

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russian Troops Kill Prominent Chechen Rebel

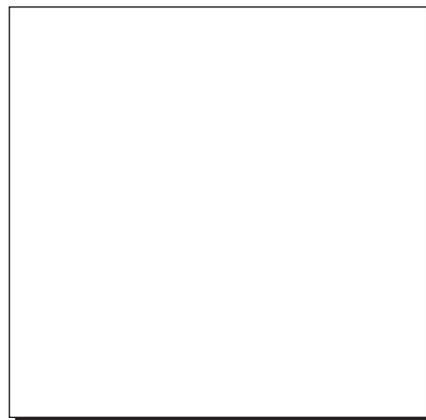
• An eight-day operation in Alkhan-Kala, Chechnya aimed at searching for Chechen rebels, culminated with Russian troops killing 17 rebels, including Arbi BARAYEV, one of the most influential rebel commanders, the Associated Press reported. BARAYEV had been accused of kidnapping and executing three British engineers and a New Zealander who had been working on Chechnya's phone network in 1998. He is also accused of abducting Kremlin envoy Valentin VLASOV and conducting several raids on Russian checkpoints and pro-Moscow Chechen police. Russian troops blocked people from entering or leaving Alkhan-Kala, seven miles west of the capital Grozny, and surrounding areas for a week as they searched for rebels. The acting commander of Russian forces in Chechnya, Vladimir MOLTENSKOI, said on *ORT* television that troops surrounded the house where BARAYEV was staying and opened fire. MOLTENSKOI said BARAYEV apparently died from wounds and soldiers found his body. His body was identified by relatives and was to be buried on Monday. Kremlin aide Sergei YASTRZHEMBSKY told Itar-Tass, "This is a major success." Chechen rebels had acknowledged the death of BARAYEV on their Kavkaz.org website, saying that, "the commander of the Special Islamic regiment Arbi BARAYEV has become a shahid [martyr]." This second military campaign in Chechnya began in September, 1999. Nearly 100 refugees have gone on hunger strike in camps in neighboring Ingushetia, demanding Moscow make peace with the rebels and pave the way for their return, Reuters reported. Russia says it must first eliminate the rebels.

Russian Rumors Of Reshuffle

• Russian Prime Minister Mikhail KASYANOV predicted that President Vladimir PUTIN may make further changes to his cabinet soon to continue a minor reshuffle begun earlier this month. On June 16th, PUTIN named new energy and natural resources ministers and earlier this spring new defense and interior ministers, Reuters reported. Russian news agencies quoted KASYANOV, on a trip to the Chuvashia ethnic province, as saying more changes could not be ruled out, "as a method of improving the running of the economy." "The issue of changes in the structure of the government has not disappeared. This is a subject that continues to be discussed with President Vladimir PUTIN," he stated. KASYANOV has long denied rumors that he himself might get the sack in a Cabinet shake-up and has said repeatedly that any changes would not amount to a major overhaul. "Those small changes which the president has already carried out on my recommendation are a part of the fine-tuning of the government," he said. The rumors are that Economy Minister German GREF could be named prime minister, to replace KASYANOV. However, the position of Deputy Prime Minister and Finance Minister Alexei KUDRIN has so far seemed firm.

Fire Engulfs Siberian Military Base

• A fire, presumably started by lightning, ignited containers of ammunition and rockets at a Siberian military base on Friday. It took about 1,000 Russian soldiers to help put out the fire on Saturday. Nearly 2,000



residents of two nearby villagers were evacuated in the Chita region. Five servicemen who had been standing guard at the base before the fire started Friday were initially reported missing, but were later found unharmed. *NTV* television reported that local prosecutors had opened an investigation into safety violations on the base. The television station broadcast video showing a crater with an exploded rocket sticking out of it and damage to a roof 5 miles from site of the fire. Valery SHCHEBLANIN, a spokesman for the local military district, said the fire was extinguished on Saturday. He noted that 1,000 soldiers and clean up workers, supported by 100 armored vehicles, could not yet move into the area for fear of more explosions.

Economy

<p>Ruble = 29.10/\$1.00 (NY rate) Ruble = 29.11/\$1.00 (CB rate) Ruble = 25.05/1 euro (CB rate)</p>
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Gref Predict Higher Growth For 2001

- Economic Development and Trade Minister German GREF, in an interview on *RTR* state television, said that the Russian economy could experience higher than expected growth this year of more than five percent, while inflation might pass targets of 14 percent to 16 percent. He said the improve growth would depend on the passage of vital legislation to improve stabilization. He said, "Pessimists said the figure would be below two to three percent. Optimists said perhaps 4.5 to five percent. Now we are making even bolder forecasts that growth will be more than five percent." GREF put the gross domestic product (GDP) growth in the first five months at 5.4 percent. Russia's economy expanded a record 8.3 percent last year and the government had foreseen about four percent for 2001. PUTIN's economic adviser Andrei ILLARIONOV has said growth may be only two to three percent and that the government would struggle to stay within the 14-16 percent inflation forecast. GREF told *RTR* that inflation was higher than planned, "for a whole series of reasons," but said the government was pleased that price rises were slowing for producers. "Consumer inflation is not catastrophic so far. It is within acceptable levels of fluctuation, but on the high side. The cumulative level of inflation after five months is 11 percent...So far, we are forecasting 14 percent to 16 percent. It is possible the figure

will be higher, but not very much higher."

Business

Rich-Crown Deal Failed Because Of Price

- Mikhail FRIDMAN, chairman of *Alfa Group* which owns *Crown Resources*, said that the merger talks between *Crown* and Marc RICH's company *Marc Rich Investment (MRI)* failed because RICH valued his firm at twice what it was worth. FRIDMAN said that RICH wanted up to \$150 million for *MRI*. *Crown* and its advisors, however, valued the company at only \$70 million. FRIDMAN said, "It was a really big difference," in the valuation of *MRI*. But he pointed out the discrepancy was, "quite natural, because a trading business is based on high risk," the *Financial Times* reported. Merger talks were called off on June 8th. The merger would have created a "commodity trading powerhouse," with a combined turnover of about \$12.5 billion, some \$7.5 billion from *MRI* and some \$5 billion from *Crown*. *Crown* hoped to add strength in trading metals and energy through merging with *MRI*.

PwC Investigative Report Not Yet Ready

- A *PriceWaterhouseCoopers (PwC)* investigation into Russian gas giant *Gazprom's* links to *Itera Holding*, expected on Friday, is not yet finished, a *PwC* spokesman said. "We have been commissioned to do this report by the external board of directors, but it is still ongoing and is not concluded." He could not say when the report would be available. *PwC* was asked to look at links between *Gazprom* and *Itera*, a once obscure company which has grown into a multi-billion dollar concern reselling *Gazprom's* gas in other former Soviet states, after allegations by minority investors of asset transfers and transactions at below market prices. Minority shareholders opposed awarding the investigation to *PwC* because its previous audits of *Gazprom* noted nothing unusual in links between *Gazprom* and *Itera*. *Itera*, a Florida-registered minor gas producer, sends some 80 billion cubic meters of gas a year via *Gazprom* pipes. Boris FYODOROV, who represents minority shareholders' rights on the *Gazprom* board, said last Tuesday that *PwC* said they would send the report to the company on June 22nd. FYODOROV is a former deputy prime minister and finance minister and a minority shareholder in *Gazprom*. He has ordered his own audit of the company by another firm of accountants.

EUROPEAN REPUBLICS

Belarus KGB Arrests US Citizen For Drugs

- The Belarus KGB security service on Friday arrested Charles Daniel PERRIELLO, a US citizen, on suspicion of using and possessing illegal drugs. According to the KGB, they caught PERRIELLO red-handed in his apartment while he was smoking a marijuana joint. More drugs were found during a search of his apartment. The accused is part of a US government-funded humanitarian group, American Council for Collaboration in Education and Language Study. This group is in charge of four projects aimed at students and schoolchildren to promote freedom. PERRIELLO's organization said it was still trying to clarify the details of the case. Government officials rejected suggestions the arrest was politically motivated. An Interior Ministry spokesman said, "This is not a political, but a criminal matter. We have informed the US embassy that a US citizen has been arrested." If convicted, PERRIELLO faces up to seven years in prison. The arrest comes at a time when President Alexander LUKASHENKO is being critical of international groups in Belarus. He has accused them of plotting against his government and supporting political opposition in Belarus' upcoming fall presidential elections, the Associated Press reported.

Lithuanian Opposition Proposes Brazauskas

- Lithuanian parties trying to form a government following last week's ruling coalition collapse formally proposed today that the president nominate Social Democrat leader Algirdas BRAZAUSKAS as prime minister. Parliament speaker and New Union head Arturas PAULAUSKAS told Reuters, "The negotiating group of the New Union and the Social Democrats proposed their candidate Algirdas BRAZAUSKAS to the post of prime minister." The government would not be based on a formal coalition in the 141-member parliament—where the parties have a combined 77 seats—but an alliance based on "mutual trust and respect." PAULAUSKAS thought the President Valdas ADAMKUS might make an official nomination later this week and that a government could be formed by mid-July. The President's office said it would hold consulta-

tions this week and did not indicate a preference for prime minister. It did criticize BRAZAUSKAS, accusing him of trying to hold up the *Yukos-Williams* oil deal, which could be considered an anti-state move. BRAZAUSKAS is a popular former president and former Communist Party chief, who has remade himself politically as the head of the Social Democrats. Prime Minister Rolandas PAKSAS resigned last Wednesday after the New Union withdrew its six ministers from the coalition. ADAMKUS appointed Economy Minister Eugenijus GENTVILAS as acting premier the same day.

Ukraine To Attract Foreign Investment

- Ukrainian Deputy Economy Minister Igor SHUMYLO said that foreign direct investment in Ukraine will grow to \$1.05 billion in 2002 from an expected \$800 million this year. In 2000, foreign investment in Ukraine reached \$584 million. Investors have avoided Ukraine in the past due to widespread corruption, red tape, and unclear legislation. The government believes that its small economic recovery and reform efforts will attract investors. SHUMYLO said, "We hope the current macroeconomic stability and economic growth recorded in 2000 and 2001 will help attract more investors to Ukraine, starting from the second half of this year." Reuters reported that Ukraine's 2000 gross domestic product (GDP) growth reached 5.8 percent after a 0.4 percent decline in 1999. Foreign direct investment totaled \$168.3 million in the first quarter of the year, down 5.6 percent from the same period of 2000. SHUMYLO explained the slow down was due to the spring political crisis. Foreign direct investments in Ukraine have totaled \$3.924 billion since 1991.

SOUTH CAUCASUS & CENTRAL ASIA

No Agreement Reached On Georgian PM

- A discussion held on Saturday between Georgian President Eduard SHEVARDNADZE, Socialist Party Chairman and vice speaker of the parliament Vakhtang RCHEULISHVILI, leader of the Socialist faction Irakli MINDELI, and representative of the faction Yuri CHIKHRADZE failed to reach an agreement on the introduction of the Cabinet of Ministers, Prime Minister position, and local government elections. MINDELI stressed that the law on local government must take into account the election of mayors and chairmen of regional administrations.

He stressed that the Socialists will not support the introduction of a Cabinet of Ministers as presented in parliament. The opposition demands approval by parliament of democratic Election Code and law on local government bodies, before discussing the draft on Constitutional amendments for the Cabinet of Ministers and Prime Minister post. Prime News Agency reported that the United Opposition has been boycotting the sessions of parliament since Tuesday. SHEVARDNADZE also met with the leaders of parliamentary factions Revival and Unified Georgia to discuss the Election Code and law on elections. There were no results from the meeting. Leader of the parliamentary minority Jemal GOGITIDZE said representatives of those factions do not support the Cabinet of Ministers as proposed by the President to parliament.

Russia Not To Withdraw From Gudauta

- A Russian Defense Ministry representative told Prime News Agency that Russia will not withdraw from the Gudauta military base inside Georgia by the deadline of July 1st. He blamed the delay on Georgia. This is because it cannot provide security for the withdrawal of Russian troops and equipment, since the base is in uncontrolled Abkhazia. The representative noted that the base's 22 military technical equipment could be, "captured by the uncontrolled Abkhazian elements and used in the military conflict against Georgia." The withdrawal of Russian troops from Vaziani and Gudauta, according to the 1999 Organization for Security and Cooperation in Europe (OSCE) agreement, is planned to be completed by July 1st. Negotiations for the withdrawal from Batumi and Akhalkalaki were held in the seventh round of talks in Moscow. Georgian President Eduard SHEVARDNADZE said that no foreign country will occupy bases inside Georgia. According to the Georgian Foreign Ministry press department Kakha SIKHARULIDZE, Georgia does not need foreign military bases on its territory, including Russia. He noted Georgia is not a member of any military union or alliance and does not need to have bases of other countries on

its territory. Prime News Agency reported that the Defense Ministry is considering moving the 11th motor shooting brigade of fast reaction forces to Vaziani base, after the Russian withdrawal.

Kazakhstan Studies Iran Route

- Christophe DE MARGERIE, head of *Total/FinaElf's* upstream operations, said the consortium working on Kazakhstan's Kashagan oil field will sign a memo of understanding for a feasibility study on a pipeline across the Caspian to the Iranian border. DE MARGERIE said, "In our opinion most partners are in favor of having another route for exports and the one that is most favorable economically." The US has discouraged this route through Iran. The BUSH administration is considering the renewal of the Iran-Libya Sanctions Act (ILSA). American companies are barred by executive order from Iranian oil and gas investments but it is not clear how Washington might react to US firms' participation in a pipeline to Iran's border. *ExxonMobil* and *Phillips* are part of the Kashagan consortium that is operated by Italy's *Eni*. *Shell*, *BG*, Japan's *Inpex* and *Total* also have stakes. "There is nothing under ILSA to stop a pipeline from Kazakhstan to sell oil to Iran," said DE MARGERIE. "But it is not clear how the executive order would affect US companies." Iran could use Kashagan oil domestically and sell the equivalent amount of its own crude from the Gulf on behalf of the consortium. Or a further pipeline could be built to pipe Kazakh crude across Iran to Tehran's Gulf export terminals, Reuters reported. The US is backing the Baku-Tbilisi-Ceyhan pipeline. The Kazakh Kashagan consortium expects results from its first appraisal drilling within a month. "It is very, very big. A huge field and there is no doubt it is commercial." The group now would focus on what type of development might best meet the Kazakh government's wishes for first oil by the end of 2005. "We are working on how many wells we need for development, where they will be located, what is the cost of the project. We need to establish a development plan for approval by the authorities."

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