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Summary of the Report:

Political Issues:

Georgia ready for extensive dialog with Russia – president

Georgian President Mikheil Saakashvili said on Tuesday his country was ready for "extensive" dialog with Russia, days after the Russian president ruled out any progress in Russian-Georgian relations under Saakashvili.

Lavrov says peace in Middle East possible in two years

The Middle East Quartet of negotiators, comprising Russia, the United States, the European Union and the United Nations, said in a statement during their meeting in March that a new peace agreement between Israelis and Palestinians may be reached within 24 months.

Notorious opposition leader forms new party to run in Russian parliamentary elections

The Other Russia coalition, which no longer exists, included the National Bolshevik Party, outlawed in 2007, former prime minister Mikhail Kasyanov's People's Democratic Union and ex-chess champion Garry Kasparov's United Civil Front.

U.S. authorities charge 11 suspects with spying for Russia (Update 1)

Eight suspects were arrested on Sunday as allegedly being deep cover Russian agents in the United States. Two other suspects were arrested for allegedly participating in the same Russian intelligence operation, while one of the suspects remains at large.

Moscow Raises Questions on Timing of Spy Ring Arrests

The Russian foreign minister, Sergey V. Lavrov, on Tuesday appeared to question the timing of the decision by the United States to break up an alleged Russian espionage ring.

U.S. Declares Chechen Militant a Terrorist

Russia on Thursday hailed a decision by the United States to designate the Caucasian insurgent leader Doku Umarov a terrorist, a step announced on the eve of President Dmitri A. Medvedev's visit to the White House.

Economic:

G20 Leaders Take Aim at Deficits

Advanced G20 economies will aim to halve deficits by 2013 and start to stabilize their debt-to-output ratios by 2016, the group said in a statement Sunday after a meeting in Toronto. Leaders said nations can move at their own pace and also pledged to fulfill existing stimulus plans.

Ukraine Wants EU in Russian Gas Project

The previous more pro-Western administration in Ukraine had sought closer ties with the European Union, distancing itself from Russia. The current government has rekindled closer links with Moscow, but Tigipko's comments show Kiev is still keen to foster cooperation with Europe.

London ready to help Moscow become world financial center

The idea of making Moscow a global financial hub was first put forward by Russian President Dmitry Medvedev in 2008 at the St. Petersburg Economic Forum. The move is aimed at strengthening the ruble's position as a reserve currency.

Social:

\$1,000 of Scattered \$320,000 Bribe Returned to FSB

The returned money, worth a little less than \$1,000, could be a fraction of the missing amount, which news reports have put between 55,000 rubles (\$1,770) and 1 million rubles (\$32,200).

Survey Says Russian Democracy Had Worst Decline

Russian authorities were accused in the survey of trying to control the Internet and limit political competition and dissent, failing to fight corruption and exercising pressure on business.

4 Gay Activists Detained at Rally

About two dozen gay and lesbian activists gathered in the tourist-packed courtyard of one of the world's most famous museums carrying banners and chanting "Homophobia is the country's shame."

Food/Energy & Environment:

Environmental Disaster Fund Is Sought

Medvedev, who heads the world's biggest energy producer, made a proposal for a global pollution fund at the Group of 20 summit in Toronto. He said G20 leaders had asked experts to work on the idea.

Oil Industry Groans at New Tax Plan

Oil executives complained at the conference about high tax pressure on the industry, saying their companies were unable to decide on investment plans because of the government's lack of will to shepherd through a promised change of the current tax system.

Russia, Canada seek joint Arctic space monitoring project

The satellite system will monitor climatic changes and survey energy resources in the Arctic region. It will monitor the weather and environment of the North Pole, pinpoint hydrocarbon deposits on the Arctic shelf, provide telecommunications over the hard-to-access areas and ensure safe air traffic and commercial shipping in the region.

Belarus to seek alternative to Russian energy supplies – Lukashenko

Earlier this month, Belarus and Russian energy giant Gazprom were involved in a dispute over Belarus' refusal to pay Russian-set prices for gas with Gazprom slashing deliveries and Minsk threatening to suspend European transit supplies.

Geo-Strategic:

Medvedev Alarmed by CIA View of Iran's Weapons

CIA chief Leon Panetta told ABC's "This Week" television program that the agency thinks Iran has enough low-enriched uranium now for two weapons, but that Tehran would have to further enrich the material first.

Russia to continue developing advanced arms – Medvedev

Most major economies spend money on the development of new arms, and Russia will not put up with lagging behind, Medvedev said. Moreover, the president added, this will benefit the economy as Russia is a major arms exporter.

Russia to boost arms sales 12% in 2010

Russia's main arms customers are India, Algeria, China, Venezuela, Malaysia and Syria. Vietnam also emerged as a key importer after it signed a deal to buy submarines, aircraft and other military hardware from Russia late last year.

Cyber:

A Tale of Wireless Transmissions and Invisible Ink

Assistant U.S. Attorney Michael Farbiarz, speaking Monday in federal court in Manhattan, called the allegations against 10 people living in the northeastern United States "the tip of the iceberg" of a conspiracy of Russia's Foreign Intelligence Service, the SVR, to collect inside U.S. information, the biggest such bust in recent years.

Over 1,500 Internet users friend Chechnya's Kadyrov in 3 days

The Chechen president followed his boss's suit, Russian President Dmitry Medvedev, who opened his Live Journal blog in April 2009. Medvedev said he uses the Internet daily and believes it to be the best possible platform for public debate.

Russia's Medvedev opens Twitter blog account during U.S. visit

Russian President Dmitry Medvedev received more than 15,000 followers in less than 12 hours after officially opening up his Twitter account during his visit to the United States.

Detailed Report:

Political Issues:

Georgia ready for extensive dialog with Russia – president

Russian President Dmitry Medvedev said last Thursday the two neighbors had no chance of improving ties "during the incumbent Georgian president's rule."

"We have no interest in confrontation with Russia. We are ready for dialog with them, including the [current] Russian leadership. We recognize them as partners in talks. We want to conduct negotiations with them, [but] taking into consideration that Georgia is a single, sovereign and independent state which wants to be their partner," he told the National Security Council.

He also said that he was ready to conduct "extensive dialog" on normalizing the situation in former Georgian republics, including on the return of people displaced in 2008 as a result of the five-day Russian-Georgian war over South Ossetia, "without any preconditions."

"Normalization envisages the return of up to 500,000 Georgian refugees to their homes," the president said.

Saakashvili did not specify, however, how "taking into consideration" Georgia's sovereignty and territorial integrity corresponds with Russia's position that the former Georgian republics of Abkhazia and South Ossetia are now independent states.

At a meeting with representatives of business, scientific and public circles at Stanford University on June 24, Medvedev ruled out any improvement in "dramatically poor" ties with Georgia under the current Georgian leadership, citing his conviction that Saakashvili "did a bad thing, or, to put it in legal terms, he committed a crime."

He also said that despite numerous calls to reverse the recognition of the former Georgian republics, Russia would continue to treat them as independent states.

Long-standing tensions between Russia and the former Soviet republic of Georgia turned violent during a five-day war in August 2008, when Tbilisi attacked South Ossetia, where most residents are Russian passport holders, in an attempt to bring it back under central control.

Lavrov says peace in Middle East possible in two years

Reaching a peaceful solution to the Middle East conflict in two years is a "realistic objective," Russian Foreign Minister Sergei Lavrov said on Tuesday during his visit to the West Bank.

"If everyone shows good will and mutual trust, if all international negotiators actively push the sides towards reconciliation, this goal is quite realistic," Lavrov said after a meeting with PNA leader Mahmoud Abbas.

The statement came several hours after Israeli Foreign Minister Avigdor Lieberman said he saw no opportunity to settle the conflict by 2012.

Abbas said, in his turn, that he believed in the peace process.

"We believe in the peace process and are interested in completing it as soon as possible. A prompt peace solution is in the interests of Israelis, Palestinians and the whole world," Abbas said.

He reiterated his readiness to start direct talks with Israel as soon as the two sides reach "at least some progress in questions of border and security."

Israeli-Palestinian direct peace talks came to a halt in December 2008, when Israel launched an attack on the Gaza Strip in a bid to put an end to the firing of homemade rockets at southern Israel by Palestinian militants based in the enclave. The conflict left 1,300 Palestinians and 13 Israelis dead.

Palestinians have so far cited ongoing Israeli settlement construction in the West Bank and East Jerusalem, both occupied by Israel since the 1967 Arab-Israeli War, as a main obstacle to resuming peace talks.

In March, the Arab League supported the U.S.-backed initiative of holding Israeli-Palestinian indirect talks. Israel, a major United States ally in the Middle East, has also welcomed the talks.

Notorious opposition leader forms new party to run in Russian parliamentary elections

MOSCOW, June 29 (RIA Novosti) - The Other Russia coalition leader Eduard Limonov said on Tuesday he is forming a new party of the same name to run in the 2011 parliamentary elections.

Limonov said a founding congress of his new party will take place in Moscow on July 10.

"After the congress, some time must pass, according to the law, I can't remember exactly, maybe half a year. During this time... we will turn in [the registration documents]," Limonov told RIA Novosti.

Kasyanov pulled out in 2007, while Kasparov drifted toward the opposition Solidarity movement.

"In practice, the coalition has fallen apart, and for the past two years has existed on paper or through the work of my followers. Now, a political party of the same name is being formed," Limonov said.

He added that the party will take part in "all possible" elections, aiming primarily at the 2011 parliamentary elections.

U.S. authorities charge 11 suspects with spying for Russia (Update 1)

Topic: Arrest of suspected Russian spies in the United States

Eleven suspects have been charged for allegedly carrying out espionage operations in the United States on behalf of Russia, the U.S. Department of Justice said in a statement on Monday.

"In total, 11 defendants, including the 10 arrested, are charged in two separate criminal complaints with conspiring to act as unlawful agents of the Russian Federation within the United States," the statement said.

According to the statement, charges are filed in U.S. District Court for the Southern District of New York.

The charge of conspiracy to act as an agent of a foreign government without notifying the U.S. Attorney General carries a maximum penalty of five years in prison.

The U.S. authorities said the case was "the result of a multi-year investigation conducted by the FBI."

The announcement came only a few days after [Russian President Dmitry Medvedev's visit to the United States](#) and may cast a shadow on the bilateral relations that have improved in the past year.

Moscow Raises Questions on Timing of Spy Ring Arrests

Mr. Lavrov said the Russian government was awaiting more information from the United States about the accusations against 11 people, who were described by prosecutors as living under false identities in an effort to penetrate American society.

"They have not explained what the issue is," Mr. Lavrov told reporters in Jerusalem, where he was on an official visit. "I hope that they will explain. The moment when this was done was chosen with a certain grace."

After Mr. Lavrov spoke, the Russian Foreign Ministry issued a statement calling the arrests "baseless" and "unseemly." It accused American prosecutors of acting "in the spirit of the spy passions of the cold war period."

"We would like to note only that this type of release of information has happened more than once in the past, when our relations were on the rise," the statement said. "In any case, it is deeply regrettable that all this is taking place on the background of the 'reset' in Russian-American relations declared by the United States administration itself."

The arrests on Monday came after a period of warming in relations between the United States and [Russia](#), with President [Dmitri A. Medvedev](#) making a visit to the United States this month, including to Silicon Valley in California, that was hailed here as a success. Mr. Medvedev met with [President Obama](#), and the two seemed to have developed a personal bond.

Some Russian politicians declared that the announcement of the arrests indicated that hostile elements in the United States government were bent on preventing relations from flourishing.

Vladimir Kolesnikov, a prominent member of Parliament from Prime Minister [Vladimir V. Putin](#)'s ruling party, said the timing "was not a coincidence."

"Unfortunately, in America there are people who live with the old baggage, the baggage of the cold war, double standards," Mr. Kolesnikov said.

On Tuesday, the arrests were widely covered on the state-controlled national television networks in Russia.

One of the people accused of involvement in the espionage ring made no secret of his ties to Russia, openly taking part in Russian social media in order to keep up with friends from high school and university.

The suspect, Mikhail Semenko, a Russian immigrant, maintained a page on Odnoklassniki, one of the most popular Russian Web sites, where he joined alumni groups from his high school and university in Russia's Far East. He lived in Blagoveshchensk, 3,600 miles from Moscow, and attended Amur State University, earning a degree in international relations.

Cells of undercover operatives, masked as ordinary citizens, are known in Russian as "illegals," and they occupy a storied position in Soviet culture.

One of Russia's beloved fictional characters is an undercover agent, SS-Standartenführer Max Otto von Stirlitz, whose penetration of [Hitler](#)'s inner circle was at the center of popular television series.

Prime Minister Vladimir V. Putin, who served as a K.G.B. officer in East Germany in the 1980s, has said Stirlitz's character helped shape an entire generation of Soviet youth.

Illegals, unlike most spies, live in foreign countries without the benefit of a diplomatic cover, which would have offered them immunity from prosecution if they were caught. Soviet intelligence services began training a corps of these agents shortly after the October Revolution in 1917, when few countries had diplomatic relations with the Soviet Union, and it came to be seen as a particular Soviet specialty.

It is both risky and very expensive work, since agents often spend years just developing a fake life story, known in Russian as a "legend," and because the K.G.B. would often keep an agent in place abroad for years or even decades before he or she was able to gather useful information.

With the collapse of the Soviet Union, many career spymasters began to speak publicly about the adventures of the illegals, but several recent arrests have come as reminders that the tactic is still in use.

In 2008, Estonia found that one of its top intelligence officials was reporting to a Russian agent who was living under a Portuguese identity as Antonio de Jesus Amorett Graf. In 2006 Canadian officials arrested a Russian spy who had been living under an assumed Canadian identity as Paul William Hampel.

U.S. Declares Chechen Militant a Terrorist

The State Department late Wednesday released a statement describing Mr. Umarov, formerly a Chechen separatist commander, as being part of a radical jihadist movement that poses a threat to the United States as well. Ambassador [Daniel Benjamin](#), the State Department's counterterrorism coordinator, said that Mr. Umarov's recent attacks on Russian targets "illustrate the global nature of the terrorist problem we fight today."

Western governments have historically been reluctant to consider Caucasian militants in the same light as organizations like [Al Qaeda](#), in part because they evolved out of a secular push for independence that followed the breakup of the Soviet Union. The designation received approving

news media coverage in Russia, whose leaders have often intimated that the insurgency receives financing or encouragement from the West.

“It seems the American leadership has finally acknowledged that Caucasian terrorists and the notorious Al Qaeda are links in the same chain,” Komsomolskaya Pravda, a popular tabloid newspaper, wrote. “And maybe now in the West they will seriously take care of militants and their international sponsors.”

Mr. Umarov, 46, has acknowledged that he was barely religious until late in life, but in 2007 he pronounced himself the emir of the Caucasus Emirate, which aims to establish a pan-Caucasian state independent of Russia and based on Islamic law. He revived a dormant Chechen suicide battalion, Riyadus-Salikhin, just as the tactic surged back in the North Caucasus, and in February he vowed to strike in central Russia, saying “blood will no longer spill only in our cities and towns.”

Largely known as a guerrilla fighter, Mr. Umarov emerged from the shadows in March to take responsibility for [suicide bombings on Moscow’s subway](#), which killed 40 people. His organization also took responsibility for the [bombing of a luxury train](#), the Nevsky Express, which killed 28 last November, and an [attack that nearly killed](#) the president of Ingushetia, Yunus-bek Yevkurov.

Anatoly E. Safonov, Mr. Medvedev’s representative on terrorism, said the State Department designation would help Russia in its efforts to stamp out the insurgency, by imposing international sanctions on anyone who aids Mr. Umarov or his associates.

“It’s obviously a plus,” he told Interfax. “This is a good signal to all the second-rate and third-rate figures abroad who have supported Umarov in some way. This is a signal to them that if they do not stop, they are next in line.”

Mr. Umarov is the latest on a list of 83 individuals or entities identified by the president or secretary of state under an executive order by President [George W. Bush](#) after the Sept. 11 attacks. Four other designations sprang from the conflict in [Chechnya](#) and were passed in 2003.

Russian officials celebrated the decision on Thursday, with the Foreign Ministry calling it “an important acceptance of the indivisible and universal nature of international terrorist threats.”

[Ramzan A. Kadyrov](#), president of Chechnya, said the decision should have come earlier, when Mr. Umarov commanded a powerful force. “There remain just a few individuals in the forest — most have found a way back into peaceful life,” he said. “Umarov is a sick, toothless, pitiful being.”

Economic Issues:

G20 Leaders Take Aim at Deficits

Group of 20 leaders responded to the European debt crisis with deficit-reduction targets and agreed to pursue higher capital requirements for banks once economic recoveries take hold.

While U.S. President [Barack Obama](#) is pushing his counterparts to focus on spurring growth, leaders in Britain and Germany are already tightening spending to bolster investor confidence. U.S. and European stocks both had their biggest weekly drops in more than a month last week as investors renewed concerns that countries may be unable to repay debts.

“The view of the business community is that we need fiscal restraint in order to ensure confidence and, therefore, sustainable economic growth,” said Gordon Nixon, chief executive officer of Royal Bank of Canada, the country’s biggest bank. “These targets are very important.”

Canadian Prime Minister [Stephen Harper](#) said his country could meet the targets, which as chairman of the meeting he had proposed earlier this month, as soon as next year. The agreement still amounted to a compromise that lacks strength, said Stephen Roach, Morgan Stanley’s Asia chairman.

“I am underwhelmed,” Roach said. “By attempting to finesse the trade-off between America’s call for ongoing stimulus and Europe’s penchant for fiscal consolidation the G20 has come up with a multipurpose recipe with no enforcement mechanism.”

“With respect to deficits, markets are giving Europe direction, and markets are more powerful than words from President Obama,” said Tony Fratto, who served as a White House and U.S. Treasury official under former President [George W. Bush](#).

Neither the G8 nor the G20 mentioned China’s currency, though the G20 did call for “greater exchange rate flexibility in some emerging markets.” China indicated on June 19 that it was scrapping the yuan’s two-year-old peg to the dollar and reiterated the aim at a media briefing on June 26.

The communique left out the G20’s welcome of China’s move toward currency flexibility at China’s request, Finance Ministry department head Andrei Bokarev said.

G20 leaders also pledged to push for agreement on greater voting power for emerging economic powers in the International Monetary Fund by the next summit in Seoul, South Korea, in early November.

Such a shift would boost the say of countries such as China, India, Brazil and Russia in the IMF, which has long been dominated by the United States and European countries.

Leaders reiterated their commitment to a shift in power to dynamic emerging economies of at least 5 percent, which was agreed upon at a G20 leaders’ meeting in Pittsburgh last year.

They called for an agreement by the next G20 summit on Nov. 11-12. The agreement will have to be ratified by the IMF’s 187 member countries by January 2011.

Emerging economies hold less than 45 percent of voting shares in the IMF. They want an even bigger voting shift than 5 percent to reflect their growing economic influence.

But the IMF negotiations pose political challenges because European countries must accept the biggest cuts in their votes in the IMF, an institution that influences global economic policies.

"We called for an acceleration of the substantial work still needed for the IMF to complete the quota reform by the Seoul Summit and in parallel deliver on other governance reforms, in line with commitments made in Pittsburgh," said the communique, published after the G20 meeting.

"Modernizing the IMF's governance is a core element of our effort to improve the IMF's credibility, legitimacy and effectiveness," it added.

Some members believe that subscriptions that determine a member's voting power in the IMF need to be doubled also to boost the fund's resources.

President [Dmitry Medvedev](#) said IMF reforms and broader governance changes, including the selection of the head of the IMF and composition of the IMF board, need to be "taken to the finish."

The communique didn't mention one of Russia's pet issues — increasing the number of global reserve currencies.

Presidential aide [Arkady Dvorkovich](#) said before the meeting that Medvedev and his G20 counterparts may agree to include more IMF Special Drawing Rights as part of reserves.

Outside the security fence that surrounded the meeting, protests turned violent for both days of the summit. Protesters set fire to cars, smashed store windows and threw rocks at First Canadian Place, headquarters of the Bank of Montreal. Police have detained more than 500 people since June 18, said Tim Garland, a spokesman with the Integrated Security Unit, a coalition of police forces providing security for the summit.

Ukraine Wants EU in Russian Gas Project

Ukraine is standing firm that any joint gas-transit project between its state energy company [Naftogaz](#) and Gazprom must have European involvement.

Ukrainian Deputy Prime Minister [Sergei Tigipko](#) said Monday that a bilateral energy venture between Ukraine and Russia "is not in Ukraine's best interest."

"We are willing to consider it only if there's both a European and a Russian stake," said Tigipko, speaking at a Renaissance Capital investment forum.

Prime Minister [Vladimir Putin](#) and his Ukrainian counterpart, [Mykola Azarov](#), met in Moscow on Monday to discuss energy cooperation, which may involve a three-way gas consortium, a Ukrainian government source told Interfax.

There was no mention of a Ukraine-Russia joint venture in information about the meeting later posted on the government's web site, and analysts say the silence could signal that Russia is not happy about the idea of third-party participation.

London is ready to help Moscow create its international financial center

London is ready to help Moscow create its international financial center, the Lord Mayor of the City of London said on Tuesday ahead of his visit to Russia.

During the visit from June 29-July 2, Alderman Nick Anstee will travel to Moscow and St. Petersburg to discuss prospects for joint business developments.

Anstee will meet with the Russian authorities to discuss the juridical climate for foreign businesses in Russia.

He said foreign companies, intending to develop business in Russia, pay close attention to legal certainty, legal standards and continuity in decision-making.

Social/ Humanitarian:

\$1,000 of Scattered \$320,000 Bribe Returned to FSB

The Moscow Times

People who swiftly collected 5,000 ruble bank notes scattered on a Moscow street after a government official threw a bribe of 10 million rubles (\$320,000) out his car window have turned some of them over to the Federal Security Service — possibly because they were marked by the FSB.

"Teachers, taxi drivers and other passers-by have brought a total of 25,000 rubles to Lubyanka," an unidentified law enforcement source [told Lifenews.ru](http://lifenews.ru).

Lubyanka is the FSB headquarters, named after the central Moscow square where it is located.

Federal Fisheries Agency official [Boris Simonov](#) tossed the cash out his car window on the busy Varshavskoye Shosse on Thursday as he fled police, who accuse him of accepting the money as a bribe. He is now bring held on bribery charges together with his boss, [Roman Postnikov](#).

Most of the 5,000 ruble bank notes were collected by police officers, who blocked the road, but some of the money disappeared.

Investigators marked all the bank notes before the handover, most likely with a special powder that can be detected by anti-counterfeiting machines used in many stores, making it nearly impossible to spend the money, [Moskovsky Komsomolets reported](#), citing the police.

Survey Says Russian Democracy Had Worst Decline

The Moscow Times

Russia saw the worst decline in democracy over the past decade than any other post-communist country, according to a survey by Freedom House.

The report released by the Washington-based civil liberties watchdog on Tuesday covered the 29 “transitional” countries of the former Soviet Union and Central and Eastern Europe.

Russia's "scores on media independence, civil society, the judiciary and electoral process have all suffered," Freedom House said in an overview of the report.

Freedom House did not register any democratic developments in Russia in 2009.

The [report listed](#) 14 dissenters and human rights activists whose deaths in 2009 were linked to their professional activities, including [Stanislav Markelov](#), [Natalya Estemirova](#), [Maksharip Aushev](#) and [Sergei Magnitsky](#).

Meanwhile, Belarus and Tajikistan were listed as the only two countries where the media grew freer over the past decade. Belarus and Moldova were praised for positive civil society developments.

4 Gay Activists Detained at Rally

St. Petersburg police detained at least four gay activists on Saturday during a rally at the Hermitage Museum, a police spokesman said.

About two dozen gay and lesbian activists gathered in the tourist-packed courtyard of one of the world's most famous museums carrying banners and chanting "Homophobia is the country's shame."

Although the rally was not publicly announced, a small group of ultraright activists came to the square attempting to attack the protesters, local media reported, adding that four or five of them were detained.

Food/Energy & Environment:

Environmental Disaster Fund Is Sought

Reuters

TORONTO — President [Dmitry Medvedev](#) called on Sunday for a special levy on oil companies to finance a fund to help clean up environmental disasters such as BP's oil spill in the Gulf of Mexico.

"One of the ideas, which still needs discussion, is for dues from major international companies which produce oil to be placed into a special consolidated fund or, and perhaps together with that, for the insurance of such risks paid for by those corresponding dues," Medvedev told reporters.

Russia has paid close attention to BP's reaction to the Gulf spill, the largest in U.S. history, partly because 25 percent of the British energy giant's global output comes from its TNK-BP joint venture.

The G20 rich and emerging economies called for oil companies to ensure that rules were followed to prevent such oil spills in the future.

"Following the recent oil spill in the Gulf of Mexico, we recognize the need to share best practices to protect the marine environment, prevent accidents related to offshore exploration and development, as well as transportation, and deal with their consequences," G20 leaders said in a communique.

Medvedev said Russia was ready to introduce pollution legislation in the lower house of the parliament, the Duma, to protect its coast from oil spills, which environmentalists say routinely destroy the environment in Russia.

"So as to set an example, Russia is prepared to send to the Duma a special bill on the defense of the sea from oil pollution," Medvedev said. He gave no further details.

Oil Industry Groans at New Tax Plan

29 June 2010

By Anatoly Medetsky

The Finance Ministry wants to apply a tax on excess oil profits to several selected fields for a trial before making any broader moves, a senior ministry official said Monday, drawing complaints from the industry.

If conducted, the experiment would seek to determine how collectable such a tax would be, said [Ilya Trunin](#), director of the Finance Ministry's department for tax and customs rates.

The current system, he said, will not change in the next three years, allowing the government to skim most of the profit that it collects from oil producers through hefty export duties.

"We need to learn a lot in order to administer the tax," he said at an investment conference organized by Renaissance Capital.

Without full clarity on taxation, state-run Rosneft cannot decide on its investment in remote fields in East Siberia, vice president Peter O'Brien said. Rosneft has said it could invest up to \$1 billion in roads, pipelines and power lines in the area.

"We can produce oil at lower costs than in some other areas of the world, but for some of that — we can't make the investment decision yet," O'Brien said.

[TNK-BP](#), Russia's third-largest crude producer, is not ready to invest in its similarly remote Yamal fields until it is completely clear how much it will have to pay in taxes, chief financial officer [Jonathan Muir](#) said. The company relies on brownfields for 90 percent of its output, he said.

TNK-BP has said it plans to invest \$500 million in the area in the medium term.

"We need to wait for clarity to make significant investment in Yamal," he said.

[LUKoil](#), the country's largest private oil company, shared the concern.

"The issue of changing the tax system is long due, if not overdue," said Andrei Gaidamaka, an executive at LUKoil. "It's absolutely necessary to have changes that will give us a chance to invest in new, large fields."

The problem is to combine the simplicity of the current tax with the easing of the burden, he said.

"This hides a conflict that is difficult to resolve," he said.

Norway charges a 78 percent tax on petroleum production but levies the fee on the profit rather than sales, said [Bengt Lie Hansen](#), chief of [StatoilHydro](#) in Russia. He suggested that Russia might want to study the practice.

The Finance Ministry, which has been looking to raise taxes on the industry to cover a budget deficit, was characteristically defensive of the current situation, however.

"Moving from a simple system to a more complex one would not be a good policy measure from our point of view," Trunin said.

The discussion touched upon the introduction of a duty on oil exports from East Siberian fields, which the government is planning to introduce next month.

The duty, while still much lower than for other fields, is a compromise between the oil lobby and the Finance Ministry.

"It's quite an elegant solution," said Rosneft's O'Brien.

Rosneft's chairman is Deputy Prime Minister [Igor Sechin](#).

The duty will grow to full size once oil producers reach a certain rate of return on their investment in the area — and the industry seems to have gained some ground against the Finance Ministry in a quest for profit from their East Siberian fields.

Trunin said Monday that the rate to trigger a full duty would be 17 percent, while Cabinet debates earlier this month revolved around the figures of 15 percent and 16 percent.

The MICEX Oil & Gas Index gained 1.1 percent on Monday, in line with the exchange's benchmark index. Rosneft outperformed, rising 3.3 percent, while LUKoil slid 1.1 percent.

President Dmitry Medvedev said he would give a major budget address to Cabinet officials and the Federal Assembly on Tuesday that will include changes to state arms spending.

In previous years, the Kremlin's budget address was simply sent to lawmakers, but Medvedev said in April 2009 that he intended to present the sweeping plan personally.

Speaking at a meeting with defense officials, Medvedev said Monday evening that he had been hammering out details of the address for the past several months.

The federal budget had a deficit of 5.9 percent of gross domestic product, a figure the Finance Ministry is seeking to close gradually in the next few years.

Earlier this month, Medvedev ordered the government to study a Finance Ministry proposal on reducing the number of federal officials by 20 percent to help cover the shortfall.

Russia, Canada seek joint Arctic space monitoring project

Russia and Canada will start negotiations on the integration of their national space systems to monitor the Arctic, a Russian space official said on Tuesday.

Anatoly Shilov, deputy head of the Federal Space Agency, Roscosmos, said the first Russian-Canadian meeting was scheduled for August.

"We are currently discussing which services will be provided by Russian satellites and which by Canadian satellites," he said.

He said the Russian government had made a decision to create a multipurpose space system called Arktika (Arctic), worth around 70 billion rubles (\$2.5 billion).

Shilov said the first Russian and Canadian satellites could be orbited in three years.

"However, ground facilities will also be necessary. So the system should be up and running in no less than six to seven years," he said.

The vast hydrocarbon deposits that will become more accessible as rising global temperatures lead to a reduction in sea ice have brought the Arctic to the center of geopolitical wrangling between the United States, Russia, Canada, Norway, and Denmark.

Under international law, each of the five Arctic Circle countries has a 322-kilometer (200-mile) exclusive economic zone in the Arctic Ocean.

However, under the United Nations Convention on the Law of the Sea, if a country can show its continental shelf extends beyond the 200-mile limit, it can claim a right to more of the ocean floor.

Russia has undertaken two Arctic expeditions - to the Mendeleev underwater chain in 2005 and to the Lomonosov Ridge in the summer of 2007 - to substantiate its territorial claims in the region.

Russia first claimed the territory in 2001, but the UN demanded more conclusive evidence.

Russia has said it will invest some 1.5 billion rubles (\$50 million) in defining the extent of its continental shelf in the Arctic in 2010.

Belarus to seek alternative to Russian energy supplies – Lukashenko

Belarus will seek alternatives to Russian energy supplies, but there will be no war between Minsk and Moscow, President Alexander Lukashenko said.

"We are buying and will buy energy carriers from Russia," Lukashenko said, referring to Russian oil and gas. "No one will fully replace Russia in this respect, but we will gradually seek an alternative."

He added that this year Belarus will import 4 million tons of oil from Venezuela, and 10 million tons next year.

"We have to follow this path, as well as working on the issues of supplying cheap natural gas and other energy carriers to Belarus," he said at a meeting with state officials.

The size of the fees that Gazprom pays for transit to Beltransgaz became the last stumbling block in the conflict. Belarus gas pipeline Beltransgaz CEO Vladimir Mayorov said Monday his company and Gazprom have finalized a supplementary agreement to a gas transit contract and may sign it Wednesday or Thursday.

Lukashenko also said: "No one should proceed from the assumption that we should start an economic war with Russia. This is our longtime, traditional partner."

"If today the Russian leadership took this position, they probably have grounds for that, and we criticize them but have to understand them," he said.

Geo-Strategic:

Medvedev Alarmed by CIA View of Iran's Weapons

TORONTO — President [Dmitry Medvedev](#) said he was alarmed by U.S. assertions that Iran may have enough fuel for two nuclear weapons and warned that, if confirmed, the Islamic Republic may face new measures.

"As to this information — it needs to be checked," Medvedev told reporters Sunday in Toronto, where he was attending a Group of 20 summit.

"In any case, such information is always alarming because today the international community does not recognize the Iranian nuclear program as transparent," Medvedev said.

Russian leaders rarely comment on CIA statements, and Medvedev's sharp comments indicate that the gulf that has grown between Moscow and Tehran in recent months.

The Kremlin and Tehran had a public dispute last month after Iranian President [Mahmoud Ahmadinejad](#) admonished the Kremlin for bowing to what he said was U.S. pressure to agree to further UN sanctions.

"If it is shown that what the American special services say is true, then it will, of course, make the situation more tense, and I do not exclude that this question would have to be looked at additionally," Medvedev said.

Russia to continue developing advanced arms – Medvedev

Russia will continue developing advanced weaponry, which will boost the country's economy, Russian President Dmitry Medvedev said on Monday.

"Our country will invest in advanced weapons - this is inevitable," the president said during a meeting with cabinet ministers dedicated to budget issues in his Gorki residence outside Moscow.

However, Medvedev called on the government to consider Russia's financial realities while allocating money for the development of new arms.

Deputy Defense Minister Vladimir Popovkin said in February that the Russian Army had a large amount of outdated equipment. Particularly, he said, there were some 20,000 tanks, when only 5,000 to 6,000 were needed, and the quality of hardware left much to be desired.

He pledged that the Army would mostly use domestically built arms and purchase military equipment abroad only in those fields where there are "flaws."

Russia to boost arms sales 12% in 2010

Russia expects to boost arms sales by 12% in 2010, the Federal Agency for Military Cooperation said on Wednesday.

"We calculate arms sales of \$9.5 billion," head of the agency Mikhail Dmitriyev said.

Russian arms sales were worth over \$8.5 billion last year, including \$7.4 billion via state arms exporter Rosobornexport, whose sales increased 10% y-o-y.

Sergei Svechnikov, head of the Rosoboronexport department of analysis and long-term planning, earlier told RIA Novosti that despite constantly expanding arms exports, Russia faced increasing competition on the international arms market from the United States, Germany and China.

Cyber Issues:

A Tale of Wireless Transmissions and Invisible Ink

NEW YORK — They sometimes worked in pairs and pretended to be married so they could blend in as the couple next door while working as spies in a throwback to the Cold War, complete with fake identities, invisible ink, coded radio transmissions and encrypted data to avoid detection, authorities say.

Each of the 10 was charged with conspiracy to act as an agent of a foreign government without notifying the U.S. attorney general, which carries a maximum penalty of five years in prison upon conviction. Two criminal complaints outlining the charges were filed in U.S. District Court for the southern district of New York.

Nine of the defendants were charged with conspiracy to commit money laundering, which carries a maximum 20 years in prison upon conviction.

The FBI said it intercepted a message from SVR's headquarters, Moscow Center, to two of the 10 defendants describing their main mission as "to search and develop ties in policymaking circles in U.S." Intercepted messages showed that they were asked to learn about a wide range of topics, including nuclear weapons, U.S. arms control positions, Iran, White House rumors, CIA leadership turnover, the last presidential election, Congress and the political parties, prosecutors said.

"The FBI did an extraordinary job in this investigation," U.S. Attorney Preet Bharara said in a statement.

The court papers described a new high-tech spy-to-spy communications system used by the defendants: short-range wireless communications between laptop computers — a modern supplement for the old-style dead drop in a remote area, high-speed burst radio transmission or the hollowed-out nickels used by captured Soviet Colonel Rudolf Abel in the 1950s to conceal and deliver microfilm.

On Saturday, an undercover FBI agent in New York and another in Washington, both posing as Russian agents, met with two of the defendants, [Anna Chapman](#) at a New York restaurant and [Mikhail Semenko](#) on a Washington street corner blocks from the White House, prosecutors said. The FBI undercover agents gave each an espionage-related delivery to make. Court papers indicated that Semenko made the delivery as instructed but apparently Chapman didn't.

Another defendant was a reporter and editor for a prominent Spanish-language newspaper videotaped by the FBI contacting a Russian official in 2000 in Latin America, prosecutors said.

Intelligence on Obama's foreign policy, particularly toward Russia, appears to have been a top priority for the Russian agents, prosecutors said.

In spring 2009, court documents say, conspirators Richard and [Cynthia Murphy](#), who lived in New Jersey, were asked for information about Obama's impending trip to Russia that summer, the U.S. negotiating position on the START arms reduction treaty, Afghanistan and the approach Washington would take in dealing with Iran's suspect nuclear program. They also were asked to send background on U.S. officials traveling with Obama or involved in foreign policy, the documents say.

"Try to outline their views and most important Obama's goals (sic) which he expects to achieve during summit in July and how does his team plan to do it (arguments, provisions, means of persuasion to 'lure' (Russia) into cooperation in US interests," Moscow asked, according to the documents.

Moscow wanted reports that "should reflect approaches and ideas of" four sub-Cabinet U.S. foreign policy officials, they say.

One intercepted message said Cynthia Murphy "had several work-related personal meetings with" a man the court papers describe as a prominent New York-based financier active in politics.

In response, Moscow Center described the man as a very interesting target and urged the defendants to "try to build up little by little relations. ... Maybe he can provide" Murphy "with remarks re US foreign policy, 'roumors' about White house internal 'kitchen,' invite her to venues (to major political party HQ in NYC, for instance. ... In short, consider carefully all options in regard" to the financier.

The Murphys lived as husband and wife in suburban New Jersey, first Hoboken, then Montclair, with [Richard Murphy](#) carrying a fake birth certificate saying he was born in Philadelphia, authorities said.

The papers allege that the defendants' spying has been going on for years.

One defendant in Massachusetts made contact in 2004 with an unidentified man who worked at a U.S. government research facility.

"He works on issues of strategic planning related to nuclear weapon development," the defendant's intelligence report said.

The defendant "had conversations with him about research programs on small yield high penetration nuclear warheads recently authorized by US Congress (nuclear 'bunker-buster' warheads)," according to the report.

One message back to Moscow from the defendants focused on turnover at the top level of the CIA and the 2008 U.S. presidential election, prosecutors said. The information was described as having been received in private conversation with, among others, a former legislative counsel for Congress. The court papers deleted the name of the counsel.

In the papers, FBI agents said the defendants communicated with Russian agents using mobile wireless transmissions between laptop computers, which has not previously been described in espionage cases brought in the United States: They established a short-range wireless network between laptop computers of the agents and sent encrypted messages between the computers while they were close to each other.

FBI agents arrested the defendants known as Richard Murphy and Cynthia Murphy at their residence in Montclair, New Jersey.

A neighbor, Louise Shallcross, 44, said she often saw Richard Murphy at the school bus stop.

"We were all very excited to have a stay-at-home dad move in," Shallcross said.

Aside from the Murphys, three other defendants also appeared in federal court in Manhattan — Vicky Pelaez and Juan Lazaro, who were arrested at their Yonkers, New York, residence, and Chapman, arrested in Manhattan on Sunday.

A federal magistrate ordered the Murphys, Lazaro, Pelaez and Chapman held without bail. The defendants — most dressed in casual clothes like blue jeans, shorts and T-shirts — answered "Yes," when asked if they understood the charges. None entered a plea.

"The evidence is truly, truly overwhelming," said Assistant U.S. Attorney Michael Farbiarz. Another hearing was set for Thursday.

Pelaez is a Peruvian-born reporter and editor and worked for several years for El Diario/La Prensa, one of the country's best-known Spanish-language newspapers. She is best known for her opinion columns, which often criticize the U.S. government.

In January 2000, Pelaez was videotaped meeting with a Russian government official at a public park in the South American nation, where she received a bag from the official, according to one complaint.

Pelaez was born in Cusco, southeast of Lima, and worked as a journalist for the defunct daily La Prensa de Lima and later for a television station, where she gained notoriety among local journalists. On Dec. 8, 1984, Pelaez, who worked for Frecuencia Latina, was kidnapped for a day and interviewed a leader of the Tupac Amaru Revolutionary Movement. The interview wasn't broadcast on television, but the following year it appeared in Marka, a newspaper with leftist leanings.

Lazaro and Pelaez discussed plans to pass covert messages with invisible ink to Russian officials during another trip Pelaez took to South America, a complaint said.

The complaint alleges that authorities overheard an unguarded Lazaro once saying in his home, "We moved to Siberia ... as soon as the war started."

Waldo Mariscal, Pelaez's son, said his mother was innocent.

"This is a farce. We don't know the other people," he said, referring to the others who have been accused.

Robert Krakow, an attorney for Lazaro, said after the court hearing that his client was innocent and that the information in the complaint "had no value."

An attorney for Chapman, Robert Baum, argued that the allegations were exaggerated and his client deserved bail.

"This is not a case that raises issues of security of the United States," he said.

Prosecutors countered that Chapman was a flight risk, calling her a highly trained "Russian agent" who is "a practiced deceiver."

Two other defendants, Michael Zottoli and Patricia Mills, were arrested at their Arlington, Virginia, residence. Also arrested at an Arlington residence was Semenko.

Zottoli, Mills and Semenko appeared before U.S. Magistrate Theresa Buchanan on Monday afternoon in Alexandria, Virginia, the U.S. attorney's office said. The hearing was closed because the case had not yet been unsealed in New York. The three did not have attorneys at the hearing, U.S. attorney spokesman Peter Carr said.

In Arlington, where Zottoli and Mills lived in an apartment, next-door neighbor Celest Allred said her guess had been that "they were Russian because they had Russian accents."

Two defendants known as Donald Howard Heathfield and Tracey Lee Ann Foley were arrested at their Cambridge, Massachusetts, residence on Sunday. They appeared briefly in Boston federal court Monday. A detention hearing was set for Thursday.

A message left after business hours with Heathfield's public defender, Catherine Byrne, was not immediately returned. A telephone number for Foley's attorney could not be found.

An 11th defendant, [Robert Christopher Metsos](#), who was accused of delivering money to the agents, was detained Tuesday in Cyprus.

Cypriot police spokesman Michalis Katsounotos said Metsos, 54, was arrested early Tuesday at Larnaca airport trying to fly to Budapest, Hungary.

Katsounotos said Metsos' arrest was based on an Interpol arrest warrant.

The suspect appeared in a Larnaca court, which ordered Metsos released on 20,000 euros (\$24,700) bail after surrendering his travel documents. The court also ordered Metsos to report to a Larnaca police station once a day.

Katsounotos says Metsos will remain on the island for one month until extradition proceedings begin.

Over 1,500 Internet users friend Chechnya's Kadyrov in 3 days
Chechen President Ramzan Kadyrov, who recently opened his personal blog on Live Journal, gathered over 1,500 followers within three days.

"I am eager to make friends with you, communicate often, share opinions over different events," Kadyrov said in part of his first and only post so far on his page (<http://ya-kadyrov.livejournal.com>). Ya Kadyrov translates from Russian to I, Kadyrov.

The Chechen president said he is "communicative and an extremely open person."

Kadyrov's press service said that in the first three days, over 1,500 Internet users had already added him as a friend.

Bloggers can read Kadyrov's Live Journal not only through the friend wire, but also using the RSS channel.

Any user can comment on Kadyrov's thoughts; however, the messages are checked by moderators before being released onto the web.

"Kadyrov maintains his personal blog himself," the press service said.

Medvedev urged officials to go online last year. "Many state bodies have developed rather good sites, there are successful examples of the implementation of electronic government, for example in Tatarstan," he said.

"And many managers were unable to deny themselves the pleasure and followed my example," the Russian leader said.

Last week, during his visit to the United States, Medvedev opened his official Twitter account both in English and Russian.

Blogger Temporeader commented on Kadyrov's post, saying: "I guess our government has wisely chosen a method of cultural cooperation instead of warfare. It's cheaper and more effective."

Russia's Medvedev opens Twitter blog account during U.S. visit

Twitter, Inc. has confirmed that Medvedev has a verified account with the Internet blog system.

Medvedev's account is both in English and Russian, and he has so far added only two microblogs: U.S. President Barack Obama and the U.S. White House.

Obama and California Governor Arnold Schwarzenegger announced the opening of Medvedev's account on their Twitter blogs.

Earlier, Medvedev became the first Russian to get the brand new iPhone 4, which are to go on sale on Thursday.

The Russian leader received the smartphone as a present from Apple CEO Steve Jobs during his visit to the company's headquarters in Cupertino, California.