

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia Delays Money Laundering Bill

• Russian Finance Minister Alexei KUDRIN, following a meeting with deputies, announced that the Russian State Duma's crucial second reading of the money-laundering bill had been pushed back to July 4th. The bill gives authorities powers to scrutinize expenditure of large sums and oversee financial transactions over a certain threshold. Officials would be able to exchange information on suspected money laundering with law-and-order agencies abroad. KUDRIN expressed hope that a working group would try to settle differences by then. Centrist and liberal members prompted the delay with complaints that the bill lacked details on how officials would monitor spending of large sums by individuals and businesses. "Too many dangers are lurking in the law," Nikolai KOVALYOV, a member of the Fatherland-All Russia (OVR) faction and former head of the Federal Security Service (FSB), told NTV television. He said, "If we adopt it in this form, we will do more harm than good." Pavel MEDVEDEV, another OVR member, described the bill as "slipshod" and complained it was vague in its legal terminology. "The phrase 'suspicious deals' is not a legal term," MEDVEDEV said. "In its current form, this is not a law on fighting money laundering but on monitoring financial deals." The postponement increased the risk of Russia missing the September 30th deadline set by an international crime-fighting body for it to improve its performance or face sanctions. This ultimatum issued by the Financial Action Task Force (FATF) targeted Russia, the Philippine, and the tiny Pacific island of Nauru. The latter two have promised to take urgent action ahead of the deadline. The Duma goes into summer recess in mid-July. The delay comes ahead of the Group of Seven industrialized nation's summit, which Rus-

sian President Vladimir PUTIN will attend.

Russia Test-Fires Aging Ballistic Missile

• Russia's Strategic Rocket Forces today test-fired a RS-18 intercontinental ballistic missile, known as SS-19 in the West early this morning from the Baikonur Kosmodrome in Kazakhstan. The Russian military said the rocket hit the designated target on the Kamchatka Peninsula in Russia's Far East, after traveling 4,340 miles. According to Interfax, Russia currently has 140 RS-18 missiles, which are 27 to 16 years old. The missiles are scheduled to be cut to 105. The test came a week after Russian President Vladimir PUTIN threatened to stack multiple nuclear warheads on Russian missiles as a countermeasure to a proposed US National Missile Defense shield. The shield is a violation of the 1972 Anti-Ballistic Missile Treaty (ABM). A Russian Strategic Rocket Forces official told Reuters the Stiletto rocket could be re-equipped to carry up to six warheads. Only the even older SS-18 Satan missile, which could carry 10-12 warheads, is bigger. The Satans are now set to be scrapped altogether under the START-II arms control treaty signed by former President George BUSH in 1993. Russia's most modern strategic missile, the Topol-M, is more mobile than the older generations of rockets, but only carries one ton of payload, where as the SS-19 can carry a pay load of more than 4 tons. President BUSH has said the ABM treaty is a Cold War-era relic and should be scrapped to allow the US to develop a high-tech shield against missiles that may be fired by states such as

Iraq or North Korea.

Economy

Russian To Make IMF Payment

- The Russian Finance Ministry has set aside around \$25 million (19.469 million SDR) to make a scheduled payment to the International Monetary Fund (IMF) this week. Russia must repay around \$2.0 billion to the Fund this year and the next payment is due today. Russia's relations with the Fund cooled after the 1998 financial crisis, but IMF officials have recently praised the economic and reform policies of President Vladimir PUTIN. Russia currently has no program with the Fund, but has borrowed billions since the fall of the Soviet Union.

<p>Ruble = 29.09/\$1.00 (NY rate) Ruble = 29.13/\$1.00 (CB rate) Ruble = 25.11/1 euro (CB rate)</p>
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Russian Foreign Debt For 2005

- Deputy Finance Minister Sergei KOLOTUKHIN said in an interview published Tuesday that Russia plans to cut its foreign debt burden to 40 percent of gross domestic product (GDP) by 2005 from 60 percent of GDP in 2000. KOLOTUKHIN told the official *Rossiiskaya Gazeta* newspaper that Russia's foreign debt fell to \$144.4 billion by January 1, 2001, equal to 60 percent of GDP. This came after debt being equal to 100 percent of GDP in 1999. "Our target is to reduce our foreign debts to 40 percent of GDP by 2005," he said. He added that Russia's foreign debt payments would jump to \$18.8 billion to \$20 billion in 2003, depending on the euro/dollar exchange rate, from \$14.4 billion due this year. Russia paid about \$10 billion in foreign debts in 2000.

Business

GM-AvtoVAZ Sign JV Deal

- General Motors (GM)*, top Russian carmaker *AvtoVAZ*, and the European Bank for Reconstruction and Development (EBRD) today signed a \$332 million joint venture for investment in Russia's auto industry. *GM* Chief executive officer Rick WAGONER said the deal is the single largest foreign direct investment in the Russian automobile industry. *GM AvtoVAZ* and *GM* will each hold a 41.5 percent stake in the joint venture and the EBRD will own

a 17 percent stake. *GM* decided to proceed with the deal after it secured terms that will allow it and the EBRD to buy out *AvtoVAZ's* interest in the joint venture, should there be a change in ownership. This type of assurance could become standard for other carmaker deals. *GM* is investing some \$100 million in the venture, which is targeting maximum output of 75,000 automobiles, while the EBRD makes a \$40 million equity investment and extends a \$100 million loan. *AvtoVAZ* will provide intellectual property and facilities. "This investment is part of our long-term business strategy for the Russian market," said David HERMAN, *GM* vice president for Russia and the Commonwealth of Independent States. He added, "This is the most pioneering effort of any we've done in emerging markets and creates with it the greatest potential rewards," the *Financial Times* reported. The venture is set to begin producing an upgraded version of *AvtoVAZ's* Niva off-road (SUV) vehicle in September, 2002. The vehicles will be sold for \$8,000 each. About 1,200 workers will build the SUVs. The joint venture is expected to create 230 new jobs, the Associated Press reported. Russian automaker *AvtoVAZ* is in the midst of a turnaround. After losing \$2.2 billion last year, the company expects to turn a net profit for 2001 of about \$310 million.

SUAL Holding Buys Nadvoitsky Stake

- SUAL Holding*, Russia's second largest aluminum producer, announced it bought 37 percent of shares in the *Nadvoitsky Aluminum Plant*. *Nadvoitsky*, located on the Russian-Finnish border, produced 69,000 tons of primary aluminum in 2000. *SUAL* plans to increase production to 72,000 tons this year. "Technical reconstruction will have increased production capacity by seven percent by the end of this year," a company spokesman added. *SUAL* did not disclose the price of the share package. The balance of *Nadvoitsky* shares are held by the plant's management, portfolio investors and private individuals, Reuters reported. *SUAL* produced 594,000 tons of aluminum in 2000 and has said it will increase 2001 output to 620,000. It produced 146,000 tons of aluminum in the first quarter of 2001. Russia's largest producer, *Rusky Alyuminy*, produced 2.44 million tons of aluminum in 2000.

EUROPEAN REPUBLICS

Kuchma Appoints Deputy Prime Minister

- Ukrainian President Leonid KUCHMA on Monday appointed Economy Minister Vasily ROGOVOY as Deputy Prime Minister responsible for economic policy. It is unclear whether ROGOVOY will hold both posts concurrently. He told reporters after the appointment that he would give up his minister's post, but the presidential administration chief Vladimir LITVIN did not rule out the possibility that he would hold both offices simultaneously. ROGOVOY said he would focus on resolving social problems, speeding up economic reforms and resuming cooperation with the International Monetary Fund (IMF), the Interfax-Ukraine news agency reported. The new government headed by Prime Minister Anatoly KINAKH completed its formation with ROGOVOY's appointment as Deputy Prime Minister. Among 20 Cabinet members named, 13 had served in the previous Cabinet led by Victor YUSHCHENKO, who was ousted by parliament in a no-confidence vote in April. KUCHMA also retained Finance Minister Igor MITYUKOV. Since KUCHMA introduced the new posts of Cabinet state secretary and state secretaries for ministries, analysts say Cabinet members may lose more power in dealing with state affairs and the President would exercise greater control over the government, Xinhua reported.

Rus-Ukraine Discuss Energy Systems

- Russian Deputy Prime Minister Viktor KHRISTENKO and First Deputy Prime Minister of Ukraine Oleg DUBINA are meeting today in Moscow to discuss parallel functioning of the two energy systems. DUBINA said Ukraine would insist that the two energy systems united on terms outlined in a resolution of the Ukrainian government, Itar-Tass reported. The resolution stipulates, "the nil over current variant —the exchange of plus-minus 50 million kilowatt/hours of electricity." The project has been repeatedly delayed despite the fact that the Ukrainian Fuel and Energy Ministry and Russia's *Unified Energy Systems (UES)* grid signed the cooperation memorandum on February 12, 2001, during the Dnepropetrovsk meeting of Presidents Leonid KUCHMA and Vladimir PUTIN. The document stated the need for parallel functioning of the Russian and Ukrainian energy systems and declared the intention of the sides to have a com-

mercial over current of electricity, invest in the power industry and cooperate in the electricity exports, including the transit of Russian electricity across Ukraine.

Kuchma-Gate Bodyguard Defends Accusations

- Mykola MELNYCHENKO, the Ukrainian presidential bodyguard who accused President Leonid KUCHMA of involvement in Internet journalist Georgy GONGADZE's death, was seen for the first time in public, after being granted asylum in the US. Still fearing persecution, he arrived wearing a wig and dark glasses. He said that KUCHMA and the Ukrainian mafia, were seeking to discredit the hundreds of hours of recordings he says he made over a prolonged period in the president's office. The tapes include threatening comments by a voice like KUCHMA's. MELNYCHENKO's lawyer said that the tapes have some more disturbing information to disclose. These concerned, "allegations of corruption and election-rigging at the highest levels," and other allegations on which he declined to elaborate. His country Ukraine is ranked the world's third most corrupt by anti-graft group Transparency International, Reuters reported. "To this end, they are desperately trying to discredit my work, cast doubt on the recordings of conversations of President KUCHMA that I made and disseminate untrue information about me," MELNYCHENKO added, concluding by saying only he and Socialist leader Alexander MOROZ were bona fide sources on his behalf. MELNYCHENKO, with his wife and daughter, has lived out of a suitcase since last year when he left his homeland, gained refugee status in another European country then crossed the Atlantic. He has been in the US since mid-April.

SOUTH CAUCASUS & CENTRAL ASIA

Saakashvili Speaks On Russian Federation Bill

- Georgian Justice Minister Misha SAAKASHVILI said that Moscow will not take the risk of accepting Abkhazia and South Ossetia into the Russian Federation. He said this in response to the Russian State Duma's third reading today on a law accepting new subjects into the Russian Federation. SAAKASHVILI believes that Russia will not take any unilateral actions, which are not acceptable to either Georgia or the world community. Georgia

has been struggling in its relations with Abkhazia over the withdrawal of Russians from the Gudauta military base.

Russia Surprised Over Radioactive Leaks

- According to Alexander LUTSKEVICH, head of the press service of the Russian forces in the Caucasus, the radioactive leaks found in the Vaziani military base in Georgia were a complete surprise to Russia. He claimed that the military troops based there knew nothing of the radioactive leaks. The source was first found on June 23rd. LUTSKEVICH believes that the source of the leaks is an element used for checking and calibrating military equipment including weapons that remained in Vaziani after the fighter jets were removed from the base in 1992. He stressed that as soon as the radioactive leaks were discovered, they invited an expert from the International Agency on Nuclear Energy to inspect the leaks. The experts from the Georgian Environmental and Natural Resource Ministry arrived on the base to monitor the situation. Georgian Environmental and Natural Resource Minister Nino CHKHOBADZE stated that all Russian military bases will undergo a similar inspection as they are handed over to the Georgians. She expressed surprise that the Russian military leadership was not aware of the radioactive leaks that have been occurring at Vaziani since 1992. She said that the Russian military personnel has been exposed to the radioactive elements since that time. CHKHOBADZE believes that the Georgian experts will not need any assistance from the International Agency on Nuclear Energy because Georgia has enough personnel, expertise, and equipment to check the bases. LUTSKEVICH said the source, cesium 137, has been removed from the base.

Interest In New Armenian-Iranian Pipeline

- Mediamax, a news service based in Yerevan, reported today that Russian gas giant *Gazprom* and Russia's fastest growing gas company *Itera* plan to participate in a gas pipeline project from Iran to Armenia. An international consortium for

the pipeline's construction held a meeting in Moscow this week. Iranian Ambassador to Armenia Mohammad FARHAD KOLEINI expressed hope that, "the energy companies which are interested and actively engaged in the region will welcome," the construction of the pipeline. The length of the pipeline will be 140 kilometers. The estimated cost of the project is \$120 million.

Bush Nominates New Ambassadors

- US President George W. BUSH has decided to nominate career diplomats to be US ambassadors to Armenia and Latvia, according to a White House statement. BUSH selected John ORDWAY, currently deputy chief of mission at the US embassy in Moscow, to be ambassador to Armenia and Brian CARLSON, who has served in public affairs roles in London, Madrid, Belgrade, and Oslo, to be US envoy to Latvia. The nominations are subject to the approval of the US Senate.

Armenia Establishes Business Agency

- Mediamax reported that Armenia has created an agency for cooperation with medium and small businesses. Armenian Prime Minister Andranik MARGARYAN told a session of industrialists and businessmen of Armenia that the government had already passed corresponding, "strategy of state cooperation with the medium and small business." The priority of the agency is to attract investments and aid to the businessmen to find new markets and partners, Prime News Agency reported.

WB Grants Tajikistan \$50 Million Loan

- The World Bank approved another loan to Tajikistan for the economic restructuring. The loan is worth \$50 million. It will promote a favorable climate for investments and a sustained growth, and help the government's reforms.

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in observance of Independence Day.**

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