

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Trial Opens, Kadyrov Accuses Russian Troops**

• Today, the trial of five men charged with the 1999 Moscow apartment bombings that killed more than 200 people, opened in Stavropol. Officials have identified the suspects as Muratbi BAIRAMUKOV, brothers Aslan and Murat BASTANOV, Taikan FRANTSUZOV, and Muratbi TUGANBAYEV. The Federal Security Service (FSB) detained the men about a year ago. The five are accused of delivering sugar sacks packed with explosives to Moscow from their home region of Karachayev-Cherkessia in the Caucasus Mountains, and of fighting in illegal military formations with Chechen separatists. Russia's government blamed Chechen rebels for the two Moscow blasts and two similar apartment explosions in the southern cities of Buinaksk and Volgograd, which together killed some 300 people in September, 1999. Rebel leaders have denied involvement, and some claimed that Russia's security services staged the bombings to justify the offensive in Chechnya, the Associated Press reported.

Meanwhile, the top Russian-appointed administrator in Chechnya, Akhmad KADYROV, angrily accused Russian forces of committing "criminal actions." He stated that Russian troops have beaten and robbed civilians during recent searches for rebels. KADYROV accused soldiers of robbing hospitals and schools. Federal troops stole the equivalent of about \$2,000 earmarked as wages for schoolteachers in the village of Assinovskaya. He said, "The counter-terrorist operation is now directed against the peaceful population, not the bandits." Federal forces conducted security sweeps in three Chechen villages last week after

five Russian police officers were killed by a land mine planted by rebels. Interfax said the mayors of two towns had resigned in protest at the operation. Villagers have said the troops rounded up all men from 15 to 50 years old, beating and torturing many of them. KADYROV claimed federal forces had not apprehended a single rebel and said they found no weapons or explosives during the raids. He said, "Our efforts to help stability and create conditions for the return of refugees have been thwarted by ill-conceived and criminal actions." Russian Interior Minister Boris GRYZLOV said the raids were "tough but necessary" and were carried out "in accordance with the law." The prosecutor's office in Chechnya, which is part of the Kremlin-appointed government, pledged to investigate KADYROV's charges, as did President Vladimir PUTIN's envoy to southern Russia, Viktor KAZANTSEV, a former commander of Russian forces in Chechnya.

**Comment:** The Chechen War has become a means of raising funds for private use by soldiers and those who serve in other capacities in Chechnya. Many professional military officers are appalled by the coercive affects on an already stressed military institution. The conflict has institutionalized criminality in the military with the business of kidnapping, torture, rape and looting. It has also allowed for the sale of scrap metal, weapons, and petroleum products.

#### **Moscow To Shut Down Salvation Army?**

• On September 11<sup>th</sup>, a Moscow court will hear the case of the Justice Ministry's

Moscow branch versus the Salvation Army. The Moscow government says the Salvation Army didn't register on time and failed to regularly report its activities to authorities. Captain Adam MORALES, a spokesman for the Salvation Army, conceded Monday that his group hadn't submitted an annual report to authorities since 1999, and that it hadn't been able to register until February, after the December 31, 2000 deadline. But he said the group had been in regular communication with justice officials over its registration woes. The Salvation Army, which operates soup kitchens and other charity works, says its troubles stem from a strict 1997 religious law championed by the Russian Orthodox Church. Several groups have had troubles since the passage of the religion law, which sets strict registration rules for all but the three "traditional" religious groups in Russia: Russian Orthodoxy, Judaism and Islam. Vladimir ZHBANKOV, a Justice Ministry official, insisted the case was a purely legal issue. The Salvation Army operated briefly in czarist Russia before the Bolshevik Revolution, and returned after the 1991 Soviet collapse.

### Economy

<p><b>Ruble = 29.22/\$1.00 (NY rate)</b>  <b>Ruble = 29.24/\$1.00 (CB rate)</b>  <b>Ruble = 25.04/1 euro (CB rate)</b></p>
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### **Russia To Cut Forex Required Sales**

- Russia's Finance Minister and Deputy Prime Minister Alexei KUDRIN on Saturday said a bill to cut the percentage of hard currency revenues exporters were forced to sell would be introduced within two months. This percentage would be cut from 75 percent to 50 percent. KUDRIN said, "The bill on cutting export revenue sales will be passed within two months, maybe even faster... It makes no sense to delay this measure any more." Russia introduced obligatory sales of hard currency export revenues after the 1998 financial crisis to prevent capital flight and replenish state coffers. Russia's budget depends largely on export revenues. KUDRIN said estimated capital flight from Russia amounted to \$20 billion to \$25 billion a year, including up to \$5 billion in illegally obtained funds, Reuters reported. Analysts say the law would benefit exporters and help the government fight rising inflation, as it would reduce the amount of rubles printed by the Central Bank, the main buyer of export revenues.

Russia's inflation rate surged to 12.7 percent in the first half of this year compared with 9.5 percent in the same period a year ago, beating the government's original 12 percent forecast for the whole of 2001. KUDRIN declined to give a further forecast inflation for 2001.

### Business

### **Interpol Dismisses Case Against Gusinsky**

- Reuters has obtained a letter from Interpol's Secretary General Ronald NOBLE that dismisses the case brought by Moscow against Media Most Chairman Vladimir GUSINSKY, claiming that the case was "political." A spokeswoman at the international police cooperation agency's headquarters in the French city of Lyon was not immediately able to confirm or deny the existence of the letter. Interpol's Moscow bureau also said it was unaware of such a letter. Russia's prosecutors said they had received no such letter and still wanted GUSINSKY to answer embezzlement and money-laundering charges. It reports that if the letter is genuine, it would constitute a remarkable snub toward Moscow. Western nations have long speculated about that case against GUSINSKY and questioned Russian President Vladimir PUTIN's tolerance toward dissidents. GUSINSKY's media empire openly criticized PUTIN and the Kremlin's policy in Chechnya. The letter stated, "I wish to inform you that after careful study of the elements of this case and further to the recommendations of the Supervisory Board for the control of Interpol's archives... I have decided that information supplied by [Interpol's Moscow bureau] concerning the proceedings undertaken by Russia against your client... should not be registered in our files. I consider that the case has a predominant political character and falls within the scope of Article 3 of Interpol's Constitution, under which 'it is strictly forbidden for the organization to undertake an intervention or activities of a political, military, religious or racial character.'"

### **Foreigners Holding In Gazprom Could Rise**

- *Gazprom* declined to comment on reports Kremlin advisors will recommend foreign investors that will be able to hold shares, reserved for Russians, and approve raising foreign holdings to 20 percent. Analysts say it will be a slow process to tear down the ring fence that allows foreign investors to buy only London-quoted American Depositary Shares

(ADS) and not *Gazprom's* domestically traded stocks. Germany's *Handelsblatt* newspaper on Monday quoted *Gazprom* chief executive officer Alexei MILLER as saying the group supported increasing the proportion of share capital available to foreigners to 20 percent from around 11 percent at present. *Renaissance Capital* oil and gas analyst James HENDERSON told Reuters he also expected the foreign limit to be raised to 20 percent and saw support inside the company for lowering the ring fence. HENDERSON said gray schemes had already taken foreign holdings in *Gazprom* to as high as 18 percent and that a 20 percent limit would therefore be reached quickly. HENDERSON said it was likely the state, which owns 38.37 percent of *Gazprom*, would eventually raise limits on the foreign stake to above the 20 percent level. Germany's *Ruhrigas* is currently the largest single foreign shareholder with five percent.

### EUROPEAN REPUBLICS

#### Ukraine Hires Ad Firm To Help T-Bill Sales

- Ukraine's Finance Ministry has turned to one of the country's leading advertising agencies, *Adell Saatchi&Saatchi*, part of *Video International*, for help the government revive the debt market, which has been at a virtual standstill since Russia's financial crisis in 1998. "We won a tender held by the Finance Ministry and have been appointed the ministry's adviser for communications issues," Andrei FEDOROV, *Video International's* director for business development, told Reuters. The campaign will focus on the general public, but will also help the ministry in its work with commercial banks. The ministry plans to issue government securities aimed for individuals in the country of 49 million people later this year. The Finance Ministry holds weekly t-bill auctions, but main buyers at those sales are state banks and funds. Commercial banks are unwilling to buy treasury bills after a number of restructuring schemes and due to high risks.

#### Kuchma Calls For Investigation

- Ukrainian President Leonid KUCHMA today ordered authorities to make every effort to solve the mysterious killing of investigative television director and reporter Igor ALEXANDROV. The latest victim of attacks against journalists in Ukraine, ALEXANDROV died over the weekend of injuries sustained during a beating. Kuchma, who himself

denies opposition politicians' claims of involvement in the death of internet journalist Georgy GON-GADZE, ordered a, "full and completely transparent" investigation, Reuters reported. ALEXANDROV was the 11<sup>th</sup> reporter killed in five years. On Monday, several thousand people gathered for the 45-year-old's funeral in the town of Slavyansk in the eastern Donetsk region, an area notorious for organized crime. The killing put the spotlight back on Ukraine's record on press freedom, which has been criticized by the European Union, US, and humanitarian groups. They say reporters are routinely harassed and beaten and have criticized the authorities' approach to solving crimes. KUCHMA ordered the Interior Ministry and Prosecutor General to ensure the safety of those working in the media and to gather information about crimes against reporters.

#### Ukraine To Resume Debt Talks With Paris Club

- Ukraine's Finance Ministry announced that it will resume talks to restructure \$1 billion in debts to the Paris Club and Turkmenistan on July 12<sup>th</sup>. Finance Ministry spokeswoman Irina BEZVERKHA told Reuters, "The Paris Club informed us on Friday that it is ready to restart debt talks this week." A deal with the Paris Club is vital to safeguard Ukraine's foreign debt servicing and open the way for new loans from foreign governments. Ukraine stopped servicing its debt obligations to the Paris Club in January, 2000. Ukraine is seeking to reschedule its debts into longer-term maturities to ease the pressure on the state budget and channel funds to support a fragile economic growth. Government officials have said they want to restructure the Paris Club debts over eight years, adding it could take up to several months to reach a deal in the restructuring talks. The first round of the negotiations between the Ukrainian government and the sovereign creditors took place in March.

#### Yukos Says Delay Could Affect Deal

- Russian oil company *Yukos* on Friday said it will wait for the new Lithuanian government to approve the equity for crude deal. It noted that any delays might affect the financial terms of the transaction. Last month, *Yukos* and US *Williams* signed a preliminary agreement to give the Russian firm a 26.85 percent equity stake in Lithuanian refiner *Mazeikiu Nafta* for 300 million litas (\$75 million). *Williams*

owns 33 percent and operates the Lithuanian firm, but it needs the parliament and next government to finalize the deal. The state holds a 59 percent stake in *Mazeikiu Nafta*, a refinery, oil terminal, and pipeline system. "The deal will take as long as it takes to complete it, positively or negatively. However, it is clear to any businessman that the financial terms of the deal will change depending whether the financial situation of the company is improving or worsening," *Yukos* president Mikhail KHODORKOVSKY said. *Mazeikiu* saw a 179 million litas loss last year as it failed to secure steady Russian crude supplies. KHODORKOVSKY arrived in Vilnius to meet the country's incoming Prime Minister Algirdas BRAZAUSKAS and other officials, who have said they want scrutinize the deal, despite approval given to it by the out-going administration. *Williams* has said it was concerned by the delays to approve the legislation as lawmakers may opt to address the issue in its autumn session. The agreement sets a September 15<sup>th</sup> deadline for completing the deal, after which the parties may part amicably, Reuters reported.

### SOUTH CAUCASUS & CENTRAL ASIA

#### European Council Backs Jehovah's Witnesses

- The head of the Council of Europe on Friday said Jehovah's Witnesses in Georgia need better protection from Orthodox extremists. Georgian police have been accused of turning a blind eye to attacks on Jehovah's Witnesses. The Council's Secretary-General Walter SCHWIMMER said, "Jehovah's Witnesses deserve the same protection of their personal physical integrity as everyone else in Georgia. It must be made very clear to the police that they are obliged to protect them when they are under attack." The Jehovah's Witnesses claim to have been attacked on more than 77 occasions in the last 18 months. SCHWIMMER said the Council offered its assistance in the drafting of an agreement between Georgia's Orthodox church and the state. He warned that the creation of any

"state church" would violate the rights of Georgians to freedom of religion.

#### Russian Excuses Are Unconvincing

- Georgian President Eduard SHEVARDNADZE said that claims by Russia that the delay of withdrawing its troops from the Gudauta base due to local protests are, "an unconvincing argument." Speaking on Monday in his traditional radio address, he said that the population does not have anything to do with withdrawing troops because the decision was made on a bilateral level. The President stressed it should not be forgotten that nobody showed interest in the local population's opinion when the base was established. He noted that Russia has violated the base withdrawal agreement signed at the 1999 Istanbul Summit.

#### IMF Approves \$100 Million Loan For Azerbaijan

- The International Monetary Fund (IMF) approved Friday a three-year loan of \$100 million under the Poverty Reduction and Growth Facility for Azerbaijan to support the government's economic program. Of the total, \$10 million was immediately available for Azerbaijan. "The approval by the IMF executive board was contingent on a decision by the World Bank executive board on July 5<sup>th</sup>, which concluded that the interim Poverty Reduction Strategy Paper (PRSP) submitted by Azerbaijan provides a sound basis for development of a fully participatory PRSP and for World Bank concessional financial assistance," according to an IMF statement. "In recent years, Azerbaijan has achieved strong growth and low inflation... Growth has stemmed mainly from the oil sector. Achieving sustained growth in other sectors is a central policy objective, and critical to an effective attack on poverty, which is widespread," IMF First Deputy Managing Director Stanley FISCHER said. The continuation of structural reforms and efforts to stamp out corruption will be essential to improving the economy. FISCHER said large subsidies for the energy sector were highly inefficient and needed to be addressed urgently.

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