

# 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

Daily intelligence briefing on the  
former Soviet Union

Wednesday, March 21, 2001

Published every business day  
since 1993

## RUSSIAN FEDERATION

### Politics

#### **Russia Dismisses Rumsfeld's Claims**

□ Russian Foreign Ministry on Tuesday angrily dismissed Defense Secretary Donald RUMSFELD's claim that Russia spreads missile technologies, urging Washington to abandon "propaganda duels and Cold War cliches." "It appears that top officials in the US military establishment don't realize to what extent the world has changed," the ministry said in a statement. "The world community no longer accepts Cold War logic, when military force substituted for diplomacy." "It would appear that the new Pentagon leadership is experiencing some difficulty in adapting to the realities of the post-confrontational period."

According to Reuters, the ministry's statement was a response to an interview with RUMSFELD and his deputy Paul WOLFOWITZ in the British Sunday Telegraph. In the interview, RUMSFELD branded Russia "an active proliferator" and accused Russia of sharing missile technologies with countries that may threaten the US and its allies. As **Intercon** reported on January 13, 1999, the US imposed economic sanctions against Mendeleev Chemical Technical University in Moscow, the Scientific Research and Design Institute of Power and Technology (NIKIET), and the Moscow Aviation Institute, accusing them of leaking nuclear and missile technology to Iran. The sanctions banned all US aid, contracts and export-import transactions to these institutions. The US imposed similar sanctions against seven other Russian institutions in July, following an Iranian test-fire of a missile that could strike Israel and other US allies. The Russian Foreign Ministry branded the US sanctions as groundless and said that it violated accords on cooperation in nuclear non-proliferation. In August, 2000, a CIA report was

released which stated that Russian businesses continue to be major suppliers of weapons of mass destruction equipment, materials and technology to Iran." It adds, "Tehran is attempting to develop an indigenous capability to produce various types of weapons-nuclear, chemical, and biological-and their delivery systems."

US-Russian relations have long been marred by the controversy over Washington's plan to develop defenses against ballistic missiles. The US says it needs the missile to shield from the "rogue" nations such as Iran and North Korea. Russia argues that the US plan would undermine the 1972 Anti-Ballistic Missile (ABM) Treaty, which bans national missile defense systems. President Vladimir PUTIN's promise to sell more weapons to Iran and finish building its nuclear reactor has added a new strain to US-Russian relations. Last week, President George W. BUSH said that Russia was not an enemy but could become a threat in the future.

#### **Seven Civilians Shot In Chechnya**

□ At least seven civilians have been shot to death in the Chechen capital, Russian officials said Tuesday, blaming the attacks on insurgents seeking to stoke violence in the rebel republic. Five elderly women, the oldest of them 65, and two men were "brutally killed by bandits," a spokesman for Interior Ministry forces in the Caucasus Yuri BORONYUK stated. All were ethnic Russians, and all were shot in the head, he said. "This is yet another raid by militants who are

unhappy about the restoration of peace, and who therefore try to destabilize the situation in every possible way," said Russian Defense Ministry and Chechnya's top prosecutor Vsevolod CHERNOV. Meanwhile, hundreds of women blocked part of the main road across Chechnya, demanding an end to alleged abuses by the Russian military. Concrete blocks, tree trunks and burnt cars were piled on nearly a mile-long stretch of road in eastern Chechnya, as the protesters sat on the highway, Interfax reported.

Russian troops have been accused of torture, killings and brutal treatment of Chechen civilians, but few cases have been investigated or prosecuted. In a rare exception, the commander of a tank regiment, Colonel Yuri BUDANOV, is on trial in the abduction and killing of an 18-year-old Chechen woman Elza KUNGAYEVA. The trial, which marks the first time a senior Russian army officer is accused of using violence against a civilian, will be a litmus test of Russian military court's integrity. BUDANOV is accused of abducting KUNGAYEVA from her parents' home near Grozny in March last year. The prosecutors allege the Colonel drove her to his makeshift military quarters, cut off her clothes, pummeled her face and strangled her to death. This month, BUDANOV told the court that he arrested KUNGAYEVA because he suspected she was a rebel sniper and killed her in a fit of rage after she insulted him. According to the human rights activists, the military prosecutors are withholding forensic evidence that prove KUNGAYEVA was raped before she was murdered. They argue the evidence was concealed to protect BUDANOV's reputation and that of the Russian military establishment. "They [magistrates] will do all they can within their power to demonstrate in court that Colonel BUDANOV was a hero who killed a Chechen sniper, not a cold blooded rapist," said Alexandre CHERKASOV at the Moscow-based Human Rights Center Memorial. The Council of Europe, which comprises parliamentarians from 41 countries that subscribe to its charter of human rights and democratic values, suspended Russia's voting rights for human abuses in Chechnya for a year after reinstating them in January, the Financial Times reported Tuesday.

### Economy

**Ruble = 28.62/\$1.00 (NY rate)**

**Ruble = 28.73/\$1.00 (CB rate)**

**Ruble = 25.79/1 euro (CB rate)**

### World Bank To Prolong Coal Loan

□ The World Bank said today it had extended until December the period for which Russia will have access to its Second Coal Sector Adjustment Loan, which had been due to close at the end of March, Reuters reported. Under the new agreement, Russia will have more time to draw on the \$150 million remaining from the \$800 million credit. "The government has assured the Bank that by the end of the current year all the remaining conditions for the tranche disbursements will be met," the World Bank said in a statement. The main goal of coal sector restructuring is to increase productivity through the transfer of the management of companies to effective owners and to eliminate loss-making mines, while minimizing the social costs.

### Business

#### **Gazprom Production Falling**

□ The head of Russia's *Gazprom* natural gas monopoly said today that gas production was falling despite rising tariffs and export markets could be at risk. According to Reuters, Rem VYAKHIREV stated that extraction costs had outstripped tariff growth. He also voiced reservations about a restructure that could lead to the company being split into separate units handling extraction, transport and sales. "The population can't pay acceptable prices for gas or electricity, but we can't help raising them because the gas industry's losses are bigger than growth (in tariffs). So extraction is falling," he said. "And if we lose our energy resources, we lose our export markets," he said. "The main task is to stop that happening." *Gazprom's* output dropped to 523.1 billion cubic meters (bcm) in 2000 from 545.6 bcm in 1999, but exports rose to 129.1 bcm from 126.8 bcm in 1999. According to VYAKHIREV, the restructure would be better put off until *Gazprom* called in the bulk of its debts, which he expected in five years' time.

#### **Chubais On Russian Power Deal**

□ The head of the *Unified Energy Systems (UES)*, the Russian electricity group, said that a compromise could quickly be reached on restructuring the country's electricity sector, but ruled out as unrealistic a rival plan of minority shareholders,

the Financial Times reported. Anatoly CHUBAIS said that "a sensible, united approach" could be achieved in time for the drafting of recommendations, due to be submitted to President Vladimir PUTIN on April 15<sup>th</sup>. CHUBAIS said he could agree with several aspects of two alternative proposals for restructuring, including the idea that Russia's electricity distribution grid should be taken over by the state and removed from *UES* control. However, he criticized proposals to create a series of regional unified generation and distribution companies as "changing nothing of substance" and doing little to introduce competition. CHUBAIS said he recognizes the need for a minimum of a doubling in tariffs, but political considerations would limit regional governors' willingness to act, he added. Much of the recent disagreements over changes to *UES* was the result of misunderstandings, rather than fundamental differences, he stated in an interview.

Meanwhile, *UES* is planning to link up with private investors to develop and commercialize a telephone network across Russia, CHUBAIS said Tuesday. The group has set up *Muse*, a fully owned unit, to consolidate existing networks and develop new projects. It is in talks with international venture capitalists to raise funding in exchange for a stake.

### EUROPEAN REPUBLICS

#### Ukraine To Finance Missile Cruiser

□ The Ukrainian government is going to resume financing of the construction of the Ukraina missile cruiser, Itar-Tass reported today. Prime Minister Viktor YUSCHENKO said after visiting the cruiser that the issue would be considered at a special session of a working group, which he would hold next week upon the instructions by President Leonid KUCHMA. According to YUSCHENKO, the main issue is how the government will meet its obligations on the Ukraina, as well as on two other projects, which include the Moskva cruiser, whose construction has been completed, and a refrigerator vessel for a Greek company.

#### Minsk Opens Int'l Conference

□ An international conference devoted to cooperation between law enforcement agencies in the struggle against crime and international ter-

rorism opened in Minsk today, Itar-Tass reported. Yuri YAROV, Chairman of the Commonwealth of Independent States (CIS) executive committee, declared at the conference that effective rebuff to trans-national crime and international terrorism can be given only if all CIS countries and the world community consolidate their efforts. An interstate program of joint activities against organized crime adopted for the period until 2000 has been practically fulfilled in full. A new program has been adopted for the period until 2003, he said.

#### Estonian Industrial Sales Rose

□ Estonian industrial sales rose a lower than expected 2.7 percent in February amid a fall in electricity and heat production that was offset somewhat by gains in machinery and peat production, the statistics office said today. The office said annual sales in the machinery sector were up 62.4 percent, followed by peat production, up an annual 40.0 percent. Electricity and heating production declined 3.3 percent. Estonia's industrial sales grew an annual 7.0 percent in January. Over the first two months of 2001 the production of machinery rose by 74.5 percent, compared to the same period of last year, while the production of peat and metals rose 34.4 and 32.4 percent, respectively. Industrial sales in first two months dropped most sharply in medical, optical and precision instruments sales, down 16.2 percent, and in radio, television and other communication equipment sales, down 11.9 percent, compared to the first two months of 2000, Reuters reported.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Powell Confirms Support For Georgia

□ Georgia welcomed a message of support from US Secretary of State Colin POWELL to the former Soviet Republic during his meeting with Georgian Foreign Minister Irakli MENAGARISHVILI Tuesday. The Secretary assured Georgia of Washington's support in the face of increasing Russian pressure, according to State Department spokesman Richard Boucher. "The US is the number one contributor to the security of Georgia and we certainly need and appreciate this kind of support," Georgia's presidential spokesman Kaha IMNADZE stated. In a meeting in Washington, POWELL told MENAGARISHVILI

the Caucasus republic could count on US friendship and said the US had raised the issue of Russian pressure with Moscow. POWELL also reaffirmed US support for Baku-Tbilisi-Ceyhan pipeline, which is crucial to Georgia as a source of revenue and as an alternative to Russian energy supplies which are frequently cut off.

The Washington meeting coincided with the arrival in Georgia of FBI chief Louis FREEH, who was scheduled to meet President Eduard SHEVARDNADZE and other government officials today. Revaz ADAMIA, Chairman of the Citizen's Union Party in the Parliament described the meeting between the FBI Director and the Speaker of the Georgian parliament Zurab ZHVANIA as "a serious political step" by the Bush administration. ADAMIA described the high level meetings of the Georgian ministers of Foreign Affairs and Defense with their counter parts in the US testifies to the fact that Georgia is one of the most important priorities of American foreign policy. ZHVANIA announced that the FBI intends to start cooperation with Georgia on preventing international terrorism and drug dealing by opening an office in Georgia. IMNADZE said Georgia relies on US support for patrols of border guards on the Georgian-Russian border and other security measures. "Security is one of the pillars of our statehood," he said. "That's why [FREEH's] visit is very significant, it is a continuation of support for our security architecture under the new US administration." Georgia's relations with Russia have been strained since the collapse of the Soviet Union. In December, 2000, Russia imposed a visa regime for Georgian citizens. Russia's decision to exclude Abkhazia and South Ossetia, the separatist regions, from the visa restrictions was condemned by the world community. Russia also accuses Georgia of harboring Chechen rebels on its soil and is angered by Tbilisi's refusal to allow Russian troops to use Russian military bases in Georgia for the conflict.

### Japan To Invest In Georgian Energy System

□ The executive director of Japan's major energy company *Dengen Kaihatsu*, Teruo GAMA, said during a meeting with Georgian President Eduard SHEVARDNADZE that the company will make an investment in Georgia's energy system. In accordance with the investment proposals considered during the visit, the company will work out specific guidelines and projects for cooperation, and it is ready to provide investments both in construction of new hydroelectric stations in Georgia and restoration of the old ones, the director said. *Dengen Kaihatsu* is planning to implement its first projects in the Kakheti region, which has substantial reserves of natural gas, oil as well as hydro resources. The Japanese government holds 66 percent of shares in the Japanese major energy company. Over 50 years of its existence, *Dengen Kaihatsu* operated in energy sectors in 150 countries.

### Powell To Attend Armenia-Azeri Talks On Nagorno-Karabakh

□ US Secretary of State Colin POWELL will attend the talks between Armenian President Robert KOCHARYAN and Azeri President Geidar ALIYEV which begin in Florida April 3<sup>rd</sup>, Itar-Tass reported today. According to Richard BOUCHER, spokesman for the US State Department, POWELL will be present on the first day of the talks which are devoted to Karabakh settlement. After Colin POWELL's departure the US delegation to the talks will be headed by US special envoy to the talks on Nagorny Karabakh, ambassador Carey CAVANAUGH. The summit talks to be held under the Organization for Security and Cooperation in Europe (OSCE) auspices will continue for four days. Representatives of Russia and France who are members of the OSCE Minsk group will act as mediators at the talks. At the last meeting held in Paris in March with the mediation of French President Jacques CHIRAC the leaders of Armenia and Azerbaijan failed to reach a compromise.

Paul M. Joyal, *President, Editor in Chief*  
Clifton F. von Kann, *Publisher*  
Oleg D. Kalugin, *Content Advisor*  
Jennifer M. Rhodes, *Principal Editor*  
Tatyana Kotova, *Contributing Editor*

*Daily Report on Russia* is for the exclusive use of the subscriber only. Reproduction and/or distribution is not permitted without the expressed written consent of Intercon. *Daily Report on Russia* □ copyright 2001, Intercon International, USA.

*Daily Report on Russia* is published Monday-Friday (excluding holidays), by Intercon International, USA. Subscription price for Washington, D.C. Metro area: \$950.00 per year. A discount is available for non-profit institutions.