

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russia-China Sign New Friendship Treaty**

• Russian President Vladimir PUTIN and Chinese President JIANG ZEMIN signed a New Friendship and Cooperation Agreement in the Kremlin today. The agreement outlines plans to defend mutual interests and boost economic and trade relations between the two nations. The two states aim to boost bilateral trade, which is expected to rise this year to \$10 billion from last year's \$8 billion —still far short of Beijing's annual trade with Japan or the US, Reuters reported. Russia is seeking to become the main supplier of gas to China. Although both sides stated that the agreement does not make them formal allies, it does note that Russia will continue to be the main supplier of weaponry to China. China and Russia say they are not planning any kind of military or political bloc and that their friendship treaty, intended to replace a 1949 Communist-era pact, does not threaten anyone. The two leaders also plan to sign a joint statement on strategic stability likely to underscore their opposition to US plans for quick deployment of a national missile defense shield. Russia and China have agreed to combine their international influence to counter the US influence. Russia and China resent what they see as the arrogant and unilateral exercise of US authority.

#### **Putin Calls For The End Of NATO?**

• Russian President Vladimir PUTIN today said that NATO should be disbanded and replaced by a pan-European security body that would include Russia. In a wide-ranging interview with the Corriere della Sera newspaper, PUTIN said NATO expansion eastward towards Russia merely prolonged Cold War divisions of the continent. "The problem should be simple. In the West, everyone says 'We

don't want new divisions in Europe, we don't want new Berlin walls.' Good. We completely agree," he told the Milan daily. "But when NATO enlarges, division doesn't disappear, it simply moves towards our borders. The divisions will continue until there is a single security area in Europe." He complained that NATO had used force to achieve political goals in Europe, and taken little notice of the UN Security Council, further undermining trust. PUTIN said Russia had been refused a role in decision-making processes of the Atlantic alliance, and the Organization for Security and Cooperation in Europe (OSCE) had failed to become a viable alternative security structure. Instead, it was used to criticize Russia over its troubled Caucasus region and Central Asia. Shortly after taking office, PUTIN signaled Russia could eventually join NATO, and during his first summit with US President George W. BUSH last month he again returned to the theme, revealing the Soviets had put out feelers on the issue in the mid-1950s. They were firmly rebuffed. US Secretary of State Colin POWELL it was, "premature to even suggest," Russia could be invited to join the alliance, Reuters reported.

#### **Putin Decrees Major Military Reshuffling**

• On Friday, Russian President Vladimir PUTIN issued a decree removing three top generals from their posts in the Defense Ministry and Russian Army, thereby install like-minded ex-KGB personnel instead of hard-line generals, Kommersant Daily reported. The most shocking change was the sacking of

Colonel General Leonid IVASHOV, head of the Defense Ministry's Department for International Military Cooperation. According to the paper, IVASHOV was inconvenient to the Kremlin because of his open and straightforward style in speaking his mind that often embarrassed the President's entourage. IVASHOV was a vocal critic of NATO's eastward expansion and a bitter negotiator who opposed NATO's bombing campaign in Yugoslavia in spring 1999. The Colonel General was also known for his nostalgia over the disbanded Soviet army which he hoped could be remodeled and revived in the Commonwealth of Independent States (CIS) where he served as the secretary of the Defense Ministers' Council. IVASHOV was replaced by the Kremlin's Main Intelligence Directorate (GRU) general Anatoly MAZURKEVICH. Prior to this appointment, MAZURKEVICH served as head of the Defense Ministry's Directorate for Military Affairs and at one time was posted as Russia's Military Attache in Washington. MAZURKEVICH's appointment is regarded as a logical step in PUTIN's gradual and systematic reshuffling at the top of the army ranks, UPI reported. PUTIN also dismissed the chief of the Defense Ministry's Personnel Department, Nikolai YEFREMOV, who was replaced by (Federal Security Service) FSB General Nikolai PANKOV. YEFREMOV was then appointed the new commander of the military district of Moscow, filling the spot that was left vacant following his predecessor Vladimir PUZANOV's promotion to Deputy Defense Minister in March.

On June 30<sup>th</sup>, the President pensioned Colonel General Valery MANILOV, whose service had already been extended by a presidential decree to overcome the legal barrier that sets the pension threshold at 60. MANILOV was the deputy chief of the General Staff and the Russian Army's spokesman on Chechnya. Sergei DARKIN, the newly elected governor of Russia's Far East Primorye region has offered MANILOV the post of the regional representative in the Federation Council. **Comment:** This continues PUTIN's strategy of appointing FSB and former KGB officers to high ranking posts throughout the government.

#### **Blacklist of Nations For People Trafficking**

- The US State Department has issued a list of 23 nations, which are accused of failing to combat human trafficking or the, "modern-day form of slav-

ery." Secretary of State Colin POWELL released the report, mandated last year by Congress with a view to withholding US aid from nations who fail to address the issue by 2003. The list included key US allies such as Turkey, Greece, Saudi Arabia, and Israel, as well as Russia, Belarus, and Kazakhstan. POWELL said, "Deprived of the most fundamental human rights, subjected to threats and violence, victims of trafficking are made to toil under horrific conditions in sweat shops and on construction sites, in fields and in brothels." He added it, "is incomprehensible that trafficking in human beings should be taking place in the 21<sup>st</sup> century. Incomprehensible, but it's true —very true. Our report should make it abundantly clear that trafficking is going on all over the world in both developed and developing countries, even within the United States." POWELL called it an, "abomination against humanity."

At least 700,000 people around the world fall victim to the practice every year, with between 40,000 and 50,000 ending up in the US.

#### **Economy**

<p><b>Ruble = 29.20/\$1.00 (NY rate)</b>  <b>Ruble = 29.24/\$1.00 (CB rate)</b>  <b>Ruble = 25.02/1 euro (CB rate)</b></p>
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#### **Russia's Inflation Figure Rises**

- Russia's Economic Development and Trade Minister German GREF has raised the government's estimate for inflation this year to 16 percent to 18 percent. He issued the estimate on Saturday evening in the closing stages of a debate, which culminated in passage of a land code overturning a Soviet-era ban on land sales. GREF said growth this year would reach 4.5 percent to 5.0 percent of gross domestic product (GDP). Original government forecasts for inflation this year were put at 12 percent to 14 percent, but have since been revised upward. Prime Minister Mikhail KASYANOV last week told Reuters it would exceed 14 percent, but stand below last year's 20.1 percent. The Economic and Trade Ministry last month had put 2001 growth at 5.5 percent. Growth in GDP stood at 8.3 last year, a post-Soviet high.

#### **Business**

#### **Ekho Moskvyy Seeks New Frequency**

- Journalists at *Ekho Moskvyy* have said that they may seek an alternative frequency, if the new owners of the station decide to change the station's editorial policy or ask the leading journalists to leave. The station, once controlled by *Media Most's* Chairman Vladimir GUSINSKY, has been taken over by *Gazprom Media*. Journalists have been in negotiations to buy a buy a 9.5 percent stake of *Gazprom's* shares and thus ensure that no stockholder had the majority package. *Ekho Moskvyy* pursued the deal in hopes that it would subsequently help the station maintain the existing editorial policy which has annoyed the authorities by its independent reporting and open criticism of the Kremlin's moves in breakaway Chechnya and Russia's human rights record, UPI reported. *Gazprom Media* chairman Alfred KOKH broke off the negotiations last Tuesday, citing that *Ekho Moskvyy* had refused to participate in the "Press Freedom 2001" conference. The station helped to organize the conference, but refused to participate in it when KOKH made it a condition of the sale. The station's staff called KOKH's maneuver a "blackmail" by means of which he intended to reach his goal—paint an ideal picture of press freedom in Russia by having *Ekho Moskvyy* appear at the conference co-organized by *Gazprom Media*. KOKH instead offered the disputed stake to liberal reformist Boris NEMTSOV. NEMTSOV accepted the gift and said that it would ensure the station's independence. Nevertheless, *Gazprom Media* and NEMTSOV have not signed yet any legal documents confirming the transfer of the shares. On Friday, *Ekho Moskvyy* editor-in-chief Alexei VENEDIKTOV told *Izvestia* that he and his colleagues considered starting up a new radio station if negotiations with *Gazprom* yielded no result. "With this team of journalists you can make a candy out of nothing," said VENEDIKTOV about his staff's plans to start everything from scratch.

#### EUROPEAN REPUBLICS

##### Paris Club To Reschedule Ukraine's Debt

- The Paris Club on Friday struck a debt restructuring deal with Ukraine, which would cut the country's debt service dues from around \$800 million to about

\$285 million. The deal was announced in Paris following talks with a Ukraine delegation headed by Finance Minister Igor MITYUKOV. Sources close to the Paris Club noted that implementation of the accord was conditional on other related financing agreements between Kiev and the International Monetary Fund (IMF). "The agreement consolidates roughly \$580 million due on loans contracted by Ukraine before December 31, 1998... This amount consists of principal and arrears and maturities due from December 19, 2000 through September 3, 2002. The rescheduling is structured on the following terms: credits are to be repaid over 12 years, with three years of grace, in 18 equal and successive semi-annual payments," the statement said. The deal on Friday was limited to services and arrears on debt stock with maturities up to September 2002 in line with the timeframe of the IMF program with Ukraine. The IMF and Ukraine had struck a deal for a loan to Kiev of \$2.6 billion, but the Fund later froze the plan. The IMF is considering renewing Ukrainian aid in September. Sergei VOLOBOEV, an emerging markets economist at *Credit Suisse First Boston*, said the Paris Club deal suggested the IMF was ready to back Ukraine. "You can't get a Paris Club deal unless the IMF signs off on this deal. The IMF has to say that it believes the country requires balance of payments support, and it believes the agreement will be fulfilled, backed by sound economic policies," he said. It is possible that Ukraine will seek a similar restructuring with Turkmenistan, Ukraine's other big creditors.

##### Naftogaz-Itera Argue Over Oil-Gas Supplies

- Ukraine's state oil and gas company *Naftogaz Ukrainy* and Russia's gas transportation company *Itera* on Friday argued over gas supplies and transit, accusing each other of failing to respect existing agreements, Reuters reported. *Naftogaz, Ukraine's* sole importer of Russian gas, said in a statement *Itera* had failed to fulfill its obligations to supply natural gas from Turkmenistan to Ukraine, halving deliveries. "From June 26, 2001, *Itera* has not fulfilled its contractual obligations to implement the Turkmen agreements. Volumes of natural gas supplies fell by about 50 percent," the company said in a statement. The issue of gas supplies is very sensitive in Ukraine because it imports up to 80 percent of its annual gas needs, mainly from Russia and Turkmenistan. Russia's *Itera* said a reduction

in natural gas supplies was due to Kazakhstan's refusal to transport Turkmen gas through its territory due to Ukraine's debt for transit. "Previously, we took banking loans to pay for transit. However, at this stage we stopped it because Ukraine owes us \$56 million," *Itera's* spokesman Nikolai SEMYENENKO told Reuters. A source in a Kazakh state gas transporting company said Kazakhstan would reduce the transit of Turkmen gas through its territory until *Naftogaz* and *Itera* settled their dispute. This row is part of a larger dispute between Russia and Ukraine over gas debts worth at least \$1.4 billion. Russia has accused Ukraine of stealing gas. *Itera* has already threatened Ukraine with cutting off supplies due to the growing debt. The gas trader has filed lawsuits against Ukraine's electricity generating companies. Turkmenistan is due to supply around 30 billion cubic meters (bcm) of natural gas to Ukraine this year, about 50 percent of country's annual needs of 75 bcm.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Georgians Hold Chechens Hostage

- Laliskuri village residents, in retaliation for the kidnapping of State Security Service worker Mamuka ARABULI on Friday, have taken 20 local Chechens hostage in the Pankisi Gorge. A special staff was formed and sent to the region to hold negotiations. Interior Minister Kakha TARGAMADZE has already arrived in the Akhmeti region. According to Prime News Agency, there are already, "2000 armed men and women in the Pankisi Valley in case the Georgian government brings Russian military there." Interior Ministry spokeswoman Maya MOSIDZE said, "The situation in the area remains rather tense." Local criminal police chief Temur ARABULI said the negotiations between the local Georgian population and Chechen groups lasted all day Sunday, but have been fruitless. Georgian leaders said they would release the hostages, if the Chechens in their turn released some seven people they allegedly hold in captivity. Agence France Presse reported that local Chech-

ens have threatened to use force to free their compatriots unless the Georgians release them on Sunday. Chechen leader Vepkhia MARGOSHVILI, in an ultimatum aired on Georgian television, said that 1,500 Chechens have been mobilized for this purpose. No action has been taken today. Georgian President Eduard SHEVARDNADZE said today in his national address that the conflict is about to end. He noted that the most experienced professionals from the law enforcement agencies were sent to the Pankisi Gorge as well as troops that might be need to restore the order. Although he said that, "we cannot allow bloodshed." He said, "Now, negotiations are underway and I can assure you that there is no alternative to a peaceful solution between Georgians and Chechens." The Pankisi Gorge has witnessed several kidnappings in the past few years. Russia has accused Georgia of only loosely controlling the Pankisi Gorge Area, where Moscow believes separatist rebels from Chechnya are forming a power base, Reuters reported.

#### Pope To Visit Kazakhstan, Armenia

- Pope John Paul will visit Kazakhstan and Armenia in September, the Vatican announced on Sunday. Vatican spokesman Joaquin NAVARRO-VALLS confirmed the trip in a conversation with reporters in this tiny Alpine hamlet where the 81-year-old Pontiff is on a private holiday. The trip to Kazakhstan will be a pastoral visit to the Catholic community there, whereas the Pope will visit Armenia as part of celebrations marking the 1,700<sup>th</sup> anniversary of the Armenian Church, he said. He added that the visit, expected to last four days, would take place at the end of September. Since the fall of communism, the Pope has already visited Latvia, Lithuania, Estonia, Georgia, and Ukraine. His visit to the latter caused much concern in Russia. Russian Orthodox Patriarch Alexei II said on Friday, "It is obvious that in the future, Rome will have to make deliberate efforts and take concrete steps aimed at restoring mutual understanding and cooperation with the Orthodox world," RFE\RL Newsline reported.

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