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Letter from Presidential Advisor on Conversion, M. Maley, to Boris Yeltsin on "Binitek" and German Investment in Economic Development and the Defense Industry

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Summary:

This letter expresses the preparedness of German business people to invest in the defense industry, technological development, and regional scientific industries in newly-independent Russia on the condition that they operate through a local buffer company. This issue was tied to the restoration of autonomy for Volga Germans residing in Russia.

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Dear Boris Nikolayevich!

A. Yermakov, the President of the BINITEK technology concern, has informed me of his meetings with business circles in Germany.

In his conversations with the Germans it was stressed that there is a definite disappointment with the pace of the process of restoring German autonomy in the Volga region along with the fact that the interest in business cooperation with us remains high. The Germans are also interested in large investments in the conversion of Russia's defense industry. However, there some politicization of the German credits has appeared; there is special interest in investing them in the regions where Germans live in the Volga region (the German concern IBB is studying the possibility of such steps for a number of German banks, most of all for the Bank for Reconstruction and Development.

In the business circles of Germany they hardly believe in the effective and positive participation of the state structures of Russia in the fate of the Volga Germans, and therefore the German side would prefer to transfer the credits (on the order of 1.5 billion marks) intended to support this development program for the Volga region through the Russian business entities participating in this matter, not just through such [structures] which enjoy a clearly-expressed trust at the state level.

The BINITEK concern aspires to participate in this program. This public joint-stock corporation was created from defense enterprises. The concern uses its resources and investors' assets, including foreign [assets], to invest in the profitable hi-tech technologies of defense enterprises, and also in regional projects and scientific and technical programs directed at strengthening Russia's economic potential.

The concern, the administrations, and the oblast councils of Saratov and Volgograd Oblasts have concluded agreements by which the concern has been granted the right to develop and implement the complex programs of their development in three directions: the conversion of defense production, oil production, and the creation of processing capabilities in agriculture. The leaders of these oblasts have agreed to enlist commercial and foreign investors, including [those] from Germany but, understanding the specifics of the German question, prefer not to deal with Germans ([nor] also with foreign investors) directly, but through a buffer business entity, in this case through the BINITEK concern.

Work is done by the concern through its own capabilities. At the same time to do the work, particularly with the German investors, the concern requires a specific, serious gesture of trust in the form of an open credit line in the Central Bank of Russia. Your recommendation to the Bank is needed here. In addition, the German side might be given the information (through Embassy channels) that the participation of Russian and German business entities in the regional program of development of the Volga region is being received positively by the leadership of our country, including as a way to promote the gradual restoration of the nationhood [gosudarstvennost'] of the Russian Germans - the solution of a problem which is one of the big objects of cooperation between the governments of Russia and Germany (the signing of a Protocol about this was envisaged by a 9 July decree of the Government of the Russian Federation).

Such an integrated approach would to a great degree permit a lessening of tension in this large region of Russia.

Monitoring of the work will be done by the Service of the Adviser for Conversion Questions.

I request your assistance.

M. Maley