

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Putin Appoints Propaganda Chief**

□ Russian President Vladimir PUTIN expanded the role of his aide Sergei YASTRZHEMBSKY, the Kremlin's chief propagandists for the "anti-terrorist operation" in Chechnya. YASTRZHEMBSKY has been tasked with implementing the new Presidential decree to form an Information Directorate. He has been affectionately described by the Russian press as the new "chief of propaganda". How this new organization will function and interact with the Presidential news service is unclear. There will certainly be an overlap of duties and responsibilities. Initially the Information Directorate is being described as a mechanism to coordinate media coverage in an effort to improve Russia's image abroad, Bloomberg News reported today. YASTRZHEMBSKY, who has been coordinating the release of information on the Chechen war, also served as spokesman for former President Boris YELTSIN, but was fired in 1998. YASTRZHEMBSKY will now work alongside PUTIN's press secretary, Alexei GROMOV. His new responsibilities are aimed at "perfecting the provisions for the actions of the president of the Russian Federation in the area of informational politics," a presidential news release says. This comes in the wake of accusations by the Russian government that the CIA is actively engaged in blackening the reputation of Russia internationally.

As gazeta.ru reports, the Information Directive is being created within the presidential administration because the Kremlin has long since lacked a body for maintaining operative and adequate links with the public. In other words, YASTRZHEMBSKY is to take responsibility for all the concerns about the leadership's public image. YASTRZHEMBSKY currently has seven subordinates, but that number is

to be increased to 15 as his field of activity widens with the creation of the Information Directorate. Some commentators state that YASTRZHEMBSKY made his debut in his new role on Thursday when he was charged with making public PUTIN's reaction to the hijack by Chechen terrorists of the Vnukovo Airlines flight from Istanbul to Moscow. Basically, YASTRZHEMBSKY is creating a sort of 'Ministry of Truth' for PUTIN, gazeta.ru concludes. What is more, according to unofficial sources, from the outset of PUTIN's rule it was deemed necessary to create a single body to take responsibility for the coordination of the state's information policy. According to the presidential decree on the Information Directorate, the body is to be set up within the coming few weeks. **Comment:** Whatever the justification given for the establishment of the Information Directorate, it will no doubt conjure up memories of the role performed by the International Department of the Communist Party in perception management and disinformation internationally. One cynical view expressed is that when PUTIN needs another boost in the polls an incident like the apartment bombing or now the hijacking of a plane will be at least used to grab the attention of the public away from PUTIN weaknesses. Specifically his lack of leadership in running the government and setting forth on a path that will enhance Russia's economic position.

#### **Kaliningrad, Putin and European Union**

□ Friday at the European Union (EU) summit in Stockholm, Russian President Vladimir PUTIN is expected to consider Rus-

sia's problems in the Baltic peninsula of Kaliningrad. Included in the list of issues to be brought up is relaxation of the visa regime and energy concerns. As Poland and Lithuania preparing for the EU membership Russian concerns about the depressed enclave and the Baltic port city, which are cut off from the Russian main land, are increasing. It is unlikely that the EU will positively consider any Russian request for visa flexibility for the Russian residents of Kaliningrad, especially with Russia's punitive use of visas with Georgia. Diplomats fear that any establishment of special committees on Kaliningrad could be used to codify some special status on the enclave that could be expanded in the future to other areas of Russian concern. There appears to be consensus on the part of the Western diplomats that any concerns could be handled under existing constructs and no special initiatives are required. The issue of military goods and transportation remain open however. Earlier information appeared in the Washington Times claiming that tactical nuclear weapons had been redeployed in Kaliningrad. That sensational accusation appears to have gone nowhere but will no doubt factor in on any discussions concerning military re-supply to Kaliningrad. Russian Foreign minister Igor IVANOV did state that while Russia is generally favorable towards enlargement he is worried about anti Russian feelings in Eastern Europe according to today's Financial Times. "We cannot say we are very close to some of the candidate countries...we hear some rhetoric against us. It is very important not to transplant this rhetoric into the bodies of the EU".

#### **Bail Decision On Borodin Still Pending**

□ US court has made no decision on release on bail of Pavel BORODIN, secretary of Russ-Belarus union state, who remains in custody in New York under a Swiss-issued warrant, his lawyer Eduard MARGULYAN said. MARGULYAN stated on Monday, after visiting BORODIN in jail, that district judge Eugene NICKERSON could make a ruling on any day of this week. BORODIN was detained in New York as he arrived to attend the inauguration of the US president George W. BUSH on the grounds that Swiss prosecutors implicated him in money laundering. According to Itar-Tass, even if BORODIN is released on bail, prosecutors are likely to appeal it.

#### **Economy**

**Ruble = 28.65/\$1.00 (NY rate)**

**Ruble = 28.64/\$1.00 (CB rate)**

**Ruble = 25.87/1 euro (CB rate)**

#### **Russian FDI Rises In 2000**

□ Foreign direct investment (FDI) in the Russian economy rose to \$4.43 billion in 2000 from \$4.26 billion the previous year, the State Statistics Committee said. Total foreign investment in Russia rose to \$10.96 billion last year from \$9.56 billion in 1999, including a sharp increase in portfolio investments, to \$145 million from \$31 million, the Committee said in a monthly review of the Russian economy. Russian industry attracted a major part of FDI, which amounted to \$1.84 billion in 2000, while transport sector attracted \$948 million in FDI. FDI in trade amounted to \$835 million last year.

#### **Business**

#### **GAZ Drops New Volga, Assembles Vans In Iran**

□ *Gorkovsky Avtomobilny Zavod (GAZ)*, Russia's second carmaker, has stalled plans to make a new model of its popular Volga sedan, Vedomosti reported. The new GAZ management, installed in November by shareholder *Sibirsky Alyuminy*, Russia's fourth-biggest aluminum producer, decided to drop plans by the previous management to have the new Volga gradually replace the existing model. Instead, GAZ will produce a limited number of new luxury Volgas for Russian government officials. The new Volga models, which were expected to retail for about \$14,000 □ more than triple the existing model's average price of \$4,000 □ will now sell for less than that. GAZ sold about 53 new Volgas last year and about 90 this year. GAZ borrowed tens of millions of dollars to build a new plant to produce the new Volga, including a \$65 million loan from the European Bank for Reconstruction and Development (EBRD), which it stopped servicing in 1999. The carmaker has been talking with the Bank on rescheduling that loan.

Meanwhile, GAZ executives plan to work out terms for a joint project with Iran's leading automobile manufacturer *Iran Khodro Diesel* to produce Russian vans in Iran. GAZ spokeswoman said, "We have agreed to set up working groups in the nearest

future to work out in detail terms of a joint project to assemble Gazel minibuses in Iran." She said a date for the production launch had not yet been set, but the plant would assemble some 3,000 Gazel vans in the first year, 7,000 vans in the second year and up to 10,000 in the third year. Further output would depend on demand. The spokeswoman said *GAZ* and *Iran Khodro* started working on the project in 1999, but declined to give an estimated cost or any other details of the project, Reuters reported.

### EUROPEAN REPUBLICS

#### Chernobyl Director Fired

□ The safety director at the Chernobyl nuclear reactor was fired for misconduct, Bloomberg News reported today. Valentyn KUPNY was dismissed for "a flagrant violation of his professional duties," plant spokesman Stanislav CHEKSTELO told the journalists. He didn't say though what KUPNY allegedly did. KUPNY was in charge of the concrete and steel cover encasing Chernobyl's reactor number 4, which exploded in 1986, sending radiation across Ukraine, Belarus, Russia and northern Europe. The estimates say the death toll from resulting radiation is as high as 30,000 people. The reactor was later covered by a haphazardly constructed sarcophagus, a leaky structure believed to contain tons of nuclear fuel and dust. A \$750 million international project to make the structure environmentally safe is presently under way. The money is part of \$2.3 billion that Ukraine will receive under an agreement to close the Chernobyl site. The aid will allow Ukraine to finish building two reactors to replace Chernobyl.

#### Lithuanian President To Visit Russia

□ The Lithuanian Foreign Ministry expressed the hope that Lithuanian President Valdas ADAMKUS's upcoming visit to Russia in late March will "give a new impetus to the development of bilateral relations which have a good future," Itar-Tass reports. ADAMKUS will have talks with Russian President Vladimir PUTIN, State Duma and government leaders, Moscow Mayor Yuri LUZHKOVA, members of the Russian business community. He will also take a trip to the Kaliningrad region. The co-chairmen of the intergovernmental Russian-Lithuanian commission on cooperation Lithuanian Foreign Minister Antanas VALIONIS and Russian Transport Minister Sergei FRANK

will meet in Moscow on March 22<sup>nd</sup>. They will discuss the preparation of ADAMKUS's visit and the drafts of trade and economic agreements to be signed during the visit. ADAMKUS's visit to Russia prospects the ratification by the Duma of Russian-Lithuanian agreements in the state border and on trade and economic cooperation signed in Moscow in 1997, and Lithuania's ties with the Kaliningrad region.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Georgia Hails Kazakh Decision On BTC

□ Gia CHANTURIA, president of the Georgian International Oil Corporation (GIOC) said today he is optimistic that a pipeline to carry Caspian oil through Georgia to Turkey would be built thanks to new support from major producer Kazakhstan. Kazakh apparent about-face earlier this month on how its oil should reach world markets would give the project a major boost. "This decision is very important as it will help to make this project more attractive for investors and as more oil volumes will make the project more commercially viable," CHANTURIA was quoted by Reuters. Kazakhstan had previously appeared to favor the Iranian route and plans for a \$2.7 billion pipeline from Azerbaijan through Georgia to the Turkish port of Ceyhan had looked in doubt. Earlier this month, US special adviser on Caspian Elizabeth JONES appeared to win the support of Kazakh President Nursultan NAZARBAYEV for the US backed pipeline route. "We think the project is ruled out," CHANTURIA said. He also said that recent drilling tests in the Azeri sector of the Caspian was positive and he believes the pipeline would pump oil by 2004.

#### Foreign Companies To Manage Energy

□ Georgia said today it has drawn up a shortlist of foreign companies for the final round of a tender to manage the country's two key energy companies, Reuters reported. According to the Ministry of Energy and Fuel, by the beginning of June it would pick two bids—one for management of the wholesale electricity market and one for management of its power grid control center. *Schlumberger* (France) and a consortium of Spanish firms *Iberdrola* and *OMEL*, and British *IPA* are among the bidders for the management of the wholesale market, the statement said. *Verbund* of Austria is bidding against a consortium of Canada's

*Manitoba* and *SECOR* for management of Georgia's power grid control center. The winners would manage the companies for five years, with rights to all profits, and would then relinquish the companies to the Georgian government. The statement gave no indication of the value of the bids. "The ministry wants to chose two companies able to manage effectively Georgia's state-run wholesale electricity market and its main electricity control center," Nino ASATIANI, spokeswoman for the Ministry of Energy and Fuel stated. Georgia suffered from an acute power crisis and blackouts throughout the winter due to Russia's cutting off power despite receiving the preliminary payment. The World Bank has promised Georgia \$25 million for its energy needs if the country continues to attract foreign investment to the sector. It set a June deadline for the awarding of the tender. Georgia has already sold 75 percent of the *Telasi* power distribution company to US *AES* for \$25 million.

#### **Shevardnadze Addresses The Nation**

□ Georgian President Eduard SHEVARDNADZE raised several urgent problems facing his country in a traditional radio interview on Monday. He lauded US financier George SOROS for his decision to support an anti-corruption program in Georgia and described it as a top priority event. The President said he was very pleased with this decision. He also welcomed the signing of an agreement on the export and transit of Azeri gas to Turkey through Georgia. In his view, this is a big victory for Tbilisi. SHEVARDNADZE believes that this gas pipeline is as important for Georgia as the Baku-Tbilisi-Ceyhan oil pipeline. Speaking of the settlement of the Abkhazian conflict, he said that the Yalta meeting on March 15<sup>th</sup> under the UN auspices hosted by Ukrainian President Leonid KUCHMA had confirmed once again that "the painful wounds of the Abkhazian conflict will soon be healed," Itar-Tass quoted him as saying.

#### **Nazarbayev Talks To Robertson**

□ Kazakh President Nursultan NAZARBAYEV and NATO Secretary-General George ROBERTSON on

Monday had a telephone conversation to discuss the situation in Central Asia and Afghanistan, as well as the latest developments in the Balkans, Itar-Tass reported. They also discussed bilateral cooperation and the partnership program between Kazakhstan and NATO. NAZARBAYEV and ROBERTSON exchanged views on the upcoming regional seminar to be held in Kazakhstan in May. It will be organized by the Kazakh Agency for Emergency Situations and NATO as part of military-civilian cooperation in emergency situations. The two sides will also hold a joint seminar on regional security in the fall.

#### **Turkey Wins OKIOC Contract**

□ Leading Turkish building *Enka Insaat* said today it had won a \$75-million contract to build an artificial island in the *Offshore Kazakhstan International Operating Company's (OKIOC)* Kashagan oilfield. The company said in a statement the three-year contract, which can later be extended by another two years if the *OKIOC* wishes, also included building subsea facilities and providing services for *OKIOC* offshore oil drilling in the huge Kashagan oilfield in the Kazakh sector of the Caspian Sea. All rock filler would be supplied from quarries located 340 km (213 miles) from the project site, *Enka* said. *Enka* did not identify its partner, but the company is known to have been working with US contractor *Bechtel* in its central Asian projects.

#### **Tuesday Tid-Bit**

#### **Niyazov's Name In The Stars**

□ A star in Ursae Majoris constellation has been named "Turkmenbashi." The certificate of its registration in the international register was handed over by head of Turkish *Polimex Company* Erol TABAJA to Turkmen President Saparmurat NIYAZOV who is popularly called "Turkmenbashi," which means the head of Turkmens.

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