

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Nemtsov Calls For Georgian Invasion

□ Leader of the Union of Right Forces, Russian State Duma Deputy, and the former Russian First Deputy Prime Minister Boris NEMTSOV on the Russian NTV channel on Wednesday night stated that Russia might take unilateral actions in Georgia against the Chechen terrorists. According to NEMTSOV, the Georgian authorities are harboring Chechen terrorists in the Pankisi Gorge. If Russian President Vladimir PUTIN and Georgian President Eduard SHEVARDNADZE do not agree on a joint operation against the Chechen terrorists on the territory of Georgia, he said, Russia might conduct a unilateral operation in Georgia. If that happens, he added, the Georgian President will not be able to rely on the help of the Western states. Georgia is a weak state, its army and police are incapable of fighting against the Chechen terrorists, he concluded. Commenting on the NEMTSOV's statement, general representative of Chechnya to Georgia Hizri ALDAMOV said, "this is a gross attempt to interfere into the internal affairs of a sovereign state." He stressed to Prime News Agency, "There are no Chechen terrorists in Georgia." According to ALDAMOV, Russia is trying to take advantage of the tragic events in the US, and pursue its "vampire policy" in the Caucasus. He noted that the Kremlin supports regimes in Iran and Iraq, and used to support former Yugoslavia President Slobodan MILOSEVIC. "Russia is the main terrorist state," he concluded.

Comment: NEMTSOV, a so-called democrat who has proposed peace negotiations between PUTIN and Chechen President Aslan MASKHADOV, appears to be making a new justification to invade Georgia spurred on by Tuesday's terrorist attacks

against the US. While US President George W. BUSH and Secretary of State Colin POWELL are working to form a worldwide coalition to fight terrorism, NEMTSOV appears to be using the tragic events to push for an invasion of Georgia. Once the Russian troops gain the access to clear out the terrorists in Pankisi Gorge, with or without Georgia's permission, it is highly unlikely that Russian troops would retreat back to its borders. Any such action must be understood as an attempt to topple the already stressed out Georgian government.

US Consulate In St. Petersburg Evacuated

□ The US Consulate in St. Petersburg was evacuated today after receiving warnings of an alleged bomb that was timed to detonate during the nationwide moment of silence in honor of the victims of Tuesday's terrorist attacks in New York City and Washington DC. All workers were ordered to leave and Russian police using dogs searched the building. No bomb was discovered, the Associated Press reported. Across Russia, national flags were lowered to half-staff under a decree from President Vladimir PUTIN. The Presidential decree stated, "The people of Russia share the sorrow of the American people and offer their condolences to the near and dear of the victims of the tragic events." Television and radio stations halted their broadcasts, and the Cabinet interrupted its weekly meeting for a minute. All ships from Russia's Pacific fleet in Vladivostok in the Far East also lowered flags to half-mast and observed a moment of silence along with visit-

ing South Korean ships. The head of the Russian Orthodox Church, Patriarch Alexy II, held a special service to mourn those killed in the attacks Tuesday. "We share America's grief, because Russia through its own bitter experience knows of the suffering that international terrorism brings to peaceful civilians," Itar-Tass quoted him saying. The observance coincides with an anniversary of a terrorist strike in Russia: On September 13, 1999, at least 124 people were killed when a bomb went off at an eight-story apartment building in Moscow. That blast came just five days after another apartment explosion in the capital that killed 93 people. The Moscow apartment bombings were among four explosions across the country that helped prompt Russia to begin its second military campaign in Chechnya.

Zhirinovsky Calls For The Return Of KGB

□ As the result of Tuesday's terrorist acts in the US, Russian State Duma Deputy Speaker from the Liberal Democratic Party (LDPR) Vladimir ZHIRINOVSKY proposed to conduct a referendum on October 1, 2001 to amend the Russian Constitution. The deputy suggested an idea of extending the terms of the Russian President and the State Duma to five years, abolishing the Federation Council, and canceling election procedures of all executive officials, he told RosBusinessConsulting. The official considers it necessary to restore the state monopoly of the transport, fuel and energy, foreign trade, as well as alcohol, tobacco, and sugar sales in Russia.

In his opinion, the KGB institution should be restored, the strength of the Russian army increased to 3 million servicemen, and the process of the Russian-Belarus integration intensified. ZHIRINOVSKY also proposed to make an ultimatum to Afghanistan if it doesn't stop its drug supplies to Russia, to abolish activities of all extremist political and religious organizations, except for those, "named by the Patriarch of Moscow and All Russia Alexy II." ZHIRINOVSKY said, "The whole planet hates the US because of Washington's ambitions for global dominance." He proposed that, "The US administration should start negotiations with Russia and write off our foreign debts; and in exchange we will ensure security for the whole world."

Economy

Ruble = 29.47/\$1.00 (NY rate)

Ruble = 29.47/\$1.00 (CB rate)

Ruble = 26.73/1 euro (CB rate)

FinMin Received \$4 Billion In Revenues

□ Russia's Finance Ministry said on Tuesday it received 117.35 billion rubles (\$3.9 billion) in revenues above target in the first half of this year. The ministry said in a statement 41.2 billion rubles had been spent on servicing foreign debt. Russia has said it planned to accumulate the money it receives from high prices for its main exports □oil, gas and metals □in a special fund designed to tackle a 2003 peak in foreign debt payments. Prime Minister Mikhail KASYANOV said on Monday Russia planned to accumulate \$5 billion this year to cope with \$19 billion in foreign debt payments and servicing. Russia is scheduled to pay about \$14 billion this year and next. The Finance Ministry said 16.56 billion rubles of the extra revenues had been channeled to increase salaries to public employees and the military. Apart from foreign debt payments and salary hikes, Russia had spent 35.32 billion rubles for state management, defense, law, science, education, space, agriculture, and social issues. The rest will be spent in the second half of the year, the ministry said in a statement.

Business

Gazprom Considers Eurobond Issue

□ The board of *Gazprom* directors will consider a Eurobond issue at its next meeting, *Gazprom* Executive Officer Alexander SEMENYAKA was quoted as saying at a press conference in Krasnodar today. He stressed that the *Gazprom* leadership, "was not going to shelve this question any more." Eurobonds were ready to be issued this spring. Russia's gas monopolist was planning to float Eurobonds worth up to \$500 million. *Gazprom* executives have been monitoring the market since that time, and noticed that the Western demand was improving. SEMENYAKA declined to give an exact volume of the upcoming issue, because it will depend on the market situation. Along with Eurobonds, *Gazprom* intends to issue two-year ruble bonds with a yield of 10 percent to 12 percent, RosBusinessConsulting reported.

EUROPEAN REPUBLICS

Ukraine's January-August GDP

□ Ukraine's gross domestic product (GDP) grew by 10 percent in the first eight months of the year, Prime Minister Anatoly KINAKH said today. "The state statistics committee has not released its figures yet but I think the growth will be at about 10 percent," KINAKH told Reuters. "The growth trend will be maintained until the year-end." Ukraine's GDP grew by 10.4 percent in the first seven months of the year, official data showed. The government expects GDP to grow by 6.2 percent this year after 5.8 percent in 2000.

Ukraine's CB Reserves Fall

□ Ukraine's Central Bank said today its gross hard currency reserves fell to \$2.311 billion on September 7th from \$2.324 billion at the end of the previous month. Sergei YAREMENKO, head of the Central Bank's currency regulation department, told Reuters the drop was due to payments on foreign debts. YAREMENKO also said liquid hard currency reserves, the indicator used by the International Monetary Fund (IMF), slipped to \$2.189 billion on September 7th from \$2.204 billion on August 27th. Liquid reserves consist of gross reserves minus Central Bank guarantees on foreign contracts, deposits in precious metals and accounts in the Central Bank held by foreign banks. Ukraine's Central Bank hard currency reserves have been relatively steady over the past year helped by strong exports and central bank hard currency purchases on the interbank market. YAREMENKO said the Central Bank had bought \$1.331 billion as of September 12th.

Ukraine Limits Dollar Trading

□ Ukraine's Central Bank on Wednesday introduced limits on commercial banks trading cash dollars as the US currency firmed slightly against the hryvnia, following the terrorist attacks in New York City and Washington DC. Sergei YAREMENKO, head of the Central Bank's currency regulation department, told a news conference commercial banks would be now allowed to deviate from the official rate only by up to five percent. Previously, there was no limit. The new rule takes effect immediately, Reuters reported. Most Ukrainians are paid in hryvnia but, after several financial crises, they are wary of further devaluation and tend to exchange their national currency into dollars. The hryvnia was

officially fixed on Wednesday at 5.3421 gryvnias to the dollar but some currency exchanges had slashed their dollar buying rates to take advantage of Ukrainians' concern about the attacks in the US. Deputy Prime Minister Vasyl ROHOVY said there were no reasons for panic and urged people to avoid speculation. But few queues were seen at the exchanges. Many currency exchanges in the regions across the country of 49 million people were closed on Wednesday. YAREMENKO said interbank trading sessions would be suspended on Wednesday and today at the request of the US. He said the Central Bank did not plan to introduce any new restrictions on currency trade on the interbank market.

Moody's Affirms Moldovan Ratings

□ *Moody's Investors Service* affirmed Moldova's Caa1 rating of foreign currency debt and its Caa2 ceiling for foreign currency bank deposits in its annual report. It noted that the ratings are based on the uncertain economic policies of the new government and on the inherent fragility of the economy. Moldova suffers from lack of a political consensus about the direction and the pace of market reforms. Jonathan R. SCHIFFER, a *Moody's* vice president and author of the report, says "the inherent fragility of the economy, which is hostage to weather conditions, exacerbates negative trends."

Although some progress has been made in the key energy and agricultural sectors, much remains to be done. Little reform has occurred in the health, education, and welfare sectors, which take over half of budgetary expenditures." "In the aftermath of the 1998 crises, devaluations in Russia and Ukraine put pressure on the Moldovan currency, leading to its significant depreciation, accompanied by an increase in the external debt burden," SCHIFFER explains. *Moody's* points out that Moldova's external debt has grown rapidly, with the great majority of it being owed to official creditors. The government is currently engaged in discussions with the IMF with an eye to rescheduling its foreign debt. SCHIFFER pointed out that Moldova, "is negotiating with the secessionist Trans Dniester region, which contains much of Moldova's industrial base."

SOUTH CAUCASUS & CENTRAL ASIA

CanArgo Updates Georgian Drilling

□ *CanArgo Energy Corporation* Wednesday provided an update on its Georgian exploration operations. *CanArgo* is drilling the first two wells targeted for large Cretaceous gas prospects as part of a three well exploration program partly funded by a subsidiary of US-based *AES*. The first of these wells, well N100, is experiencing mechanical problems at a depth of 4,040 meters. To continue operations a sidetrack of this well is to be performed, this being considered the most effective solution. This will delay completion of the well past the deadline of the end of November. Well M11, the second well in the *AES* program is drilling ahead at a depth of 2,400 meters. The primary target for this well is the Cretaceous formation at 4,500 meters, but secondary objectives include the shallower Eocene, Oligocene, and Sarmatian sequences, according to a company press release. On a separate license in Georgia, an agreement has been reached with *CanArgo's* partners in the Norio block to commence the first new exploration well on this license in October. Site preparation for this well is now underway, with the well being targeted at a large prospect in the Eocene sequence, just to the North of the large Samgori oilfield. *CanArgo* is an independent oil and gas exploration and production company operating in Eastern Europe. *CanArgo's* principal oil and gas operations are currently located in Georgia and in Ukraine.

Georgia Opens New Power Plant

□ Georgian President Eduard SHEVARDNADZE attended the opening of the Khodori power plant, which is being built by the *East China Energy Company* in the Akhmeti district of eastern Georgia near the Chechen section of the Georgian-Russian border. The first mini-power plant with the capacity of 2 megawatt began operations on Tuesday, sources in the Georgian State Office told Itar-Tass. The construction of the Khodori cascade with the overall capacity of 24 megawatt started in February, 2000. Investments in the project will total \$25

million. The cascade will be ready within two years to meet half of the electricity demand in Kakhetia, a largest area of eastern Georgia. Residents of Kakhetia have electricity two or three hours a day in winter and six to eight hours a day in summer.

Russia To Supply Kyrgyz With Radar Stations

□ Kyrgyz Defense Minister Esen TOPOYEV told Itar-Tass that Russia will supply Kyrgyzstan with several radar stations before year's end. The radar stations will be delivered under the agreement signed by Russian Atomic Energy Ministry and the Kyrgyz Defense Ministry signed last year on cooperation in the field of technical re-equipment and modernization of the technical means of protection and communication on the state border of Kyrgyzstan. The first batch of radar stations is valued at 20 million rubles. On Monday, TOPOYEV participated in the Russian-Kyrgyz intergovernmental commission on trade and economic cooperation meeting in the Kyrgyz city of Cholpon Ata. One of the central questions for discussion at the meeting was Russian-Kyrgyz military-technical cooperation. The Kyrgyz Defense Minister said the commission had discussed the entire complex of Russian-Kyrgyz military-technical cooperation, including the establishment of a joint enterprise to manufacture border protection equipment. Deputy Prime Minister Arzumat SULAIMANKULOV told Itar-Tass, "Kyrgyzstan is grateful to Russia for the understanding it showed in the solution of problems related to the deliveries of the newest means of communication and detection for the southern borders of Kyrgyzstan."

Arms Cache Found On Tajik-Afghan Border

□ Russian Border Guards, monitoring the Tajik-Afghan border found an ammunition cache in one of the sectors on Tuesday. Itar-Tass was told by officials of the press service of the Russian Group of Border Guards in Tajikistan that it contained 105 rounds of ammunition for SPG-9 grenade-launchers, which were blown up.

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