

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

LDP Adopts Pro-Western Policy

• The Liberal Democratic Party, acting on a proposal by Russian lawmaker Vladimir ZHIRINOVSKY, adopted on Thursday a pro-Western policy. ZHIRINOVSKY, who visited Washington last week, said Russia should view the U.S. as a partner "in everything - economics, culture, fighting terrorism... It all depends on America now." ZHIRINOVSKY told the newspaper *Obshchaya Gazeta* in an interview published Thursday, "If everything goes as it should, I wouldn't be surprised if in about 30 years our countries [the U.S. and Russia] combine their resources and form a single North Atlantic state." This is a complete turn around from ZHIRINOVSKY's earlier attitude. In the past, he has led attacks on U.S. and NATO policies. Last year, he heckled then-President Bill CLINTON as the latter made a speech to the Russian parliament. He is also known for antics such as throwing water on deputies and pulling a female colleague's hair, the Associated Press reported.

Russian Forces Seal Off Argun

• Russian troops sealed off the Chechen town of Argun on Thursday as their first major battle with separatists in months raged for a second day, the Associated Press reported. A Russian police unit clashed with rebels on the town's outskirts Wednesday. The rebels retreated into Argun after Russian helicopters fired on them, and gunfire within the town could be heard throughout the day and night. Six Russian servicemen were killed in Wednesday's operation. The rebels in Argun were believed to be from a unit loyal to KHATTAB, a Jordanian-born warlord who Russian officials say is a close associate of Osama BIN LADEN. Before the Argun clash, few major battles were fought in Chechnya in the

past year. But hit-and-run attacks and land mine explosions result in daily Russian casualties, despite Moscow's claim to have re-established control over the region. The battle in Argun resulted in power shortages at the Russian military base at Khankala and in the capital, Grozny. Nurdin USAMOV, the head of Chechnya's power company, said the disruption was caused by Russian troops who damaged power plant equipment in Argun, Interfax reported. Communication between the Chechen administration and the military command in Argun was also cut. Meanwhile, Russian officials are still optimistic that the war will soon be over. Kremlin spokesman Sergei YASTRZHEMBSKY said on Echo of Moscow radio, "It looks like this winter will be the last for the rebels. An increasing number of rebel leaders have been neutralized."

Case Of Military Misappropriation To Be Filed

• ITAR-TASS reported that the Prosecutor-General's Office will file a case against Colonel General Georgy OLEINIK, the chief military financial officer who is accused of misappropriating some \$450 million from the military budget. According to investigators, in 1996 OLEINIK transferred those funds as payment for construction materials for military needs to the bank account of the Ukrainian-British company *United Energy International Ltd.* However, the materials were never supplied and the money disappeared. Despite this, the investigators claim, the Prosecutor-General's Office absolved former Finance Minister and current head of *Northern Oil*

Andrei VAVILOV, who authorized the deal, of criminal responsibility. The Prosecutor-General's Office did not find VAVILOV guilty of criminal conduct, only negligence, RFE\RL Newslite reported.

Economy

<p>Ruble = 30.33/\$1.00 (NY rate) Ruble = 30.33/\$1.00 (CB rate) Ruble = 27.37/1 euro (CB rate)</p>
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S&P Likely To Raise Russia's Rating

- Rating agency *Standard & Poor's (S&P)* said Thursday that it may boost Russia's rating due to impressive economic progress, but did not reveal when the new rating would be announced. *S&P's* last action on Russia was to raise its outlook to positive in October. Russia has impressed analysts and markets with its economic and political reforms in the last two years, although a shadow has recently fallen over the economy due to fears of pressure from a slide in world oil prices. Cynthia STONE, *S&P's* managing director for Russia and the Commonwealth Independent States (CIS) said structural reforms were helping to smooth out the fall. She noted the rating increase means, "we see an improvement in Russia's investment climate, progress in structural reforms and better economic factors." *S&P's* current rating for Russia is single-B and the long-term issuer credit outlook is positive. *Moody's* has the country at Ba3, with a positive outlook while *Fitch* has a rating of B+ for Eurobonds, with a stable outlook, Reuters reported. *S&P* president Leo O'NEILL said Russia still had some work to do. "Russia needs to create a track record of reliability in world markets," he said, although he added that Russia was making "great strides" to this end. Russia's economy is expected to show growth of around 5.5 percent this year after a record 8.3 percent in 2000.

Duma Passes 2002 Budget With First Surplus

- The Russian State Duma in a fourth and final reading approved the 2002 budget, with an easy majority. The budget, the first with an expected surplus, now must be passed by the Federation Council and President Vladimir PUTIN. The 2002 budget surplus is expected at 1.63 percent of gross domestic product (GDP) if oil prices meet government targets. GDP growth is seen at 4.3 percent and inflation at 10 percent to 13 percent.

Despite a global slowdown and drop in oil prices, Finance Minister Alexei KUDRIN said he was confident Russia's economy this year would surpass the expected growth rate. He noted that lower oil prices are estimated to lead to a fall in government revenues of around \$1.0 billion. KUDRIN said, "In 2001, GDP growth will be more than 5.5 percent. This is one of the highest growth rates compared with other countries...This is the level we have always dreamt of. We have managed to maintain growth even in conditions of declining oil prices. We shall fulfill all our obligations, both domestic and foreign. We are optimistic about 2002." KUDRIN said a mission of the International Monetary Fund (IMF), which completed its work in Moscow this week, had also maintained its positive outlook on Russia's economy despite the lower oil prices. He said the IMF expected Russia to keep a positive balance of payments and maintain its growth in GDP and gold and hard currency reserves, Reuters reported.

Early Russian Economic Statistics For 2001

- Russia's Finance Minister Alexei KUDRIN said today the nation's 2001 gross domestic product (GDP) growth will be higher than the expected 5.5 percent. He also told reporters that the government maintained its forecast for consumer price inflation at 18 percent. "In 2001, GDP growth will be more than 5.5 percent. This is one of the highest growth rates compared with other countries," KUDRIN said. The State Statistics Committee reported Russia's consumer price inflation was 0.5 percent between December 1 and 10, compared with 1.4 percent in the whole of November. It also said that average daily inflation amounted to 0.050 percent compared with 0.052 percent last December.

Russia Pays Its U.N. Debts

- Russia said Thursday it had paid all its debt to the U.N.'s regular operating budget and separate peacekeeping budget a year early. Russia pledged in November 1995 to pay off its debts within seven years. Russia's U.N. Mission said Moscow cleared the debt Thursday with a payment of \$39.9 million to the peacekeeping budget.

Business

Online Oil Trading Takes Off

- Europe's first online oil exchange, Russia's *Neft-*

ebid, announced that its Internet trading business was taking off. *Neftebid* CEO Alexei KORNIENKOV said the growing number of users, ranging from Russian oil majors to small traders, underlined a growing movement towards the establishment of a more efficient market for oil products in Russia. "They [traders] have come to understand that online trading does not represent a threat to their existence, but is instead a useful instrument for increasing liquidity and transparency in the market," he told Reuters. Created by Russia's sixth largest oil producer *Sibneft*, the trading floor was launched in September. "*Neftebid* is now trading two cargoes a week, equivalent to approximately 50,000 tons a month. We hope to reach a level of 100,000 tons a month by spring 2002," he said. The trades are currently limited to gas oil and fuel oil out of the Baltic Sea ports Tallinn and Ventspils, on a fob basis. The main sellers are *Sibneft's* Omsk refinery and the Yaroslavl refinery, which belongs to *Slavneft*, Russia's eighth largest oil producer, controlled by the state. The system allows buyers and sellers to put bids and offers and to negotiate online. Sellers and buyers each pay a commission of \$0.07 per ton to *Neftebid*. Optimistically, KORNIENKOV said, "The next step is to expand beyond seaborne shipments of refined products to include shipments by rail on a delivered at frontier (daf) basis." The online trader is hoping to expand cargo shipments at ports on the Baltic and Black Seas. *Neftebid's* main shareholder *Sibneft* was planning to retain its 75 percent stake, but had set aside a stake of 25 percent to be distributed among *Neftebid's* users in proportion to trading volumes. He said *Neftebid* was also looking to start trading derivatives, but added it would require a substantial increase in liquidity before it became feasible.

EUROPEAN REPUBLICS

Latvia Re-arrests Bombing Suspect

- Latvian Police have re-arrested Dmitry MASHKOV, a former member of the Soviet OMON paramilitary group, who is accused of bombing a synagogue in 1998. Criminal police again detained him today this time for possible links to the murder of Judge Janis LAUKROZE. The suspect was released on Thursday, but remained under police surveillance. Kristis LEISKALNS, a criminal police spokesman, told Reuters, "All I can say at the moment is that we detained him yesterday in connection with the

murder of Judge [Janis] LAUKROZE." No charges have been filed against MASHKOV. The 1998 synagogue bombing came amid a diplomatic row between Latvia and Russia. It caused no deaths or injuries but was condemned by the U.S., Jewish groups, and Latvian leaders. The 1998 bombing was seen as tarnishing Latvia's image when the Baltic country wanted to join the European Union and NATO.

Putin-Kuchma Hold Energy Talks

- During his sixth visit to Ukraine in two years, Russian President Vladimir PUTIN met today with Ukrainian President Leonid KUCHMA to discuss energy issues and economic cooperation. Moscow has promised more funds for Ukraine to complete work on nuclear reactors intended to replace the closed Chernobyl. Russian Deputy Energy Minister Bulat NIGMATULIN told reporters in the city of Kharkiv, "Today we will sign an intergovernmental agreement on a joint completion of the Ukrainian reactors," in eastern Ukraine. He said a financing agreement should be signed by April. Ukraine is in a dispute with the European Bank for Reconstruction and Development (EBRD) over funding to complete two new nuclear plants in western Ukraine. KUCHMA last month dismissed as unacceptable terms offered by the EBRD and accused Ukraine's previous government of betraying national interests by agreeing the deal. The EBRD has approved in principle a \$215 million loan to help Ukraine recover electricity generating capacity lost from the closure of the last working reactor at Chernobyl, Reuters reported. Russian experts estimate the completion of the two reactors would cost between \$400 million and \$500 million but the exact size of the expected loan was not clear. Analysts in Kiev say a loan from Russia for the reactors would further increase Ukraine's heavy dependence on Moscow for energy supplies. Ukraine relies on Russia for more than 60 percent of its energy needs. Ukraine and Russia also plan to sign a bilateral agreement on transporting Russian gas through Ukraine next year. A delegation of business leaders accompanied the President and met with Ukrainian colleagues. Ukraine remains Russia's largest trading partner. In Kharkiv, PUTIN and KUCHMA will chair a forum of several hundred business leaders.

Moldova Unable To Pay Foreign Debts

- Moldova's Finance Ministry said on Thursday

it will not be able to meet in full its foreign debt obligations due in December because it had not received funds from foreign creditors. A ministry statement explained, "Taking into consideration the fact that, until now Moldova did not receive financial resources from external creditors in the amount of \$36.3 million...the government of Moldova will have some difficulties meeting its obligations in December." Moldova was unable to meet in full interest payments due on December 7th on a loan from the European Union. At the end of the second quarter, the government's total debt to the European Union stood at \$46.6 million, Reuters reported. On Thursday, the government was also due to meet a \$3.7 million semi-annual interest payment on a 2002 Eurobond. The Finance Ministry declined to comment on whether it also faced problems with that payment. It has a 21-day grace period and in the past has made payments on the last possible day after receiving cash from the Central Bank. International rating agencies have downgraded Moldova's rating, saying they have doubts over the country's ability to service its foreign debt payments in future. More than a third of its projected budget spending for this year is earmarked for paying off debts. Official figures showed Moldova's foreign debt totaled \$1.539 billion at the end of March. It comprises \$1.015 billion in state foreign debt and \$523.5 million in commercial debt. The government had hoped to receive by the end of the year a \$12 million installment from the International Monetary Fund (IMF) under its \$142 million loan program. The Finance Ministry said an IMF mission was due in the Moldovan capital of Chisinau next week.

SOUTH CAUCASUS & CENTRAL ASIA

Abkhazia Forwards Ultimatum Over Kodori

- Abkhaz acting Defense Minister Givi AGRBA has called on Tbilisi, "to immediately withdraw its troops from the Kodori Gorge," Prime News Agency reported. Otherwise, AGRBA stated Abkhazia, "will take some adequate measures to liberate the Kodori Gorge from the armed people who violated the 1994 Moscow agreement." "Georgia considers the Kodori Gorge strategically important, but this is an Abkhaz territory," AGRBA stressed. He noted that this ultimatum was also forwarded to the U.N. Secretary General's Representative Diter BODEN. BODEN was quoted as saying earlier that

the presence of the 350-troop Georgian military contingent in the Gorge impedes the resumption of the negotiation process between Sukhumi and Tbilisi. Meanwhile, Georgian President's Envoy to the Kodori Emzar KVITSIANI stated he opposed the withdrawal of the Georgian Army. He added that after the recent bombings of the valley, all 2,400 local residents would oppose the withdrawal of the Georgian troops.

Georgian Officials Involved In Kidnapping?

- Chairman of the Georgian parliament's human rights committee Elena TEVDORADZE confirms the statements of recently released Spanish businessmen Hose Antonio TREMINO and Francisco RODRIGUEZ, who claimed that some high-level Georgian officials were involved in the kidnapping, Prime News Agency reported. According to TEVDORADZE, recently assassinated Pankisi Valley crime boss Vepkhia MARGOSHVILI told her that the release of the Spanish businessmen would occur after an agreement between high level officials in Russia and Georgia was reached. TEVDORADZE is hopeful that those officials will be disclosed since TREMINO and RODRIGUEZ are back home and they can name some people involved in the kidnapping. If Georgia wants to be called a "state," it should reveal the truth behind the crime that, "stirred up the entire world," she stressed. According to the some Spanish media reports, the kidnapers acted together with corrupt officials from Tbilisi.

Georgian-Armenian Youths Clash

- Thirteen people were injured in fighting among some 25 to 30 Armenian youths in the predominantly Armenian populated town of Ninotsminda in southern Georgia on Sunday, Caucasus Press reported. Gigla BARAMIDZE, the deeply unpopular local governor, could not explain what prompted the fighting, but added that it engendered "panic" among local residents. Additional guards have been deployed along the Georgian-Armenian border, RFE\RL Newline reported.

Armenia Stresses Relations With Russia, Iran

- ITAR-TASS reported that Armenian Speaker Armen KHACHATRIAN told parliamentary deputies that during his talks with Russian officials he consistently stressed that Armenia is Russia's only

strategic ally in the South Caucasus. KHACHATRIAN further argued, as other Armenian politicians have done, that bilateral economic ties should be elevated to a level comparable with the close military cooperation between the two countries, thus creating new jobs in Armenia and new markets for Armenian manufactured goods. He added that the creation of a political "axis" made up of Armenia, Iran, and Russia could prove "extremely important" for Armenia's economic development, RFE\RL Newline reported.

Aliyev Meets Iran's Caspian Envoy

- Azerbaijan's President Geidar ALIYEV on Tuesday met with Iran's envoy for Caspian issues, Mehdi SAFARI. They discussed bilateral relations and the legal status of the Caspian, Turan reported. ALIYEV reaffirmed Azerbaijan's willingness to participate in the North-South transport corridor project from Russia via the Caucasus to Iran. He also said that a group of Azeri diplomats will travel to Tehran on December 24th to coordinate the text of the Treaty on Friendship and Cooperation and other bilateral documents that are to be signed during his planned official visit to Iran. In an apparent retreat from his reported statement six days earlier that he is ready to visit Iran immediately, ALIYEV said that only after those agreements have been finalized could the time frame for his visit be finalized, RFE\RL Newline reported.

U.S. Planes To Land With Aid In Kyrgyzstan

- Kyrgyzstan's Security Council Secretary Misir ASHIRKULOV said U.S. planes flying military and humanitarian missions into Afghanistan will begin using Kyrgyzstan's Manas airport by early January. The Kyrgyz parliament voted overwhelmingly in favor of Washington's request for air facilities a week ago, allowing the use of selected bases for military and humanitarian operations for one year. Manas international airport near Bishkek, which U.S. military experts say can accommodate 30 to 40 aircraft, was among the selected bases. As many as 4,000 U.S. military and civilian personnel

are expected to assist in these missions. Although Kyrgyzstan is within easy reach of Afghanistan, the two states do not share a border. Kyrgyzstan is debating the possibility of allowing French aircraft to land at Manas. Burdened by a crippling external debt and immense social problems, Kyrgyzstan is set to gain significant financial rewards from the loan of its airbases. Officials said last week state coffers would receive \$7,000 for each landing and take-off by a large aircraft, Reuters reported.

Czech Court Not To Extradite Salikh

- A Czech court today refused to send back an exiled Uzbek opposition leader wanted on terrorism charges in Uzbekistan, citing danger to his life if he is extradited. Mukhammat SALIKH is hailed by human rights groups as a poet and a champion of the downtrodden, but authorities in his native Uzbekistan say he's a terrorist and is wanted in connection with bombings in Tashkent, which killed 16 people. The Uzbek President Islam KARIMOV narrowly escaped the explosions. In 2000, SALIKH was sentenced in absentia to serve a 5 ½ year prison term. He was arrested in Prague on November 28th, while on an invitation by Radio Free Europe/Radio Liberty (RFE\RL) to discuss human rights abuses in his homeland. Judge Veronika BOHACOVA of Prague's Municipal Court said Friday that SALIKH's extradition from the Czech Republic to Uzbekistan is not permissible. A detail account of the court's decision will be released next week. SALIKH said, "Justice has won." He said he believes his case might help highlight the human rights problems in his country. "Thousands of people in Uzbekistan are suffering and are persecuted, tortured and imprisoned because of their ideas and political views," the Associated Press quoted him as saying. He accuses KARIMOV, whom he unsuccessfully challenged in 1991 elections, of using the international anti-terrorism campaign as a cover to go after his adversaries. Upon his arrest Human Rights Watch called on the Czech courts not to extradite him stating that his plight was a "matter of life and death."

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