

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

Daily intelligence briefing on the
former Soviet Union

Thursday, July 19, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Russia To Join NATO?

- In Russian President Vladimir PUTIN's first news conference since becoming President, he said NATO should be disbanded and replaced by a new security organization in Europe that would include Russia. Alternatively, he said, Russia should be allowed to join NATO, but noted that Russia is not pushing for that option at this time. He said, "We do not see NATO as an enemy. We do not see a tragedy in its existence, but we also see no need for it." Russia has objected to NATO's eastward expansion, incorporating Poland, Hungary, and the Czech Republic. Moscow has pushed for the 54-nation Organization for Security and Cooperation in Europe (OSCE) or some other umbrella group to take the lead in providing security in Europe instead of NATO, the Associated Press reported. PUTIN pointed out that NATO is a Cold War entity, which doesn't reflect Europe's new realities. He said, "We will never achieve unity in Europe until we create a single security and defense space. If we fail to do that...we will continue to mistrust each other."

Comment: The US should seriously consider the option of inviting Russia to join NATO. However, this invitation should be extended with a list of conditions. These requirements should include: the termination of the military campaign in Chechnya; a thorough investigation of war crimes and human rights abuses in Chechnya; immediate dialogue with the Chechen leadership; an agreement of non-interference in the political, economic, and military aspects of the former Soviet Republics; an end to the proliferation of missile and nuclear technology to rogue states; and a common approach to combating transnational crime with its first priority to be the extradition of Georgia's former Security Minister

Igor GIORGADZE, who is accused of organizing the 1995 assassination attempt of Georgian President Eduard SHEVARDNADZE. The West should work with Russia to achieve these measures.

Security Increased Around President Putin

- Kommersant-Vlast on Wednesday reported that there have been five unsuccessful assassination attempts made against Russian President Vladimir PUTIN since he became President. As a result, he is currently surrounded by a triple ring of security guards, RFE\RL Newsline reported

FBI Arrests Russian Hacker

- Russian computer programmer, Dmitry SKLYAROV, who gave a presentation at the DefCon Hacker Convention in Las Vegas this weekend was arrested by the FBI on charges of trafficking in software to circumvent copyrighted materials. SKLYAROV was ordered held without bail during an initial appearance in federal court in Las Vegas on Monday and will be transferred to San Francisco. He could face up to five years in prison and a \$500,000 fine if convicted. The Russian computer programmer wrote a software program that *Adobe Systems Inc.* claims violates the 1998 Digital Millennium Copyright Act (DMCA). While there have been civil cases brought under the DMCA, this is one of the first criminal cases brought under the controversial law, lawyers said. "This could be the test case; the case to set the precedent," said Dario DIAZ, a Florida-based attorney who specializes in

digital copyright law. Vladimir KATALOV, managing director of *ElcomSoft* which employs SKLYAROV, said *Adobe* was bringing the legal action because the company, "can't fix their security problems in their products. It [SKLYAROV's program] only decrypts books you have purchased, so it can only be used by the legal owner of the book," Reuters reported.

Economy

Russia To Seek Paris Club Debt Relief

- Russian Deputy Finance Minister Sergei KOLOTUKHIN on Tuesday said the nation will seek a rescheduling or partial write-off of its debts to the Paris Club. Russia owes the Paris Club some \$40 billion. Russia's foreign debt payments peak in 2003 and the government has sought to even out the installments. KOLOTUKHIN noted that consultation would begin in 2002. He said, "We have to settle the problem in order to fully protect the country's economy from any risks. Restructuring the debt is cheaper than tapping world markets for funds to refinance and pay it off. And we also should not forget that we need money for structural reforms. We cannot fail to take that into account." Officials say diverting scarce cash into foreign debt payments could hurt economic growth and undermine the government's reform plans. Addressing parliament, Prime Minister Mikhail KASYANOV noted that Russia had to make sure that it had taken steps to counter any outside shocks. KOLOTUKHIN made clear Moscow would seek a write-off from sovereign creditors, saying otherwise Russia's private creditors would not have received equal treatment.

<p>Ruble = 29.24/\$1.00 (NY rate) Ruble = 29.28/\$1.00 (CB rate) Ruble = 25.46/1 euro (CB rate)</p>
--

Russia Needs Reforms Before Joining WTO

- Top US and European trade officials on Tuesday expressed support for Russia's bid to join the World Trade Organization (WTO), but it had much more work to do. "We want Russia in the WTO the same way we want China in the WTO," European Union Trade Commissioner Pascal LAMY told Reuters at a joint news conference with US Trade Representative Robert ZOELLICK. Russia has made good progress on bringing its goods and service trade regime in line with WTO rules, but still has, "a lot of

work [to do] in other areas," LAMY said. However, he took "seriously" a recent declaration by a Russian official that Moscow would like to join the world trade body by 2002 or 2003. ZOELLICK said the US supports Russia's membership and would further explore the issue when US Treasury Secretary Paul O'NEILL and Commerce Secretary Don EVANS travel to Moscow in a few weeks. ZOELLICK said Russia must have a working customs system and intellectual property system before joining the WTO. He said Russia must take steps to modernize its economy.

S&P Seeks Growth In Insurance Rating

- *Standard & Poor's (S&P)* said Wednesday that the use of credit ratings in the Russian insurance market looks set for steady growth over the next five to 10 years. The announcement follows last month's upgrade of SP's long-term local and foreign currency issuer credit ratings of Russia (B/Stable/B) and an expectation that the market will open to western insurers following German-owned *Allianz's* decision to take a 45 percent stake in the Russian insurer *Rosno*. Ashley GILL, an Associate in S&P's Financial Services Group said, "Demand for ratings will grow in line with the region's insurance market, which to date has been slowed by a lack of liberalization. Although many foreign insurers would prefer the certainty of majority ownership, *Allianz's* move might prompt others to court the market to avoid being left behind." The upgrade of the ratings on Russia could also contribute to enticing foreign insurers to the market and further the development of its insurance sector. "Foreign investment is extremely important and has brought market stability in a number of other central and eastern European countries. The stabilization of Russia's economy and an increased foreign presence could consequently help pave the way for liberalization," GILL said.

Business

Rus-China Sign Feasibility Study For Pipeline

- Russia and China on Wednesday signed an agreement to develop a feasibility study for a \$1.7 billion, 1,700-kilometer (1,056-mile) pipeline to carry oil from Siberia to Beijing. US Chinese and Russian government officials and executives from Russia's second-biggest oil producer, *Yukos*, Russian pipeline monopoly *Transneft* and the *China*

National Petroleum and Natural Gas Corp. (CNPC) signed the 25-year accord, the Associated Press reported. Russian Energy Minister, Igor YUSUFOV said the feasibility study would take one year and that the pipeline would stretch from the Siberian town of Angarsk to Beijing, supplying approximately 20 million tons of crude oil a year from 2005 on and about 30 million tons after 2010, Reuters noted. Yukos spearheaded a lobbying campaign for the 600,000 barrels per day Angarsk-Beijing route. China imports just 25,000 barrels per day (bpd) directly from Russia. According to the International Energy Agency, the country is expected to consume 11 million bpd in 2020, up from 4.4 million bpd in 2000, Reuters reported. The pipeline accord came one day after Chinese President JIANG Zemin and Russian President Vladimir PUTIN signed a 20-year friendship treaty, which formalizes their countries' growing relationship and pledges closer economic, security and cultural ties.

Yukos May Speed Exploration

- Russia's second-largest oil company *Yukos* on July 12th said it will accelerate gas exploration and production, if the government goes ahead with plans to open up gas pipeline access under a reform plan for gas giant *Gazprom*. Speaking to Reuters in an interview, *Yukos* Chief Executive Officer Mikhail KHODORKOVSKY said the government move was, "absolutely the right thing to do... We will start developing gas fields at an accelerated pace and gas production in Russia will increase and gas costs will go down." He said *Yukos* will produce 15 billion to 20 billion cubic meters of natural gas in four to five years, if the government plan for *Gazprom* works out. Prime Minister Mikhail KASYANOV said on Wednesday the reform plan for the world's biggest gas company foresaw breaking up its production and transportation facilities and allowing access to its pipelines for other companies. Moscow business newspaper *Vedomosti* reported that the government intended to restructure *Gazprom* by taking control over its pipelines and eventually giving access to other firms via auctions.

EUROPEAN REPUBLICS

China Gives \$1.21 Million In Free Aid To Belarus

- Belarus President Alexander LUKASHENKO has

accepted a \$1.21 million in free aid from visiting Chinese President JIANG Zemin. This is not the first grant from China to Belarus. In the past, China contributed funding to help Belarus overcome the effects of the Chernobyl disaster. Belarus and China agreed to boost their relations. LUKASHENKO and JIANG discussed a range of issues during their meeting, including foreign policy objectives, the expansion of NATO eastwards, and the creation of a new global political and economic order. The Belarus President said the two sides share similar views on many international issues, like maintaining the strategic balance and security of the world, and opposing any attempts to undermine the treaty on the limitation of anti-ballistic missile systems. Belarus and China hope to expand their bilateral trade to \$500 million per year, three times above current levels. Belarus, which in the past has mainly exported potash fertilizer and trucks to China, hopes to improve trade in new technologies, including those used in China's military sector, Belarus officials said. The West has criticized both leaders for abusing the basic human rights of their citizens. JIANG said China is thankful of the support from Belarus on issue of Taiwan, Tibet, and human rights. The Chinese President said, "We respect the path which the Belarus people have chosen. China adheres to the principle that all countries have the right to choose their own way forward." LUKASHENKO said, "is particularly important that the Chinese people have promised us their support at any time and under any circumstances. China will stand by the Belarus people," Reuters reported. He added that Belarus will continue to follow the basic principles set in the course of bilateral relations over the past years. JIANG is traveling to Moldova today before flying to Ukraine late on Friday for a four-day visit.

Ukraine Seeks To End Border Disputes

- First Deputy Foreign Minister and Ukrainian Representative to the Council of Europe Alexander CHALY said Ukraine is seeking to delimit and document properly its state borders with all neighboring countries, including Russia. He denied media reports claiming that Ukraine refuses to begin the demarcation of the border with Russia. He said, "Indeed, at the current stage of the Ukrainian-Russian negotiations on the formalization of the state border, efforts have been concentrated on

delimitation, and this is quite natural because from the formal juridical point of view the completion of delimitation is a necessary condition for the commencement of talks on the demarcation of the state border. It is from this position that the Ukrainian side proceeds at the appropriate talks with the Russian Federation.”

SOUTH CAUCASUS & CENTRAL ASIA

Laliskuri Residents Release Hostages

- Laliskuri residents, who kidnapped a busload of Chechens and Kists in revenge for a previous abduction, have released six hostages today, after negotiations, police chief of Kakheti region in eastern Georgia Tamaz TAMAZASHVILI told Reuters. The release of the Chechen hostages followed the release on Tuesday of police officer Mamuka ARABULI and David BAZARASHVILI. ARABULI was abducted on Friday from his village near the Pankisi Gorge that leads to the border with Chechnya. BAZARASHVILI was kidnapped a month ago in Telavi, the main town in eastern Georgia. Local residents blamed ARABULI's kidnapping on ethnic Chechens living in the gorge and later seized a bus with Chechens on board and took seven of them hostage. The youngest of the Chechen hostages, an 18-year-old man, was released later on Tuesday. The local militia armed themselves and blocked the roads leading to the Pankisi Gorge. The commander of the local militia Luka RAMAZASHVILI said that he is confident that the two Spanish businessmen kidnapped in November are being held in the Pankisi Gorge. He stated that he did not know the location of the Lebanese businessmen or the brother of Georgia's famous soccer player who were kidnapped in June. RAMAZASHVILI said he will not dismiss his militia until the release of all the businessmen and other hostages. He has called on the Interior Ministry to send troops to control the Pankisi Gorge so that the local militia can be relieved.

Georgia sent troops to the Pankisi Gorge on

Saturday, along with a team of negotiators led by Interior Minister Kakha TARGAMADZE. Earlier this month, Georgia reinforced its border controls in the Gorge and show Moscow it is serious about controlling the border with Chechnya, Agence France Presse reported. Chairman of the Georgian Parliament's Committee for Defense and Security Gia BARAMIDZE, who participated in the negotiations, said he believes that Russian secret service agents were involved in instigating situation in the Pankisi Gorge. However, he does not see the need for sending Interior Ministry troops to the Gorge to control the situation.

IMF Mission Praises Georgia For State Budget

- An International Monetary Fund (IMF) mission to Georgia headed by David OWEN, gave a positive assessment to the fulfillment of the state budget goals for the past two months and said that the compliance with the budget goals will be a condition to resume the IMF antipoverty program in Georgia. Under the \$141 million program, Georgia has received \$24 million. The IMF delayed a \$12 million loan to Georgia that was due to be released in June, demanding improvement in the country's fiscal situation. The program was stopped several months ago for the failure to meet the state budget requirements. The budget revenue shortfalls totaled 38 million lari (\$18.5 million) for the first four months of 2001, which contributed to arrears in payments of pensions and public sector wages. Another problem cited was weak customs and tax administration. On Wednesday, the IMF mission met with Georgia's State Minister Gia ARSENISHVILI and the economic bloc government officials to discuss Georgia's external energy debt, amounting for \$200 million, and the anti-corruption program. Today, the IMF mission will meet with the coordination committee on anticorruption campaign. According to OWEN, the mission will also discuss Georgia's 2001 macroeconomic parameters, foreign debt, and the 2002 state budget. The IMF mission arrived in

Paul M. Joyal, *President, Editor in Chief*
Clifton F. von Kann, *Publisher*
Oleg D. Kalugin, *Content Advisor*
Jennifer M. Rhodes, *Principal Editor*
Tatyana Kotova, *Contributing Editor*

Daily Report on Russia is for the exclusive use of the subscriber only. Reproduction and/or distribution is not permitted without the expressed written consent of Intercon. *Daily Report on Russia* © copyright 2001, Intercon International, USA.

Daily Report on Russia is published Monday-Friday (excluding holidays), by Intercon International, USA. Subscription price for Washington, D.C. Metro area: \$950.00 per year. A discount is available for non-profit institutions.