

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

Published every business day
since 1993

Monday, March 5, 2001

RUSSIAN FEDERATION

Politics

Unity To Launch No-Confidence Vote

□ Russia's second largest party in the Russian State Duma and leading pro-Kremlin Party, Unity, plans to demand a vote of no-confidence in the government of Prime Minister Mikhail KASYANOV, Reuters reported. First deputy head of Unity Party Franz KLINTSEVICH said the majority of the party would support the no-confidence vote. However, the party press service immediately denied his statement, saying that it was his personal opinion. It added that a decision on the vote will be taken by the party on Tuesday. This decision comes two weeks after the Communist Party launched a similar bid. Yabloko has joined the bid stating that government had failed to take prompt action in support of its proposals. A no-confidence motion has to win 226 votes in the 450-seat Duma. President Vladimir PUTIN, who has so far stood behind KASYANOV, can ignore the initial vote, but if the Duma rallies a two-thirds majority in a repeat vote he must sack the government or call an early parliamentary election. Unity, together with the Communists and their allies, has enough seats to secure the necessary votes. The Kremlin has said that it would call an early election, in which Unity is expected to increase its seats, rather than sack the government.

Chinese Seized With Submarine Secrets

□ A Chinese citizen was seized while trying to leave Russia. He was searched and was found to be in possession of secret drawings of a Russian submarine, the Federal Security Service (FSB) said Saturday. The Chinese citizen, whose name was not given, was detained Thursday in the airport at Khabarovsk, a city near the Chinese border in Russia's Far East. The detainee was carrying mili-

tary documents including drawings of a submarine based on the Kamchatka peninsula on Russia's Pacific coast. The FSB and military counterintelligence authorities have opened an investigation. An FSB duty officer in Moscow confirmed the report, but said he did not have further details.

Last year, a Russian court sentenced US businessman Edmond POPE to 20 years in jail for trying to obtain materials about Russian torpedoes. POPE was later pardoned by President Vladimir PUTIN and allowed to return to the US. This latest spy incident comes on the heels of the US seizing Robert HANSSEN, an FBI agent accused of spying for the USSR and Russia. A short, bail hearing for HANSSEN is scheduled to be held today in Alexandria, Virginia.

Economy

Tax Ministry Exceeds Target By 3.5 Percent

□ Russia's Tax Ministry collected 61.9 billion rubles (\$2.16 billion) in taxes in February, exceeding the target by 3.5 percent. February's tax collection target was 59.81 billion rubles, more than double the February 2000 target. Russia's Customs Committee, the other major contributor to state coffers, said on Thursday it collected 38.35 billion rubles in February, exceeding its target by seven percent. The government plans to increase additional budget revenues sharply in 2001 to meet foreign debt payments. No money to pay foreign debt was allotted in the

budget when it was passed.

Ruble = 28.66/\$1.00 (NY rate)
Ruble = 28.67/\$1.00 (CB rate)
Ruble = 26.66/1 euro (CB rate)

Customs Surpasses February Target

□ Russia's Customs Committee collected 38.35 billion rubles (\$1.3 billion) in February, exceeding the target by seven percent, the Committee said in a statement today. The Committee collected 70.55 billion rubles in the first two months of this year, also exceeding the plan by seven percent. The Committee's target for 2001 was about 355 billion rubles, including some 103 billion rubles in the first quarter, Interfax agency reported. The government plans to increase additional budget revenues sharply in 2001 to make all due foreign debt payments.

Business

Gusinsky Extradition Hearings Set

□ Hearings on the extradition of *Media Most* chairman Vladimir GUSINSKY are scheduled for March 8th. GUSINSKY is under house arrest at his villa in Andalusia, Spain. The date was set after prosecutors recommended it to satisfy the Russian request for extradition of GUSINSKY. The charges brought against GUSINSKY in Russia and the request for his extradition are not political, the prosecutors said. GUSINSKY faces fraud charges in connection with a 5 billion ruble-loan of *Gazprom* on the pledge of unsecured assets. The Spanish criminal code regards such misdeeds as a fraud and punishes them with eight years in jail, which complies with the minimum norms of the European convention on extradition, the prosecutors said.

Meanwhile, on Thursday, GUSINSKY resigned, as head of Russia's Jewish Congress because of what a top Jewish official said was persecution by the Kremlin. GUSINSKY told Reuters he helped organize the group after the fall of the Soviet Union to fight anti-Semitism, help Russia improve its relations with Israel, and make the country's Jews feel like part of their religion's worldwide community. Leonid NEVZLIN, who heads one of Russia's largest oil companies, *Yukos*, will serve as acting chairman of the Russian Jewish Congress until it elects a new leader.

Gazprom Conducts Talks With Investors

□ Alfred KOKH, president of *Gazprom-Media*, is in the US and may meet with potential *NTV* investors. *Gazprom* said it is willing to let a group of foreign investors led by *CNN*'s Ted TURNER take control of *NTV*. The gas company says it wants to make sure *Media Most* Chairman Vladimir GUSINSKY loses control of the station he founded, Bloomberg News reported. *Gazprom*, owner of a 46 percent stake in *NTV*, earlier said it wanted to take over the station from *Media Most*. GUSINSKY began negotiating last year with TURNER and George SOROS to avoid the gas company's takeover attempt. *Media Most* originally said the investors were negotiating to buy about 30 percent in *NTV*. The Wall Street Journal reported the investors may be interested in buying a 60 percent stake in *NTV*. *Media Most* has said 38 percent state-owned *Gazprom* is acting as a tool of the Russian authorities in their campaign to stifle its media outlets. *NTV* has criticized President Vladimir PUTIN's government over the war in Chechnya and alleged corruption. PUTIN has said free speech is not in danger and told the television station's journalists the *Gazprom* dispute is a commercial one.

RAV Weapon Exports Fall

□ Russian Conventional Arms Agency (RAV) weapon exports fell by 26 percent last year. The export of civil goods edged up by five percent. The export of conventional weapons industries declined by 17.5 percent in 2000 on the whole, totaling \$430 million, RAV press secretary Nikolai SVIRIN said today. According to the press secretary, a sharp drop in military deliveries abroad is attributed to the completion of work on earlier contracts and delays with signing new ones over reasons, not depending on the Russian side. Military goods are supplied by 50 factories to 29 countries, including the United Arab Emirates (30 percent), India (20.4 percent) and Iran (19 percent) as well as to Belarus, Uzbekistan, Latvia and Ukraine (3.2 percent). Civil goods were exported by 41 factories of the industry to 83 countries, including all Commonwealth of Independent States (CIS) and the Baltic States.

EUROPEAN REPUBLICS

Estonia To Buy Lockheed Radar System

□ The Estonian Defense Ministry said on Friday the government had decided to buy an up to 200

million kroons (\$11.89 million) long-distance surveillance radar from *Lockheed Martin Corp.* "The state has allocated 200 million kroons for this deal in the budget. The exact price...is for parliament to decide. The deal will be signed before the end of the year," Defense Ministry spokesman Madis MIKKO said. The ministry said in a statement the three-dimensional long-distance radar can spot flying objects over a 300 kilometers radius and will improve control over Estonia's airspace. Other bidders included France's *Thales*, Italy's *Alenia Marconi Systems*, and Britain's *BAE Systems*.

Ukraine To Negotiate Debts With Paris Club

□ A Ukrainian delegation led by Finance Minister Igor MITYUKOV will begin negotiations with the Paris Club of creditors on restructuring a \$1.007 billion debt, which includes about a \$300 debt owed to Turkmenistan. Prime Minister Viktor YUSHCHENKO said Ukraine wanted to bundle its debt into one parcel. Turkmenistan is not formally a member of the Paris Club, but Ukrainian Finance Ministry officials said that the terms of Ukraine's debt to the country mean that it should be included in the Paris Club negotiations. Analysts said Ukraine could ask the Paris Club to restructure its debt for more than a 15-year term. The government is trying to restructure its foreign debts into longer-term maturities. Ukraine stopped making debt payments on January 20, 2000. Ukraine could only approach creditors formally for restructuring after the International Monetary Fund (IMF) resumed its \$2.6 billion loan program last year. Valery LYTVYTSKY, YUSHCHENKO's top adviser, said Ukraine aims to cut spending on foreign debt to support a struggling economy. Analysts said a deal with the Paris Club would safeguard Ukraine's foreign debt position, attract new foreign loans, and allow it to channel funds into its fragile economic recovery. "If the deal is successful, Ukraine will face no problems servicing its foreign debt obligations in the medium term," said Kamil GOCA, head of Kiev-based investment fund *Dragon Capital*. Ukraine's total foreign debt is not excessively high but its short-term maturity is problematic due to low foreign currency reserves, and a weak economy and currency. Ukraine's 2001 state budget was calculated taking into account a future debt agreement with the Paris Club.

Russia's Deputy Prime Minister Alexei KUDRIN said Russia would back Ukraine in the Paris Club talks if Kiev agreed to give up its claims on Soviet

property and take steps to pay \$2 billion in gas debts. KUDRIN, who is also the Finance Minister, said Russia would insist on delaying the meeting if Ukraine's parliament failed to ratify the deal. The so-called zero-variant agreement has been approved by the president but not deputies.

Rus-Ukraine To Reduce Cost Of An-70

□ Colonel General Alexander STETSENKO, Ukrainian Deputy Defense Minister in charge of armaments, told Itar-Tass said Ukraine and Russia are seeking ways to reduce the cost of the An-70 planes, so that they could be purchased by the defense ministries of both countries. He believes that cost of the plane will be less than the \$50 million initially proposed. Ukrainian specialists have stated that the price has been reduced to \$40 million, due to negotiations between the aircraft-building enterprises and the customers. The introduction of tax privileges for the enterprises, which take part in the program of the production of the An-70 plane, is regarded as one of the possible ways to reduce the cost of the plane. Since the problem of the cost of the An-70 plane has not been settled so far, the signing of a contract for the production of five An-70 planes by the *Aviant* aircraft-building plant of Kiev for the Ukrainian Defense Ministry was postponed.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Outraged At Abkhaz Elections

□ The Georgian parliament said elections to local government bodies in Abkhazia scheduled for March 10, 2001 are "unlawful and unacceptable." According to a parliament statement, "The demographic situation has been changed artificially in Abkhazia as a result of the conflict, international organizations, including the Organization for Security and Cooperation in Europe (OSCE) officially recognized at the Budapest (1994), Lisbon (1996) and Istanbul (1999) summits the fact of ethnic cleansing of the Georgian population and condemned Abkhazia's aggressive separatism," Itar-Tass reported. The statement pointed out that the separatist regime in Abkhazia ignores resolutions on conflict settlement adopted by international organizations. "The position, repeatedly stated by the world community and the Georgian parliament, that elections of any level held in Abkhazia in a situation where two-thirds of its indigenous population are forced out of their homes have no legal force and are invalid." The parliament

called on the UN, the OSCE, the European Union, the Council of Europe and CIS member-states to give a proper assessment of unlawful elections in Abkhazia slated for March 10th.

US-Armenian Development Group Meets

□ The US and Armenia working group for economic contacts opened a two-day working session of meetings in Yerevan to consider economic development between the two nations. According to the Foreign Ministry, the agenda includes items connected with an improvement of investment climate in Armenia, macro-economic and budgetary policies, and an anti-corruption program of the republic's government. The group is to consider projects for US aid to Armenia, specifically that in the rehabilitation of areas hit by the 1988 earthquake, and matters concerning a business forum which is to be held in New York in May to discuss investments in the Armenian economy. US Ambassador Bill TAYLOR will co-chair the session with Armenian Finance and Economics Minister Vartan KHACHATRYAN. The US delegation includes representatives of the US Agency for International Development, the Departments of Commerce and the Treasury. It is unknown whether the US will question Armenia regarding its relations with Iraq.

Nagorno-Karabakh Negotiations In Paris

□ Azeri President Geidar ALIYEV and Armenian President Robert KOCHARYAN are continuing meetings today in Paris to resolve the Nagorno-Karabakh conflict. The Armenian government demands that Azerbaijan recognize Nagorno-Karabakh's independence but Azerbaijan insists on its sovereignty over the territory. The two countries fought a bloody war from 1988 to 1994 over the issue. The US, Russia, and France are co-chairmen of the Minsk group, seeking to solve the dispute. French President Jacques CHIRAC, who is mediating the talks, invited the leaders to Paris. He will hold separate talks with both Presidents. The Azeri president said he expected the Armenian side to offer a package of proposals in Paris. He said, "If

we succeed in getting back the occupied lands and to ensure a refugee return to their homes, restoring those territories will take from 10 to 15 years at least. That will take a lifetime. Therefore, a man who runs Azerbaijan will need the will and a heart aching for his people." ALIYEV said he was thinking about the interests of the country and its people and was fully conscious of his responsibility as the head the state. During the first round of talks on January 26th, KOCHARYAN and ALIYEV expressed a desire to look for a peaceful settlement of the situation. KOCHARYAN expressed hope that this round of talks will bring a real chance for the settlement of the Nagorno-Karabakh dispute. However, he cautioned that its would be premature to expect any real progress on the conflict.

Kyrgyz-Kazakhstan Discuss Security

□ Kazakh Defense Minister Sat TOKPAKBAYEV and his visiting Kyrgyz counterpart Esen TOPOYEV discussed Thursday the security situation in Central Asia and signed an agreement to strengthen bilateral military cooperation. Under the document, TOKPAKBAYEV said, the two countries will further intensify military technical cooperation, exchange military intelligence on a regular basis, and hold a joint military maneuver this year. He said that Kazakhstan is on standby to provide military assistance to Kyrgyzstan in times of emergency, and help train Kyrgyz soldiers. TOPOYEV said the situation in Kyrgyzstan is quite complicated as the terrorists invading Central Asia last year might pose a fresh threat to the border between the two countries.

Kyrgyz Economic Statistics

□ Kyrgyzstan's foreign trade deficit narrowed to \$50.1 million last year from a trade gap of \$145.9 million posted in 1999, the State Statistics Committee said today. Exports totaled \$504.5 million, while imports totaled \$554.6 million. Kyrgyzstan's monthly consumer price inflation slowed to 0.9 percent in January this year from 1.0 percent in December and 1.9 percent in January, 2000.

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.