

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Russian Commandos Storm Hijacked Bus**

• A Russian special Alfa anti-terrorist commando unit stormed a bus seized by two hijackers this evening after a 12- hour standoff. The bus, traveling from Nevinnomyssk to Stavropol along the main road from Moscow to Chechnya and carrying about 41 passengers, was seized about 7 a.m. The hijackers forced the bus driver to take them to the Mineralnye Vody Airport. The bus was stopped just outside the airport, surrounded by troops, fire trucks and ambulances. Nearly 12 people were released throughout the day. Igor TRUBITSYN, spokesman for the Stavropol branch of the Federal Security Service (FSB) said the hijackers were armed with one grenade, about two pounds of TNT, and a submachine gun. The hijackers were demanding the release of five Chechens from jail for a similar hijacking in May, 1994. News agencies said today's hijackers also demanded guns, ammunition, a radio and a helicopter, just as the previous gunmen did in 1994. It is estimated that 25 people were on board the bus, when special forces stormed it. They first set off two smoke grenades, causing one of the hijackers to stick his head out of a bus window. He was shot dead by a sniper, according to Valery KAVTOSENKOV, a spokesman for the FSB. The other gunman was wounded and seized. Itar-Tass news agency, quoting security sources, identified one hijacker as Sultan-Said IDIYEV, an ethnic Chechen born in 1967. Prosecutor-General Vladimir USTINOV told reporters that flying glass, during the raid, injured several of the hostages. Viktor ZHUKOV was shot on the bus and hospitalized, after the hijackers released him in the city of Nevinnomyssk. The acting chief of the Nevinnomyssk police department was shot while trying to negotiate with the hijackers. A Kremlin spokesman

said FSB chief Nikolai PATRUSHEV immediately informed Russian President Vladimir PUTIN of the operation's results.

#### **Kadyrov Fires Gudermes Administrative Chief**

• The head of the pro-Moscow administration in Chechnya Ahmed KADYROV on Monday sacked Malika GEZIMIYEVA, the administrative chief of Gudermes, Reuters reported. GEZIMIYEVA is known for her backing for Russia's drive to crush separatist rebels. KADYROV dismissed her on the grounds that she had reached the compulsory retirement age of 60. But Interfax news agency quoted GEZIMIYEVA as saying she had no intention of leaving her post. She described herself as, "the savior of Gudermes district" and said those trying to remove her, "will detonate the situation in Gudermes and from there all of Chechnya." NTV television described GEZIMIYEVA as, "one of the most consistent backers of Russia's military operation." It quoted local reports as saying there had been scuffles when she tried to enter her office. GEZIMIYEVA suggested she was dismissed because of her efforts to prevent unnamed individuals from engaging in the theft of Chechnya's resources, RFE\RL Newline reported. KADYROV was appointed by the Kremlin last year to oversee efforts to restore civilian life and institutions, but has criticized what he says are excesses by Russian troops against civilians. News agencies said President Vladimir PUTIN's envoy to southern Russia Viktor KAZANTSEV had delegated

his deputy Alexander KOROBENIKOV to resolve KADYROV's dispute with GEZIMIYEVA. Interfax quoted officials in Grozny as saying that many of the remaining residents were leaving the town in anticipation of rebel attacks to mark the fifth anniversary of the assault on August 6, 1996 in which insurgents seized the city.

### Economy

#### **Russia's Economy Begins Slowdown**

- The Economic Development and Trade Ministry on Monday released figures showing that Russia's economic growth slowed to 5.4 percent in the first half of this year from 8.8 percent last year. The Russian economy has been making a fast recovery from its 1998 financial crisis driven largely by high world prices for oil. Industrial production also received a boost from the devaluation of the ruble, which made domestic goods cheaper and therefore more competitive. Gross domestic product was up 5.3 percent in June compared to June, 2000, the ministry said in a report. The figure was well below the 10.2 percent increase from June, 1999 through June, 2000. Inflation accelerated in the first half of this year, stoking earlier concerns that the government would fail to meet its 12 percent to 14 percent target for the year, the Associated Press reported. Consumer prices rose 12.7 percent in January through June, compared to 9.5 percent in the same period last year. The average monthly wage rose to 3,304 rubles (\$113) in June, up from 2,294 rubles a year ago. However, other indicators appear to show that the economy is surpassing even more favorable forecast figures. RFE\RL Newline reported that according to Vladimir MAU, the head of the Economic Reform Center Under the Russian Government, Russia's economy is outperforming predictions. These indicators include state budget surplus, excluding the costs of debt servicing, reached 154 billion rubles (\$5.3 billion) during that period, or about 4 percent of GNP. State revenues amounted to 713 billion rubles (\$24.5 billion), or about 18 percent of GNP. According to the State Statistics Committee the same day, the volume of industrial production increased 5.5 percent during the first half of the year compared to the same period last year. However, measured in absolute figures, the volume of Russia's industrial output in 2000 remained 43.2 percent lower than in 1989, MAU noted.

**Ruble = 29.25/\$1.00 (NY rate)**

**Ruble = 29.34/\$1.00 (CB rate)**

**Ruble = 25.71/1 euro (CB rate)**

### Business

#### **Chevron Hopes For Opening Decision**

- *Chevron* today said it hopes a decision will be made at the end of the week for the formal opening of the Caspian pipeline project. The *Caspian Pipeline Consortium (CPC)*, in which *Chevron* is involved, last week decided to delay a formal opening ceremony for the 1,510-km (938-mile) pipeline. It said consortium members had to finalize agreement on transporting product. The transportation agreement, about which Russia has expressed concerns, regulates capacity allowances, commercial terms and customs procedures. *Chevron* Vice Chairman Richard MATZKE made clear that a new and final date of the opening ceremony might be known within days. "CPC will have a meeting on Friday of this week, and hopefully that issue will be resolved at that time," he told reporters after meeting Kazakh President Nursultan NAZ-ARBAYEV in Almaty. A *Chevron* spokesman based in Almaty told Reuters the *CPC* meeting will be held in Moscow. "This is the transportation agreement, the foundation of the economic relationship between all the partners," MATZKE said, stressing that major technical problems had been resolved, allowing for the shipment of Caspian oil to world markets. The pipe, running from Kazakhstan's huge Tengiz oilfield to Russia's Black Sea port of Novorossiisk, was due to be formally opened on August 6<sup>th</sup>, although *CPC* had said no oil would actually be loaded on to ships at that time, Reuters reported. *CPC* unites the governments of Russia, Kazakhstan and Oman, *LUKArco*, *Rosneft-Shell Caspian Ventures*, *Kazakhstan Pipeline Ventures LLC*, *Chevron*, *Mobil Caspian Pipeline Company*, *Agip International*, *BG Overseas Holding Ltd*, and *Oryx Caspian Pipeline*.

### **EUROPEAN REPUBLICS**

#### **Moldovan GDP On The Rise**

- Moldova's Prime Minister Vasile TARLEV said on Monday that the nation's economy is set to expand by seven percent in gross domestic product (GDP) terms this year. He told the Moldovan parliament, "In the first half of the year, GDP rose by four percent. By the end of this year, GDP is expected to have

grown by seven percent." In 2000, GDP rose 1.9 percent after falling 4.4 percent a year earlier. The country, sandwiched between Ukraine and Romania, relies heavily on its agricultural sector and is trying to re-establish a \$142 million International Monetary Fund (IMF) loan program, which was frozen this year when the Communists returned to power, Reuters reported.

#### **OSCE See Progress In Dniester Withdrawal**

- The Organization for Security and Cooperation in Europe (OSCE) on Friday said it expected significant progress by year's end in the planned withdrawal of Russian troops from Moldova's breakaway Dniester region. William HILL, head of the OSCE's permanent mission to Moldova, told a news conference he had discussed a schedule for withdrawal and plans for financing the pullout during a meeting in Moscow with Russia's Deputy Defense Minister Vladimir ISAKOV. "If the agreements are implemented, it's possible to expect a significant, positive result in the course of the next few months," HILL told reporters. At the OSCE summit in Istanbul in 1999, Russia said it would withdraw its estimated 2,500 soldiers from the Dniester region by the end of 2002. So far, only a few troops have pulled out. Dniester split from Moldova in 1990. The region remains in the hands of Russian-speaking separatists, who fought a short but bloody war in 1992. Russian data shows some 40,000 tons of ammunition are stored in the village of Colbasna and in Tiraspol, the main town of the separatist region. Moldova's newly elected Communist President Vladimir VORONIN has said solving the conflict is one of his top priorities. Relations with the Dniester leadership have improved slowly, but talks have stumbled over the issue of the region's status. Moldova has proposed granting Dniester broad autonomy but the region's leaders want full independence, Reuters reported.

#### **Lithuania Backs Yukos-Mazeikiu Nafta Deal**

- The Lithuanian government on Friday approved a key *Mazeikiu Nafta* equity-for-crude deal and will back legislative amendments to allow Russian *Yukos* to take a 24 percent stake in the concern. Finance Minister Dalia GRYBAUSKAITE, who is the head of the working group set up by the new administration to scrutinize the deal to win better terms for the state, announced the decision. Under the deal, concluded last month with *Mazeikiu's* US operator *Williams*, *Yukos* would inject \$75 million

into *Mazeikiu* and guarantee supply of 4.8 million tons of crude annually in return for 26.85 percent of the company. Steady crude supplies are key for *Mazeikiu* to secure some \$400 million in financing for the reconstruction of the sole refinery in the Baltic States to meet Western quality standards. Parliament on Monday read the amendments, which currently restrict other shareholders than the government and *Williams* from owning more than 24 percent in *Mazeikiu*. The deal with *Yukos* has official US support and was struck during the previous government, which later fell and was replaced by Prime Minister Algirdas BRAZAUSKAS' Cabinet this month. *Mazeikiu* has scheduled an August 6<sup>th</sup> shareholders meeting to vote on a new share issue that would give *Yukos* an equity stake. With the amendments moving forward, the government must now find a solution to a Constitutional Court case over *Williams'* agreement for its current 33 percent stake, Reuters reported. Time is key in settling both issues since the deal stipulates that if the agreement is not finalized by September 15<sup>th</sup>, *Williams* and *Yukos* can part company amicably if they want.

### **SOUTH CAUCASUS & CENTRAL ASIA**

#### **Georgians March In Memory Of Sanaya**

- It is estimated that 3,000 people participated in a memorial service on Tbilisi's main thoroughfare, the tree-lined Rustaveli Avenue, Monday night for Georgi SANAYA, a television journalist found slain in his apartment last week. The young journalist was a skilled interviewer on the analysis program *Evening Courier*. The cause of death was a shot to the head. SANAYA was buried today in an Orthodox ceremony. Many of the supporters blamed the murder on the government. One demonstrator, Manana GRIGALASHVILI, said, "We are here to express our mourning because of Georgi's death and we are here to protest to the government and the president as they are responsible for this and many other killings," Reuters reported. A statement signed by Georgian journalists states, "The authorities bear the responsibility and it would only be logical for the government to resign." Georgian President Eduard SHEVARDNADZE said solving the murder was a matter of national importance. The US has sent a team of FBI experts to assist in the investigation and to ensure its "complete

impartiality." The President stressed, "What we have here is a thoroughly thought-out and targeted provocation, the goal of which is to provoke instability, fear, distrust in society."

### Iran Aircraft Violates Azeri Airspace

- On Monday night, Baku's independent TV company Azerbaijan News Service (ANS) reported that an Iranian Air Force reconnaissance plane invaded Azerbaijan's airspace last Sunday. Azerbaijan's Air Defense detected the plane, which flew over the Azeri sector of the Caspian Sea for almost four hours from 1 p.m. to 5 p.m. and then headed for Baku. Approximately 160 kilometers away from Baku, the Iranian plane made a U-turn and flew back. It landed at the military base in the Iranian city of Resht at 5 p.m. The press service of the Azerbaijani National Security Ministry declined to comment on the report, saying that the protection of the country's airspace was outside its competence. ANS says that deputy director of the air navigation service of the state-run Azerbaijani airlines, which ensures safe navigation of civil aircraft, confirmed the fact of violation of Azerbaijan's airspace but declined to elaborate without the Defense Ministry's permission. This latest incident follows the demand by an Iranian warship for an Azeri research vessel to stop work in the in the block Azeris call Araz-Alov-Sharg in the Caspian Sea on July 23<sup>rd</sup>.

Meanwhile, Iran's Ambassador to Baku Akhad GAZAI has left the capital for consultations in Tehran. The Embassy said that the Ambassador's departure was not linked to the incident in the Caspian Sea. Another official pointed out that the ambassador plans to inform the Iranian government of the content of his conversation with Azeri President Geidar ALIYEV on July 26<sup>th</sup>, which was a confidential meeting. According to the Embassy spokesman, GAZAI will return to Baku within the next two to three days. Iran and Azerbaijan agree that all issues should be solved through talks.

### Azeri-Turkmen Debt Talks Fail

- Azerbaijan Deputy Prime Minister Abbas AB-

BASOV, who headed a weekend delegation to Ashgabat to discuss Azerbaijan's debts, said that Turkmenistan has rejected Azerbaijan's proposal. Negotiations ended on Sunday. Azerbaijan's debt to Turkmenistan totals \$26.7 million. Of that amount \$18.7 million is the remaining state debt for gas supplied in 1993 to 1994, Itar-Tass reported. Turkmenistan however claims the sum is \$59.6 million. Azerbaijan said these claims are quite, "groundless." ABBASOV said that the Ashgabat negotiations had absolutely failed. The talks were scheduled after Turkmenistan recalled its embassy from Baku (in June). He noted that the debt discussion fulfilled the need to address the main problem—the Turkmen-Azerbaijani dispute in connection with Ashgabat's claims for two sea oilfields. An international consortium has been working at the fields Chirag (named Osman in Turkmenistan) and Azeri (Khazar) since 1994. Baku does not consider the fields as disputed, ABBASOV said. Relations between some states surrounding the oil and gas rich Caspian Sea have been strained recently, with Azerbaijan and Turkmenistan holding differing views on how the sea should be divided between the five littoral states. Turkmenistan plans to host a summit of all five states in Ashgabat in October to discuss the division of the sea. When leaving Ashgabat late on Sunday, ABBASOV expressed regret that he had failed to carry out Azerbaijan's President Geidar ALIYEV's instruction to meet with Turkmen President Saparmurat NIYAZOV, Reuters reported.

### Kazakhstan To Increase Oil Production By 2010

- Kazakhstan plans to increase the volume of oil production to 100 million tons by 2010, the president of the *Kazakhoil* oil company announced. He reported \$12 billion had been invested in the Kazakhstan economy over the past 10 years and more than \$4.6 billion of these investments were allocated to the oil and gas industry. The president also reported that Kazakhstan will produce about 40 million tons of oil this year.

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