

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Rus-China Practice Nuclear War Against US**

• The Washington Times today reported that the National Security Agency has determined that in February Russia and China engaged in a mock nuclear conflict exercise between China and the US over Taiwan. The exercise was the first time Russian forces had practiced fighting the US in the Pacific region. This shows the growing strategic partnership between Russia and China. The exercise included the use of nuclear weapons on US forces in Asia. The intelligence report, based on communications among Russian forces during the maneuvers February 12<sup>th</sup> to 16<sup>th</sup>, describes the exercise as China attacking Taiwan followed by the landing of US ground troops for its defense. Next, China fired tactical nuclear missiles on the US troops in Taiwan, prompting US nuclear strikes on Chinese forces. Russian nuclear forces then threatened to use nuclear missile strikes on the US forces in the region, including strikes on troops in South Korea and Japan. During the exercise, Japan's military sent jet interceptors to confront two Russian Tu-22 bombers and two Su-27 fighter-bombers that Tokyo said had violated Japanese airspace. Acting in accordance with the scenario, Senior Russian officials, including Russian President Vladimir PUTIN and Russian Defense Minister Igor SERGEYEV, activated the Russian nuclear command and control suitcase. Following the exercise, Russian Prime Minister Mikhail KASYANOV met in Moscow with Deputy Chairman of the Central Military Commission ZHANG Wannian, to discuss military cooperation. The two announced plans to increase military sales by 25 percent annually, which could include new regional strategic weapons like the Oscar-class nuclear cruise missile submarine, Akula-class nuclear attack submarine, and the Tu-22M Backfire

bomber. Russia has revised its nuclear doctrine to lower the threshold for using nuclear weapons in conflict because of the deterioration of the conventional forces.

The news of the exercise comes as US President George W. BUSH said the US would do, "whatever it takes," to defend Taiwan. US Defense Secretary Donald RUMSFELD said that a major strategy review being conducted will recommend shifting strategies from Europe to Asia, specifically to deal with the emerging threat of China. In addition, Russian President Vladimir PUTIN met with Chinese Foreign Minister TANG Jiaxuan on Sunday as part of preparations for the signing of a treaty of friendship and cooperation between the two countries in July. Foreign Minister Igor IVANOV said the treaty "will play a great role in enriching the relations between our countries in all spheres." The pact also "will further strategic stability and security around the world," he said. Russia and China have been boosting their ties in what many analysts see as an anti-US alliance. PUTIN noted that trade between Russia and China grew 40 percent last year to a record \$8 billion. PUTIN and Chinese President JIANG Zemin will meet in June at a Shanghai Five (Russia, China, Kyrgyzstan, Kazakhstan, and Tajikistan) summit in Shanghai and in Moscow in July.

#### **Spies Target Russian Defense**

• Federal Security Service (FSB) spokesman Alexander ZDANOVICH said that foreign spies were showing more

interests in Russia's defense secrets, notably anti-missile defense capabilities, as well as commercial ties with Iran. The case of former US Navy intelligence officer turned businessman Edmond POPE was cited as an example. Russian FSB officers claimed to have caught POPE red-handed buying designed of Russia's advanced Shkval torpedo. Convicted last December and jailed for 20 years, he was freed a week later after a pardon by President Vladimir PUTIN. Sergei BALASHOV, head of the FSB investigations department, said the activities of POPE had cost the navy 700 million rubles (around \$24 million). Moscow would file suit in a Russian court to recover the loss, he said.

ZDANOVICH said Russian-Iranian military cooperation was another area of foreign interest, and accused Moscow's rivals of wanting, "to keep Russia out of the international arms market." The US has expressed concern about Russia's construction of an atomic power plant in Iran. It has also been dismayed at Moscow's plans to renew conventional arms sales to the Islamic republic, Reuters reported. Moscow has accused the West of double standards, saying that some NATO states have sold weapons to Tehran. One ranking FSB General said, "We will continue fiercely to protect our secrets."

### Economy

<p><b>Ruble = 28.83/\$1.00 (NY rate)</b>  <b>Ruble = 28.93/\$1.00 (CB rate)</b>  <b>Ruble = 25.64/1 euro (CB rate)</b></p>
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### **Russia-Germany Dispute Debts**

- Berlin's top advisers on Russian borrowings Seigfried BORGGEFE and Russian chief debt negotiator and Deputy Finance Minister Sergei KOLOTUKHIN are hopeful that their nations will resolve their differences over debts stemming from the Soviet Union. BORGGEFE said that negotiations improved following the summit of Russian President Vladimir PUTIN and German Chancellor Gerhard SCHROEDER. However, several issues surrounding the first debt-for-equity swap have proved difficult. A dispute also surrounds the debt total. Germany wants Moscow to repay 6.4 billion transferable rubles in outstanding loans received from East Germany, denominated in an artificial currency used by Soviet bloc countries for payments between themselves. Germany assumed the debt

after reunification between east and western sectors in 1990. KOLOTUKHIN said Russia and Germany had, "absolutely different points of view" about the debt and that Berlin may actually end up being in debt itself if trade contracts were recalculated using international prices and currencies. He added, "We can talk about settling the debt only after we have reached an understanding on the balance. It is not yet clear who owes who...If we recalculate trade turnover between the Soviet Union and the German Democratic Republic since 1965 in world prices...then Germany would owe Russia 16.5 billion transferable rubles." Russia and Germany are also in a deadlock over whether to extend the debt-for-equity swap to the Paris Club of creditors' debts, estimated at \$42 billion. Russia owes Germany about 40 percent of its Soviet-era debt to the Paris Club. Russia's Trade and Economic Development Minister German GREF said on Sunday Russia would resume talks with Germany on a debt-for-equity scheme only after the East German debt issue had been resolved.

### Business

#### **Itera Opens Siberian Gas Production Unit**

- *Itera Holding* started gas production at a north Siberian field. *Itera* plans to boost production by 40 percent this year to 25 billion cubic meters. *Itera* began extracting gas at the rate of 7.5 billion cubic meters a year at its Vostochno-Tarkosalinskoye deposit in the Yamalo-Nenets region in Russia's Arctic. The company, which invested \$200 million in the project, said it will boost output at the field to 12 billion cubic meters a year in 2002. "This is the second major project in the [Yamalo-Nenets] region started during the past two years," *Itera* said in a statement. The company has been extracting 15 billion cubic meters of gas a year at the Gubkinskoye field since 1999. *Itera* and larger rival *Gazprom* have been criticized by shareholders of Russia's top gas producer who say the country's former gas monopoly ceded *Itera* markets, sold its stakes in two fields for less than they were worth, and guaranteed \$472.5 million of its loans. *Gazprom's* production fell in 2000 for a second year, while *Itera's* output quadrupled in the same period.

#### **Russian Pipe Makers Merge**

- *Chelyabinsky Truboprolkatny Zavod* and *Vyskunsky Metallurgichesky Zavod*, Russia's two largest makers of steel pipes, will merge to cre-

ate a company that will produce about 40 percent of the country's steel pipes, *Vedomosti* reported. *Obyedinyonnaya Metallurgicheskaya Kompaniya* will acquire controlling stakes in both pipe makers. *Vyskunsky* produced 761,600 tons of pipes last year, while *Chelyabinsky Truboprokatny* produced 628,720 tons. Shareholders of *Chelyabinsky Truboprokatny* will be asked to approve issuing new shares worth 200 million rubles (\$6.9 million) at their meeting on June 30<sup>th</sup>. The company drafted a three-year, \$100 million investment program to modernize and increase production, the company said. Separately, *Gruppa MDM*, a financial-industrial holding company, said it founded *Trubno-Metallurgicheskaya Kompaniya* to combine *Volzhsky Trubny Zavod*, *Seversky Trubny Zavod*, and *Kuznetskiye Ferrosplavy*, which produce about 25 percent of Russia's steel pipes between them.

### EUROPEAN REPUBLICS

#### Tymoshenko Calls For Referendum On Kuchma

- Former Ukrainian deputy prime minister Julia TYMOSHENKO has started a petition calling for a nationwide referendum to oust President Leonid KUCHMA. She hopes to gather 3 million signatures in the three months needed to force a vote on KUCHMA. The referendum needs a simple majority to pass. The President has come under increased pressure to resign following accusations of corruption in office, ordering the murder of Internet journalist Georgy GONGADZE, and not standing by popular former prime minister Viktor YUSHCHENKO. The dismissal of YUSHCHENKO and his government, along with months of protests against KUCHMA, has brought the country to the brink of political crisis. KUCHMA has ordered the Cabinet to continue their work until replacements are found. He has not yet named a possible candidate for the prime minister post. According to the Constitution, a new government must be formed in two months. TYMOSHENKO and other supporters of the former premier said the only way out of the current dilemma is to oust the President. She said, "The referendum is the only way to dismiss KUCHMA, as the par-

liament is unable to impeach him" because of his influence over legislators. TYMOSHENKO believes that YUSHCHENKO will run against KUCHMA in 2004. She said YUSHCHENKO would be a, "good president, because 60 percent of people trust him," according to recent opinion polls.

#### US Experts Identify Gongadze's Corpse

- Federal Bureau of Investigation (FBI) and US Defense Department experts have identified the unknown headless corpse to be that of Internet journalist Georgy GONGADZE. The journalist, who criticized the government and administration of Ukrainian Leonid KUCHMA, went missing on September 16<sup>th</sup>. The finding of the corpse in November, thought to be GONGADZE, sparked Ukraine's biggest political crisis in decades, particularly after the release of tapes with the voice of KUCHMA ordering GONGADZE's murder. KUCHMA has denied any involvement in GONGADZE's death and has accused the opposition of attempting to destabilize Ukraine. Previous Russian DNA tests concluded that the mutilated corpse was GONGADZE, but contradictory statements by Ukraine's prosecutors' office prompted calls for new tests. The new tests were carried out by an FBI DNA expert and a US armed forces forensic pathologist in the presence of GONGADZE's mother and the Ukrainian Health Minister.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Russia Rejects UN Document On Abkhazia

- Georgian President Eduard SHEVARD-NADZE believes that Russia purposefully used its veto power in the UN Security Council to reject a document outlining the division of authority between Tbilisi and Sukhumi regarding the status of Abkhazia. He said that he will raise the subject with Russia at the next session of the Commonwealth of Independent States (CIS) Heads of State summit on June 1<sup>st</sup>. The President stressed that conversations with Russian President Vladimir PUTIN still bring "certain results." SHEVARDNADZE said that Georgia is actively working on a document that will define the future political status of Abkhazia. He said that all members of the UN Security Council are involved in drafting the document. The document will serve as a basis for negotiations between the two sides. Abkhazian negotiators have discussed the exchange of prisoners of wars. President SHE-

VARDNADZE said that once the Cabinet of Ministers is established he will be more personally involved in solving the Abkhaz conflict. He said much has been done on the international level and bilateral level, but that the time has come for reconciliation and peaceful co-existence among the people. Georgian officials will not raise the issue of removing Russian peacekeepers from the Abkhazian Conflict zone because the presence of Russian peacekeepers helps to avoid any escalation of conflict. Officials in Georgia indicated that they will support extending the mandate to keep the Russian peacekeepers. The current mandate ends June 30<sup>th</sup>.

#### **AES Telasi Cuts Off Supplies To Ministries**

- *AES Telasi* stopped electricity supplies to the Foreign Ministry starting today due to non-payment. *Telasi* plans to cut off energy to the National Security Ministry as well. Energy has already been cut off to the Supreme Court of Georgia, Interior Ministry, Defense Ministry, Finance Ministry, State Property Ministry, and the Economics, Industry, and Trade Ministry. Energy cut offs began on Friday as an effort by *AES Telasi* to collect payments from debtors. The total government debt to *Telasi* is 15 million lari. The Internal Affairs Ministry and Justice Ministry were just barely able to meet their payments before the deadline, and therefore avoided energy cut offs today, Prime News Agency reported. Georgian President Eduard SHEVARDNADZE said that it is inadmissible to cut off electricity supplies to ministries and state bodies due to debts. He said that the government will reach an agreement with *Telasi* to solve the problem.

#### **Rus-Armenia Expand Defense Capabilities**

- Russian Air forces Alexander DROBYSHEVSKY told Itar-Tass on Sunday that Russia and Armenia are expanding anti-aircraft defense. He said that Russian-Armenian, "joint military anti-aircraft watch was launched on April 15, 1999," within the united anti-aircraft defense of the Commonwealth of the Independent States (CIS) created in February, 1995. Armenia's contribution to the CIS air defense has allowed Russia to upgrade armaments and

streamline troops in the region and to deploy C-300 anti-aircraft systems at the military base of Gyumri (former Leninakan), DROBYSHEVSKY said. He added that another Russian military base will open in Armenia in the near future, REF\RL Newswire reported. The two countries are engaged in regular air troops drills in Armenia. Armenia also has been taking part in CIS coalition drills since 1999.

#### **AIOC Invests \$47M In Azerbaijan In 1Q**

- The *BP Amoco-led Azerbaijan International Operating Company (AIOC)* on Friday said that it spent \$30 million on capital costs and \$17 million on operations at the Azeri-Chirag-Guneshli oil field in the period. *AIOC* will spend \$420 million on capital costs and \$80.2 million on operations in the last nine months of 2001, more than doubling investment this year from the \$249 million invested in 2000. The offshore Chirag field has produced about 2 million tons (13.2 millions barrels) of oil this year. *AIOC* is working to boost production at Chirag to more than 130,000 barrels a day, Bloomberg News reported. It also is close to completing its assessment of the Azeri oil field, where it plans to produce as much as 350,000 barrels per day starting at the end of 2004. *AIOC* President David WOODWARD said, "We still expect the project to be sanctioned by shareholders and the steering committee in the third quarter 2001. Approval for the construction stage of the project will depend on a satisfactory outcome from the current, detailed engineering stage and also on satisfactory progress on the export pipeline project." The *AIOC* is working to upgrade its western pipeline to a Black Sea port in Georgia. Some of the group's members have contributed to the \$2.4 billion Baku-Tbilisi-Ceyhan pipeline project, for which construction is expected to start in the middle of next year. BP Amoco, the third-largest publicly traded oil company, was the first international oil company to commit funds to the Baku-Tbilisi-Ceyhan project.

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