

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Putin- Roman Catholic Church Closer Ties?

• Russian President Vladimir PUTIN praised Pope John Paul II and expressed the hope that the Roman Catholic and Russian Orthodox churches can heal their centuries-old divisions, in an interview published Monday by *Corriere della Sera*. PUTIN's tone differed sharply from that of the head of the Russian Orthodox Church, Patriarch Alexei II, who strongly protested the Pope's recent visit to Ukraine. PUTIN praised John Paul for his visits to predominantly Orthodox countries. Alexei II has said that the Pope's visit undermined ties with the Orthodox Church. He said, "it's obvious that in the future, Rome will have to make deliberate effort and take concrete steps aimed at restoring mutual and cooperation with the Orthodox world," RFE\RL Newline reported. The Roman Catholic and Orthodox churches have been estranged since 1054, when Christianity split into the two branches after disputes that included papal authority. "I would be truly happy if relations between the Russian Orthodox church and the Holy See developed positively, opening new horizons," PUTIN said.

Russia Helps To Fuel The Afghan War

• The New York-based Human Rights Watch has released a report on weapon flows to Afghanistan, naming Russia, Iran and Pakistan as key arms suppliers to those responsible for decades of civil war and abuse of civilians along with the Taliban. The group called on the UN Security Council to put an arms embargo on all factions, not just the Taliban, and to place monitors on some of the Central Asian country's borders to help enforce it. It said, "UN sanctions imposed on arms and fuel to the Taliban in December, 2000, are one-sided and strongly influenced by short-term Russian and US

interests, not humanitarian goals." Reuters reported that the UN Security Council imposed the weapons embargo on the Taliban last December to pressure it into surrendering Saudi-born militant Osama BIN LADEN. However, it did not do the same for the Taliban's United Front opponents, backed by Russia and Iran among others. The 55-page report charges that Pakistan has violated the arms embargo on the Taliban, supplying the movement with military advisers, logistic support, funds, ammunition and openly recruiting boys as fighters.

Duma Passes Land Code In 2nd Reading

• The Russian State Duma on Saturday ended its extended Spring session by approving the new Land Code bill, in a vote of 253 to 152, in the second reading. Russian President Vladimir PUTIN supported the Land Code, which covers only sales of non-farm property. Left-wing legislators opposed the law because they wanted to maintain the ban on private land ownership left over from Communist rule. Deputies adopted amendments that would limit foreign individuals and companies to purchasing land from government or municipal holdings, or if they owned a building on top of the land. Foreigners could not buy land in special border zones designated by the President. Russia's 1993 constitution permits Russians to buy and sell land, but parliament has balked at passing legislation that would put the right into effect. About 100 Communists and their supporters demonstrated outside the Duma on Saturday, waving red flags and holding banners that said

"Do Not Let Russia Be Sold" and "No to Buying and Selling Land." Communist Party leader Gennady ZYUGANOV said during the debate, "He [PUTIN] is resolving in the same way the issue of land which we have defended with our blood for thousands of years. You cannot watch this dreadful scene without shaking in disgust." Zhores ALFEROV, Nobel physics prizewinner and a Communist member of parliament, urged the chamber to think hard. "We are about to pass a law which will have worse consequences than CHUBAIS' privatization," he said, referring to the head of former President Boris YELTSIN's privatization plan, Anatoly CHUBAIS, Reuters reported. The absence of coherent land legislation has also discouraged foreign investors and stalled Russia's economic development. Most land remains in the hands of the government, as it was during Soviet times. To become law, the bill must pass on a third reading, which is not expected until September.

During the Spring session, the Duma has passed legislation on political parties, import and processing of spent nuclear fuel, judicial reform bills, economic and welfare bills, tax packages including a flat tax, laws on privatization, a bill combating money laundering, and bills on pension reform.

Economy

<p>Ruble = 29.24/\$1.00 (CB rate) Ruble = 24.97/1 euro (CB rate)</p>

Fitch Gives Russia A Positive Outlook Rating

- Credit rating agency *Fitch* today put Russia's B long-term foreign currency and Eurobond ratings on positive outlook, citing progress on vital structural reform. According to a *Fitch* statement, the positive outlook reflected accumulating evidence that President Vladimir PUTIN, "has the inclination, power and courage" to drive forward structural reform. It cited legislation passed during the Spring session of the Russian State Duma on banking reform, profit tax reform, anti-money laundering legislation, the land code, judicial reform, and the simplification of business registration and partial liberalization of currency repatriation restrictions. The rating agency noted that the removal of Rem VYAKHIREV, as Chief Executive of *Gazprom*, could also change the Russian corporate landscape. *Fitch* also noted that Russia's strong macroeconomic performance

had continued to reduce its levels of external indebtedness. *Fitch* said Russia's macroeconomic performance and liquidity position meant it was well placed to withstand possible disturbances from other emerging markets such as Argentina.

Business

Gazprom-China Discuss West-East Pipeline

- Alexey MILLER, chief executive officer of the Russian gas giant *Gazprom*, met with the deputy chairman of the Chinese State Committee for Economy and Trade and the deputy chairman of the Chinese sub-commission for energy partnership. This meeting was devoted to the implementation of the West-East gas pipeline project. The sides expressed their satisfaction with *Gazprom's* victory in the tender where a foreign partner in this Chinese project has been chosen. This project stipulates for the construction of a gas pipeline with a capacity of up to 20 billion cubic meters of natural gas a year and the length of 4,167 kilometers from the west to the east of China. The construction of this pipeline is an important step in the establishing a unified gas system in China. "For Russia [the project] opens up the possibility of access to new energy markets—not only in China but also those in the Asia-Pacific region," the company said in a statement.

Tuesday Tid-Bit

Putin Says Lenin Stays!

- Russian President Vladimir PUTIN, who has renewed Soviet nostalgia by adopting the Soviet anthem, has said that the mummified body of Soviet Union founder Vladimir LENIN should remain on display in the Red Square mausoleum. The President said in an interview with *Corriere della Sera*, "This is a decision which, above all, has emotive implications. Once I see an overwhelming majority of people wanting to tackle the Lenin question, we will discuss it. But today, I don't see it and therefore we will not talk about it." In Soviet times, revering the memory of LENIN, who died in 1924, was a universal communist obligation. The Soviet leader's body, in a glass case, still goes on public display a few times a week. Thousands of Russian communists held a protest at the mausoleum on LENIN's birthday in April with banners reading, "Hands off LENIN!" But liberals claim there is no place for the public display of corpses in modern

society and see LENIN as an inappropriate hero for post-communist Russia, Reuters reported.

EUROPEAN REPUBLICS

IMF Mission To Visit Moldova

- An International Monetary Fund (IMF) monitoring mission will arrive in Moldova on July 25th for a key economic review and talks to resume a \$142 million lending program. The IMF's office in the Moldovan capital Chisinau said in a statement the mission would conduct its review and discuss macroeconomic policies with the government until August 8th. The global lender froze the three-year poverty reduction program to the tiny agricultural country in February, after the Communists swept to power in general elections. Moldova's Communist government says it is eager to restore relations with the IMF. Economy Minister Andrei CUCU has said the government hopes to unlock IMF's funds by October, Reuters reported.

Ukraine's CB Raises Growth Forecast

- Ukraine's Central Bank said on Monday it had increased its forecast for M3 broad money supply growth this year to as much as 24 percent from the initial target of 17.6 percent. According to a Central Bank statement, the forecast for monetary base growth was also raised from the initial target of 11.4 percent to as much as 19 percent. The government improved its forecast for gross domestic product (GDP) growth to 6.2 percent this year from 4 percent targeted earlier and lowered its annual inflation forecast to 12.3 percent from 13.6 percent. Consumer prices grew by 5.3 percent since the start of the year. GDP grew by 9.1 percent in the first half of the year from a year earlier, official data showed. M3, which comprises cash, current account transactions, relatively liquid saving balances and trust funds, grew by 15.2 percent in the first six months of the year and totaled 36.95 billion gryvnias on July 1st. The monetary base rose by 13.2 percent in January to June, Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

Two Georgian Hostages Released In Pankisi

- Two Georgian hostages were released today in Pankisi Gorge, after armed Georgian residents

in Laliskuri took several Chechens hostage in retaliation. Police officer Mamuka ARABULI and David BAZARASHVILI, the 80-year-old father of a Tbilisi businessman, were released after negotiations with their kidnapers. ARABULI was abducted on Friday from his village near the Georgian-Chechen border. Local residents blamed the kidnapping on ethnic Chechens living in the gorge and later seized a bus with Chechens on board. In turn, the Georgian local militia released an 18 year-old Chechen. The local police chief noted that other, "Chechen hostages are still being held and the situation there is still tense." BAZARASHVILI was kidnapped a month ago in Telavi, the main town in eastern Georgia. Several other hostages, including two Spanish businessmen, a Lebanese businessman and the brother of AC Milan football player Kakha KALADZE are believed to be held in Pankisi gorge. An Interior Ministry official said villagers were demanding the release of all the hostages before they would free the ethnic Chechens. Georgian President Eduard SHEVARDNADZE has welcomed the success of the negotiations, which has resulted in the release and exchange of three hostages.

World Bank's Linn Visits Georgia

- World Bank Vice President for Europe and Central Asia Region Johannes LINN and Director of the South Caucasus Region Judy O'CONNOR arrived in Tbilisi Monday. Their mission is to review with the Georgian government the economic developments, progress of reforms and WB programs, and to discuss the Bank's assistance to Georgia in the future. LINN and O'CONNOR will be meeting with Georgian President Eduard SHEVARDNADZE, Parliamentary Chairman Zurab ZHVANIA, State Minister Gia ARSENISHVILI, and other government officials. LINN said that if Georgia's positive trends in the economy continue, then the World Bank will allocate \$52.5 million in October for structural changes (SAC3 program) and in the energy sector modernization (ESAC). The World Bank has implemented 18 projects in Georgia in the total amount of \$400 million. World Bank projects include promoting secondary education, the development of the energy market, and energy resources transit. Georgia has received a total of \$650 million since becoming a World Bank member. LINN said, "I suggested to the Government of Georgia that we together consider the options for how to achieve the

broad objectives of the third Structural Adjustment Credit. We agreed on September 30th as a deadline for submission of assessment.” He noted that a World Bank loan for Georgia will also depend on whether Georgia and the International Monetary Fund (IMF) and Georgia reach an agreement. On Wednesday, the World Bank delegation is leaving for Armenia, where it will meet with President Robert KOCHARYAN, Prime Minister Andranik MARGARYAN, and Economic and Finance Minister Vardan KHACHATRYAN.

US Secures Kazakh Plutonium Stockpile

- US officials are expressing satisfaction after an enormous stockpile of weapons-grade plutonium, located in Kazakhstan, was made theft-proof in what the US Energy Department is calling, “one of the world’s largest and most successful nonproliferation projects.” More than 3 tons of plutonium, enough to make 400 bombs, had been stored in a fast-breeder reactor on the Caspian Sea shore under security that one early visitor likened to that of an office building. Today, the plutonium has been fully secured, Trisha DEDIK, director of the Energy Department’s office of nonproliferation policy, said in an interview, the St. Petersburg Times reported.

Kazakh Capital Amnesty Brings In \$480 Million

- Kazakhstan’s capital amnesty program to repatriate capital from the shadow economy has brought \$480 million into the legal economy. The Central Bank announced the total, following the month-long program. Approximately 3,000 people transferring an average \$164,000 each into banks took advantage of the no-questions-asked plan organized by President Nursultan NAZARBAYEV to bring the cash back into circulation. Central Bank governor Grigory MARCHENKO said that over 82 percent was paid into banks in cash dollars, and over six percent in cash tenge, the local currency, Reuters reported. He said the appearance of this large sum of new money in the economy did not represent an inflationary threat because most of it was already held in cash in Kazakhstan and had been transferred to long-term accounts. Just 11.4 percent of the total represented money repatriated from foreign bank account. MARCHENKO noted that the Kazakh people have grown to trust the national banking system. Officially the amnesty

was held in recognition of the fact that chaotic laws and an uncertain tax regime in the early years after Kazakhstan’s 1991 independence from the Soviet Union meant many business people had kept money back from the tax authorities. But critics of the program say it was designed to legitimize huge amounts of money obtained through bribery and other corruption by many officials.

Iran-Armenia Discuss Nagorno-Karabakh

- Secretary of the High Council of National Security of Iran Hassan ROHANI, currently visiting the Armenian capital, will discuss prospects of the further cooperation with Armenia. During his meeting with Armenia’s Foreign Minister Vartan OSKANYAN, ROHANI discussed the latest events in the process of settlement of the Nagorno-Karabakh Conflict and details of the visit to the region of the co-chairmen of the OSCE (Organization for Security and Cooperation in Europe) Minsk group on Nagorno-Karabakh.

Tajik Presidential Advisor Assassinated

- Foreign Affairs adviser to Tajik President Emomali RAKHMONOV, Karim YULDASHEV, was gunned down in broad daylight in the capital Dushanbe today by three young men using pistols with silencers. YULDASHEV served as foreign affairs adviser since 1992. Witnesses heard YULDASHEV scream and saw the attackers running away, said AmirkulAZIMOV, secretary of Tajikistan’s Security Council, who described the killing as a “terrorist act.” YULDASHEV died of two gunshot wounds to the chest and one to the head 15 minutes after arriving at a hospital, the Associated Press reported. Tajikistan has been plagued by violence since the 1991 Soviet collapse, including a five-year civil war between a hard-line government and a mostly Islamic opposition. The country’s border with Afghanistan, guarded jointly by Tajik and Russian forces, is vulnerable to incursions by Islamic militants as well as drug and weapon smugglers and is a frequent site of clashes. The country is awash with weapons, drugs, kidnapping, and murder, Reuters reported.

CSIS Hosts Forum On The Future Of GUUAM

The Center for Strategic and International Studies (CSIS) hosted a seminar on the future of GUUAM, the alliance of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova on July 11th. Zbigniew BRZEZ-INSKI, US National Security Advisor under President Jimmy CARTER and CSIS trustee, opened the conference with his positive assessment concerning GUUAM and how this is the first organization to be initiated within the former Soviet states that does not include Russia. He emphasized there is no likely return to the former conditions of the USSR's empire. However, a non-Soviet bloc system similar to the relationship Poland or Romania had with the USSR might develop between Russia and these states. He said the outlook for GUUAM is positive, especially if countries outside of the former USSR join the GUUAM structure. He suggested that Romania, Bulgaria, and Turkey have expressed interest in the organization and might develop a formal relationship. Chairman of the Central Asia-Caucasus Institute, School for Advanced International Studies of the Johns Hopkins University, Frederick STARR pointed out that the sovereignty of these nations is not at stake and the Shanghai Six will not replace it. The real question is what are the intentions of the US government, STARR asked. Other diplomatic attendees at the conference remarked to **Intercon** privately it was their impression that the BUSH Administration is less than enthusiastic concerning the South Caucasus and Central Asia, as they push ahead on national missile defense. Senate Foreign Relations Committee staff member Marshall BILLINGSLEA said that a healthy, but distanced relationship with Russia is important. He said GUUAM must develop joint projects on real problems. Director of National Security Studies at the Hudson Institute General William ODOM noted that the Yalta meeting was a very important step to creating structure for the GUUAM organization. He also pointed out it is very important that meetings of the GUUAM heads of state occur regularly. When together, these meetings can strengthen the leaders collectively, because alone the Russians will try to divide and conquer through pressure. "There is no substitute for good domestic reform." He stressed it is important for all of these nations to have successful domestic development of democratic institutions, courts and the legal process, property rights, business and contracts protection, and respect for human rights. Senior Economist at Rand John TEDSTROM countered GUUAM is a distraction to domestic reform and criticized the lack of reform, which poses an internal threat to these nations' independence. RFE/RL Director of Communications Paul GOBLE referenced Paul BLACKSTOCK's well-known book The Strategy of Subversion to describe the Russian methodology in the former Soviet Republics. BLACKSTOCK described how a former strong state, which is now a weak state, acts to subvert the states around them to keep them weak. Director of European and Eurasian Affairs for the National Security Council Matthew BRYZA said the US government welcomed the creation of GUUAM because it is the only non-Russian organization to emerge after the fall of the Soviet Union. However, no indication was given on how the BUSH Administration would support and assist this organization. He concluded by saying that the success of GUUAM as an organization depends on the GUUAM members themselves. All of the GUUAM states were represented at the conference including the Ambassadors of Georgia, Ukraine, Uzbekistan, and Azerbaijan. The Moldovan Embassy was represented by its political counselor. Each representative made a statement on GUUAM and its positive role in the region, while stressing it is not an organization formed against any nation (Russia). The speakers emphasized the need for the organization to put words into action by implementing concrete projects, which would be important to the region and take the strategic interests of the US into consideration. These could include measures to combat drug and people trafficking, weapons and arms proliferation, good transportation along the Great Silk Route, and Customs and Border Guard development. GOBLE pointed out that countries that want to be treated like countries, must act like countries and the formation of the GUUAM group testifies to the fact that these nations are

sovereign entities which seek recognition on the world stage.

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