine's gas creditor, is seeking a route across Belarus, southern Poland and Slovakia to Germany, Bloomberg News reported. It wants to bypass Ukraine, which it has accused of stealing gas being shipped to Europe via Ukraine's pipes. Poland said it's close to agreeing on a pipeline route through Slovakia to Western Europe. It earlier said it would rather see Ukraine, a strategic partner, not be cut off from its traditional role as transporter of Russian gas.

### Apartment Bombers Plead Innocent

□ All six suspects charged with terrorism in the bombing in Daghestan's Buinaksk in September, 1999, pleaded innocent in their closing statements to Daghestan's Supreme Court. The blast killed 64 people and destroyed a building that housed Russian military officers and their families. Russian officials claimed that the Buinaksk bombing and three others, two in Moscow and one in the southern city of Volgograd, were orchestrated by Chechen rebels. The four blasts killed about 300 people. Chechen commanders have denied responsibility. One defendant, Isa ZAINANUDINOV, accused Russia's main security agency of staging the bombing to justify the military campaign in Chechnya, which began shortly after the blast and is now in its 18<sup>th</sup> month, the Associated Press reported. Prosecutors asked for the death sentence for ZAINANUDINOV and Alisultan SALIKHOV, and for prison sentences of 20 years to 25 years for the others. The court in Daghestan's capital, Makhachkala, announced a recess until March 19<sup>th</sup>, when a verdict is expected.

### Economy

<p><b>Ruble = 28.66/\$1.00 (NY rate)</b>  <b>Ruble = 28.66/\$1.00 (CB rate)</b>  <b>Ruble = 25.95/1 euro (CB rate)</b></p>
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### Defaulted Debt Swap Rules Eased

□ Russia plans to allow foreign investors still holding rubles paid out in the country's forced rescheduling of defaulted debt in 1998 to take some of their money out of the country, *Vedomosti* reported. The Central Bank plans to lift restrictions on repatriation of profit made from investing in domestic stocks and

bonds with the rubles foreigners have been forced to keep in special accounts. Foreign investors also will be able to sell money and securities held in the special accounts to other foreigners. The Central Bank also approved using the funds to make direct investments, though it will limit such investments to a total of 2 billion rubles (\$70 million) for this year, *Vedomosti* reported. Foreign investors still hold about \$1 billion worth of rubles and bonds they received in exchange for about \$40 billion worth of treasury debt Russia defaulted on in 1998, according to analysts. The proceeds were deposited into restricted bank accounts to stop investors from immediately converting rubles into foreign currency, which would have weakened the ruble.

### Russia To Auction GKO Bills

□ Russia's Finance Ministry will hold GKO Treasury bills auctions for domestic and foreign investors on March 21<sup>st</sup> and March 28<sup>th</sup>, Deputy Finance Minister Bella ZLTKIS told an investment conference. ZLTKIS said the ministry would offer six- and 12-month bills to investors, but added that the ministry would announce details of each issue after March 14<sup>th</sup>, when the parliament is due to carry out a no-confidence vote on the government. She has said earlier the ministry would offer six billion rubles (\$209 million) worth of GKO's to investors in March, Reuters reported.

### Business

#### Russia To Prosecute Four In Aeroflot Case

□ Russia's Prosecutor General plans to try four people on fraud charges arising from its probe into *Aeroflot*, the state-controlled airline, the *Moscow Times*. Russian businessman Boris BEREZOVSKY is not among the four, after charges filed in 1999 against him over his involvement with *Aeroflot*'s foreign currency operations were dropped last year. Prosecutors will request court hearings in May for charges filed against former *Aeroflot* directors Alexander KRASNENKER, Nikolai GLUSHKOV and Lydia KRYZHEVSKAYA, and Roman SHEININ, who manages Moscow-based company *FOK*. Prosecutors said last year they established that about \$900 million of *Aeroflot*'s funds were transferred through two Swiss-based companies *Forus* and *Andava*. BEREZOVSKY, one of Russia's most influential businessmen, has been living outside of Russia since November, fearing persecution by the authori-

ties should he return.

### Norilsk Blast Kills Two

□ An explosion at *Norilsk Nickel's* Zapolyarny mine killed two workers early today. A Norilsk spokesman was quick to say that the accident did not affect production. The Zapolyarny mine, which is near the town of Norilsk in the Arctic circle, produces ore from which copper, nickel, platinum and palladium can be extracted. The spokesman said Zapolyarny is one of *Norilsk's* major ore deposits. *Norilsk* produces 70 percent of the world's palladium and around 30 percent of its platinum.

### Oil Exploration Tender Disputed

□ *LUKoil*, *Surgutneftegaz*, and *Sibneft* have accused the Russian government of violating tender rules for a license to explore three oilfields in Russia's Komi Region containing reserves of 65 million tons. They have asked the government to reconsider the tender results. The license was awarded to *Severnaya Neft*, which offered \$7 million for the license, while *LUKoil* bid \$100 million. *Severnaya Neft's* General Director Alexander SAMUSEV said, "We have respected every single requirement of the tender. He added that his company had already invested \$100 million in infrastructure near the fields which would facilitate their exploration. Steven ALLEN, an oil analyst at *United Financial Group*, said, "This is a throwback to the days of rigged auctions. However, I think this is a legitimate battle against the tender results. There is something funny about this tender." A group of government experts, including members of the Anti-monopoly Committee and the Energy Ministry, have until April 9<sup>th</sup> to officially endorse *Severnaya Neft* as the tender's winner. The *Financial Times* reports that if the government does not overturn the results, *LUKoil*, *Surgutneftegaz*, and *Sibneft* will challenge the tender in court.

## EUROPEAN REPUBLICS

### Ukraine's Economic Growth Could Double?

□ Ukrainian Prime Minister Viktor YUSHCHENKO was quoted by a German newspaper on Wednesday as saying the country's economy could expand at double the rate officially forecast in 2001. "Gross domestic product could grow by seven to eight percent this year, although officially only four percent

is being forecast," he told *Handelsblatt*. Ukraine posted a trade surplus of \$78.3 million in January compared to a deficit of \$299.9 million in the same month a year ago, the State Statistics Committee said on Wednesday. Russia remained Ukraine's main trading partner, accounting for 23.1 percent of exports and 41.2 percent of imports in January.

### Oil Companies Call For Cuts In Import Taxes

□ Ukraine's biggest oil processing companies, including subsidiaries of Russia's *LUKoil Holding* and *Tyumen Oil Co.*, urged the Ukrainian government to cancel import fuel tax breaks that they believe hurts domestic fuel production, daily *Kievskie Vedomosti* reported. *NNK Kazakhoil*, Kazakhstan's state-owned oil producer, and *UkrTatNafta*, a Ukrainian and Russian joint venture, are also behind the call. Ukrainian Deputy Economics Minister Alexander SHALPAK said the government may cancel the tax breaks as soon as next week. Ukraine allowed breaks on fuel imports last year to boost supply amid a deficit of fuel on the domestic market. After the government sold some of its key oil processing plants to Russian and Kazakh oil companies last year, it said it wants to increase domestic production of fuel.

## SOUTH CAUCASUS & CENTRAL ASIA

### Unidentified Plane Bombs Chonto

□ Late Wednesday, an unidentified military plane dropped a bomb over a small Georgian settlement, Chonto, near the Girevi checkpoint on the Russian border. The bomb caused some explosions. The Georgian State Border Department's press service reported no casualties and no damage. The department contacted the North Caucasus division of the Russian Federal Border Service and informed them of the incident. Deputy head of the Georgian State Border Department General Major David GULUA and acting head of the Georgian State Border Department Colonel Korneli SALIYA today attempted to survey the bombing site, but due to bad weather conditions their helicopter could not land in Chonto. The Georgian State Border Department indicated that the same plane also dropped a bomb in the Russian territory, causing some explosions.

### Crusade Against Corruption

□ Georgian President Eduard SHEVARDNADZE

has called for a, "crusade against corruption, crime" in his national radio address. He said, "We must fight against the smuggling of a contraband and curtail it. We must curtail the production of forfeited goods. And I assure you that if this is done, both the scale and the volume of Georgia's budget will change drastically." The President estimated that one half of Georgia's gross domestic product is still made in the shadow economy. He acknowledged that the Georgian National Security Council has discussed the anti-corruption program, which will be presented to the public shortly. SHEVARDNADZE said that fighting corruption is essential so that Georgia can become stable. He said the Council, "spoke openly and firmly about measures needed to curtail not only corruption, but also terrorism, drug abuse, the smuggling of contraband, the production of forfeit goods, as well as crimes committed against the individual." He stressed that, "The traffic of drugs, weapons, and forfeit money can be disastrous for a transit country." SHEVARDNADZE that the Great Silk Road should serve only good causes and not criminal ones. He pointed out that friends of Georgia are prepared to provide assistance in fighting crime, which would include staff training and the supply of appropriate equipment. The President called on Georgia's citizens to stand by the authorities in this fight. He said, "We all have conduct a true crusade and fight to the death against corruption and all types of crime, including drug abuse, drug trafficking, illegal weapon trade, the abduction of people,...and other types of crime."

#### Georgian-Abkhaz Talks Open In Yalta

□ Mediation talks over the settlement of the Georgian-Abkhaz conflict opened today in Yalta. The Georgian side is represented by State Minister George ARSENISHVILI, while the Abkhaz side is represented by Vyacheslav TSUGBA. Ukrainian Foreign Minister Anatoly ZLENKO said Ukraine will promote resumption of a dialogue between Georgian and Abkhaz sides. He said that the situation remains complicated. Reading a statement from Ukrainian President Leonid KUCHMA,

ZLENKO expressed confidence that the talks will help stabilize the situation in the region. TSUGBA call to all participants to take measures for the early signing of the agreement on peace and guarantees on non-resumption of hostilities and the protocol on refugees' return. He said these documents will promote greater confidence between the sides and will give a fresh impetus to the full-scale settlement of the Georgian-Abkhazian conflict. The talks will focus the status of Abkhazia and the safe return of refugees. There are over 300,000 refugees from Abkhazia in Georgia. The Georgian-Abkhazian conflict broke out in the summer of 1992, when Abkhazia proclaimed its independence from Georgia. Russia came out with a peacemaking initiative in the autumn of 1992. The UN assumed the task of regulating the conflict and has been taking measures toward this effect since 1993. ZLENKO stressed that Ukraine, acting as the chair-country of the UN Security Council, will do everything possible for resuming fruitful negotiations. The meeting takes place in the framework of the Geneva peace process under the UN auspices. UN Secretary General's special representative to Georgia Dieter BODEN will chair the talks.

#### Eni Discovers Oil Traces In 2<sup>nd</sup> Test Well

□ An *Eni*-led group said it discovered oil and gas traces at a second test well in Kazakhstan's Kashagan deposit. The *Offshore Kazakhstan International Operating Co. (OKIOC)*, led by *Eni*, drilled the well at the Kashagan West deposit about 40 kilometers away from the first well at Kashagan East drilled in the middle of 2000, *OKIOC* said. *OKIOC* owns the rights to the offshore Kashagan field, which holds an estimated 50 billion barrels of oil reserves. The reserves can only be confirmed once tests from the second well are completed in mid-April, the company said. "It is too early to comment on the characteristics of the hydrocarbons found at Kashagan West, and further information will only be available upon completion of the testing program," *OKIOC* said in a statement.

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