

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

Friday, March 9, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Europe Considers Putin's Missile Defense Plan

□ European leaders are considering Russian President Vladimir PUTIN's plan to widen the missile defense plan to include Europe and Russia. One European ministers said, "We should elevate our sights beyond the enlargement of NATO. Within ten years, North America, Europe and Russia will be part of the same mutual security pact to face the threats from the south." PUTIN said his plan, presented to NATO Chief George ROBERTSON two weeks ago, would protect nations against the threat of rogue states." United Press International (UPI) pointed out that PUTIN's list of rogue nations includes Iran, Libya and North Korea, which buy Russian weapon systems. PUTIN said the rationale for this is the desperate need of the Russian defense industry for cash. PUTIN is convinced that Osama BEN LADEN's Muslim extremist followers are stirring things up in Russia's -istans: Tajikistan, Turkmenistan, Kazakhstan, Uzbekistan and Kyrgyzstan, UPI reported. They border on Iran and Afghanistan, both on the US list of rogue nations. PUTIN now concedes that Russia and Europe face a more imminent short-range missile threat from some of the rogues than does the US. Donald RUMSFELD, US Defense Secretary, has said that Russia only has itself to blame for NMD because as an "active proliferator" it had spread nuclear and missile know-how. US Secretary of State Colin POWELL noted that the Russian plan for defense security proposed to NATO last week did not meet the security needs of the US.

ROBERTSON in Washington this week explained that PUTIN's policy is on the same track as NATO. He said, "The Russian initiative, for whatever its

motives, has now recognized that there is a threat, and secondly □and this is new □that there is a potential military solution to that threat." ROBERTSON praised the BUSH administration for continuing consultations begun under former President Bill CLINTON on the nature of US plans for National Missile Defense (NMD), its sensitivity to NATO objections and its assurance the US isn't weakening its commitment to collective defense. He added that the new administration has stressed how it will be done and that it must include an alliance. ROBERTSON told US representatives, "So I am very confident that instead of seeing a major transatlantic row over whether America should deploy a national missile defense system, we are actually going to see some very serious consultations on how a broader missile defense system and strategy will come into effect."

Piracy May Stall Russia's WTO Membership

□ Intellectual Property rights issues have come to the forefront of World Trade Organization (WTO) membership negotiations with Russia. Ivan BLIZNETS, the deputy chief of Rospatent, the federal agency charged with enforcing copyright laws, said, "Three or four years ago, no one in the government knew what intellectual property rights were. Now, there is no question." Russian authorities have stepped up the campaign to crackdown on piracy of CDs and computer software. He said that Russia's bid to join the WTO is the reason for the crackdown. BLIZNETS said that in a typical western econ-

omy five to seven percent of the gross domestic product is comprised of returns on intellectual property. "It is important to flush this out of the shadows and into the government's budget." A package of six laws is before the Russian State Duma which would bring legislation in line with international conventions on intellectual property as early as autumn. Recording and software companies are holding back their products to the markets of the former Soviet Union until their rights are protected. The International Federation for the Phonographic Industry said that the recording industry loses more than \$4 billion every year from piracy, the Financial Times reported. Russia's shortcoming is in enforcement with only 29 percent of all criminal cases of piracy in 1999 resulting in convictions.

Rus-Ukrainian Hackers Target US Internet Sites

□ The FBI warned on Thursday that organized hacker groups, especially from Russia and Ukraine, have targeted vulnerable US computer systems, stealing credit card information, customer databases, and other proprietary information and then attempting to extort money by offering security services to the victim company. More than 40 victim companies in 20 states have been identified and notified in ongoing investigations, the FBI-based National Infrastructure Protection Center said. Investigators from 14 FBI and seven Secret Service field offices have joined in the probe. The hackers specifically targeted computer systems associated with e-commerce or e-banking, Reuters reported. According to investigations, the hackers break into a system and then threaten the company to buy their Internet security service or risk having their credit card information posted on the web or sold to organized crime groups. FBI officials point out that software to protect against the hackers long has been available and can be downloaded for free off of some Internet sites.

Economy

Kostin Seeks Alternative Payments, Write-Offs

□ Andrei KOSTIN, chairman of *Vneshekonombank* told Reuters television, that Russia wants a scheme in place that will allow it to pay its external debt and pursue reforms. *Vneshekonombank* acts as the Russian government's agent, managing

payments on the country's external debt. He said that Russia will pay its Paris Club debts when it can, but wants the group of creditor nations to agree a framework that will write down some debt if necessary. Russia faces a sharp increase in debt payments to the Paris Club in 2003, to \$18 billion from \$3.8 billion this year. The largest spike in payments, \$1.2 billion which fell due in February, has already been paid. KOSTIN said that in 2003, "there is a real possibility that Russia will face difficulties in paying in full its obligations to creditors." He noted that Russia's economic performance remains vulnerable to a fall in oil prices and the macro-economic situation both in Russia and in the world. Russia had asked for a partial write-off of \$40 billion of Soviet-era debt to match that agreed with the London Club of commercial creditors last year. One-third of the \$32 billion of London Club debt was written off and the remainder rescheduled over 30 years. Russia would also like to persuade creditors to accept other forms of payment. "A debt for equity swap, or a debt for investment swap is something the Russian government is trying to promote. I think we should give an alternative for creditors," said KOSTIN.

MarAprMayJunJulAugSepOctNovDecJanFeb

Business

Norilsk Approves ADR Issue

□ Russian metals giant *Norilsk Nickel* said the board of its core unit, *Mining and Metals Company (MMC) Norilsk Nickel*, had approved a program for issuing American Depositary Receipts (ADRs). The board has appointed the *Bank of New York* to act as the depository. The ADR issue would help the liquidity of the company's shares during a planned restructuring under which currently traded *Norilsk Nickel* shares are to be swapped for an equal number of shares in *MMC Norilsk Nickel*, Reuters reported. According to a company statement, "It is also aimed at optimizing the future swap of the company's shares for those in *Norilsk Nickel*, at promoting of the company's brand name on foreign stock markets and at increasing the attractiveness of the company to investors." *Norilsk* plans to complete its share swap at the end of June and the Russian Federal Securities Commission (FSC) is expected to register the results of the swap at the beginning of July. The Level One ADR program will be launched after it is coordinated with US regula-

EUROPEAN REPUBLICS

Police Clash With Massive Demonstration

□ Three hours ahead of schedule, Ukrainian President Leonid KUCHMA laid a wreath today at the statue of Ukraine's most famed poet and the nation's greatest symbol of resistance against oppression, Taras SHEVCHENKO, to celebrate the poet's 187th birthday. Prior to this, eyewitnesses report that at least 2,000 police and some 400 anti-riot police and soldiers sealed off the park. Plainclothes officers surrounded the area, with water cannon trucks parked nearby. Police, dressed in body armor and helmets, carrying shields, beat back 200 protestors with batons, after protestors charged in two well-organized columns against riot police and soldiers, Reuters reported. Several protestors were injured and approximately 20 were arrested. Following the wreath laying ceremony protestors swept the flowers from the statues in what was called the cleansing of SHEVCHENKO from KUCHMA's tainted and corrupted actions. Later it is estimated that 5,000 to 10,000 demonstrators marched through the streets of Kiev to the presidential administration building. The Associated Press reported that the demonstrators swelled to 18,000 by evening. This is the largest march since the opposition began its call for KUCHMA to resign over alleged links to

the murder of journalist Georgy GONGADZE and other corrupt acts. The campaign has been one of KUCHMA's biggest challenges since he came to power in 1994 and was re-elected in 1999. In the early afternoon, some 100 demonstrators fought a pitched battle with riot police. Reuters correspondents witnessed police firing teargas into the crowd, mainly young men who repeatedly charged the lines of riot officers using crowd control barriers as battering rams. Scores of demonstrators suffered head and back injuries as police lashed out with batons, defending themselves against attack from bottles, stones, heavy wooden sticks, and Molotov cocktails. Police have also arrested members of Ukraine's nationalist UNSO (Ukraine's National Self-Defense), after a special riot squad unit surrounded their Kiev headquarters. On Thursday, nearly 1,000 demonstrators went to the jail where former deputy prime minister in charge of energy and opposition leader Julia TYMONSHENKO is being held to demand her release on International Women's Day. The opposition sees her arrest as a move by KUCHMA to suppress their movement.

Paris Postpones Ukraine Debt Rescheduling

□ The Paris Club Creditors postponed any decision on rescheduling \$1.01 billion of Ukraine's debt after meetings with a delegation led by Finance Minister Igor MITIUKOV. Both sides agreed to "meet again in Paris so as to proceed with the negotiations and conclude an agreement, as soon as Paris Club creditors are ready," according to a Paris Club statement. Ukraine had hoped to reach an agreement with the Paris Club on rescheduling of the debt, including \$280 million owed to Turkmenistan for gas supplied in the late 1990s. Kiev expects that rescheduling of the debt would help it to boost growth of gross domestic product, which is expected to increase annual 4 percent this year, after 6 percent increase in 2000 from 1999, Bloomberg News reported. Ukraine's Central Bank estimates the country will have to pay back about \$700 million to Paris Club creditors this year if its debts aren't rescheduled. Ukrainian Prime Minister Viktor YUSHCHENKO earlier this week expressed satisfaction with Ukraine's talks with the Paris Club, *ICTV* Ukrainian television reported. He said that future results "look optimistic."

The postponement reflects growing concern over the political stability of President Leonid KUCHMA

and his government's ability to push through economic reforms. Pressure is mounting on KUCHMA to resign amid allegations of corruption and a scandal surrounding the murder of a journalist. Ukraine ceased re-paying its foreign-owed debt early last year. The International Monetary Fund (IMF) has delayed the latest quarterly installment of a \$190 million loan because it judged the pace of economic reforms to be too slow.

Latvia To Disband Privatization Agency

□ The Latvian government is considering disbanding the State Privatization Agency in late May as the sale of state property is almost complete. Chairwoman of the parliamentary state asset-sale commission Aija POCA said, "The liquidation of the Latvian Privatization Agency could begin late May at the earliest when all required legal acts are adopted."

SOUTH CAUCASUS & CENTRAL ASIA

Georgia-NATO PFP Program In June

□ A group of Georgian army officers will submit proposals and a plan to the NATO sea headquarters in Naples on staging a large-scale exercise in Western Georgia next June within the NATO program Partnership for Peace. Proposals by the Georgian side deal with war games, location of a field camp, landing operations and shooting practice. The Georgian Defense Ministry said troops from five NATO countries (the US, France, Turkey, Germany and Italy) will participate in the coming war games "Cooperative Partner 2001," as well as some partner states (Bulgaria, Romania, Ukraine, Georgia, Sweden and Azerbaijan). The war games will involve 40 warships, 12 fighters, two submarines, two transport planes, 4,000 troops, including 1,500 on land. Georgia will be represented by 300 servicemen, including 100 marines. Servicemen of the Georgian Interior Ministry and the border department will also participate.

NATO Expands Interest In Caucasus

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.

□ Chairman of the NATO military committee, who arrived in Armenia on Thursday, said that the alliance was interested in promoting cooperation with the South Caucasian nations in providing peace and stability. The NATO senior official is expected to hold talks with Armenia's military leaders. He noted that NATO sought to develop cooperation with all countries members of the Partnership for Peace program. Armenia's Defense Minister Serzh SARKISYAN said that the program of partnership with NATO was an integral part of Armenia's national security system. His meeting with the visiting NATO military official dwelt on prospects of Armenia's cooperation with NATO and the situation in the region, Itar-Tass reported.

Exxon Mobil To Bid For Kashagan Stakes

□ *Exxon Mobil* said Thursday it may try to bid for *BP Amoco's* 9.5 percent stake and *Statoil's* 4.76 percent stake in Kazakhstan's Kashagan oil field. Both companies in February announced their intentions to sell their stakes in *Offshore Kazakhstan International Operating Co. (OKIOC)* consortium to France's *TotalFinaElf*. Other partners in the *OKIOC* group, which is exploring in the Caspian Sea offshore Kazakhstan, have preemptive rights, which mean they could mount a rival bid for the *BP* and *Statoil* stakes. "If the terms and conditions were attractive, then *Exxon Mobil* would give serious consideration to acquiring *BP* and *Statoil's* interest in *OKIOC*," a spokeswoman said. *Phillips International* on Tuesday said it was considering a bid for the Kashagan stakes as well. The Kashagan field in the Caspian Sea offshore Kazakhstan could be the largest discovered in the world in the last 30 years. *OKIOC* has not released an official estimate, but oil industry observers expect commercially viable reserves of at least 10 billion barrels. *Exxon Mobil*, keen to develop its presence in the oil-rich Caspian Sea region last month lost out to Italy's *ENI* in the battle to operate *OKIOC*. *Exxon* currently holds a 14.3 percent stake in *OKIOC*, while rival *Phillips* owns 7.14 percent.

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.