

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

INTERCON INTERNATIONAL USA, INC., 725 15th STREET, N.W., SUITE 903,
WASHINGTON, D.C. 20005 -- 202-347-2624 -- FAX 202-347-4631

Daily intelligence briefing on the
former Soviet Union

Friday, September 14, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Anti-Terrorist Strikes Not To Come From CIS

□ Russian Defense Minister Sergei IVANOV today said, "I don't see any basis for even the hypothetical possibility of NATO military operations on the territory of Central Asian nations that belong to the Commonwealth of Independent States (CIS)." He speculated that such attacks against Afghanistan would not originate from CIS states. Chiefs of the army general staffs of the 12 countries of the CIS will meet in Moscow on September 26th to discuss coordination of military steps against terrorism. US Deputy Secretary of State Richard ARMITAGE is scheduled to hold talks on joint anti-terrorist efforts in the Russian capital next week. US General Anatoly KVASHNIN, the head of the Russian General Staff, said it was unlikely that the Russian armed forces would take part in "acts of revenge" for this week's deadly attacks against the World Trade Center and Pentagon, the Interfax news agency reported. He said, "The United States has powerful enough military forces that it can cope with this task on its own." He added that there had been no talks on the military level between the US and Russia about Moscow's participation in any operation. KVASHNIN said that according to his information, Osama BIN LADEN, the prime mastermind suspect in Tuesday's attacks, is now hiding in the mountains around Kandahar, the southern Afghan city where the Taliban headquarters is located. Russia has about 25,000 troops stationed in Tajikistan, which borders on Afghanistan and is one of the few countries from which an offensive could be launched.

Comment: IVANOV and KVASHNIN's statements appear out of line, not only with Central Asian nation's and former Soviet republics, but also with those of the Russian people.

Shanghai Group Signs Joint Statement

□ The heads of government of member states of the Shanghai Cooperation Organization, which includes Russia, China, Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan, adopted a statement today, denouncing the acts of terrorism staged in the US, Kazakh Prime Minister Kasymzhomart TOKAYEV said, commenting on the results of the meetings of prime ministers of members of the Shanghai Cooperation Organization. He specially pointed to the fact that the statement expressed their common opinion, "on the need for preventing such actions, which must not be forgiven." The statement says the attacks on New York and Washington were, "a barbaric act defying the fundamentals of human civilization." It added, "We are ready, in tight coordination with all states and international bodies, to take effective measures for an uncompromising fight to eradicate the global threat stemming from terrorism."

A memorandum on the basic goals and directions of regional economic cooperation and on starting to create favorable conditions for trade and investment was also signed at the meeting. The document says that the establishment and development of interaction in commercial and economic relations of the six countries, as well as creation of favorable conditions for trade and investment will take place under the principles of complete equality, mutual respect and mutual advantage. The next meeting of the organization will be held in St. Petersburg in June, 2002.

Anti-Taliban Stance Re-Affirmed

□ Diplomats from Russia, India, Iran and other states hostile to Afghanistan's ruling Taliban met on Thursday in Tajikistan. They re-affirmed their stance and discussed possible assistance to anti-Taliban forces, Reuters reported. The fate of Afghanistan's anti-Taliban alliance has received new international attention, with talk of possible retaliation against the Taliban for hosting militant Osama BIN LADEN, accused of being linked to Tuesday's attacks on the US. The alliance, which controls limited areas of Afghan territory, has been in apparent turmoil since an attack over the weekend on its charismatic military leader, Ahmad Shah MASOOD. Alliance officials say MASOOD was wounded, but not killed on Sunday when suicide bombers posing as journalists detonated explosives packed in a video camera. Russian news reports have quoted intelligence sources as saying MASOOD died after the attack. General Muhammad FAHIM is leading the alliance, "only during MASOOD's illness."

Court Closes Salvation Army In Moscow

□ A Moscow court on Wednesday ordered the Salvation Army to shut down its operations in Moscow in the latest fallout from a strict 1997 law that has raised concerns about religious freedom in Russia. After two years of legal wrangling, Judge Svetlana GRIGORYEVA reached a ruling quickly in Wednesday's proceedings in the Tagansky district court, the Salvation Army's headquarters for Eastern Europe said in a statement. The Moscow government has accused the Salvation Army of not registering on time and failing to regularly report its activities to authorities. The missionary group, which operates soup kitchens and does other charity work, says the Moscow government unfairly denied it registration based on the 1997 law. The group said it would appeal the ruling, the Associated Press reported. It was unclear what immediate effect the ruling would have on the Salvation Army's religious services and aid work with the homeless, elderly, and prison inmates in Moscow. The 1997 law, championed by the influential Russian Orthodox Church, requires all religious groups to register with Russian authorities. Several groups, particularly foreign-based, have had legal troubles since it was passed and say it limits religious freedoms won with the collapse of the Soviet Union. Colonel Kenneth BAILLIE, who heads the Salvation Army's operations in Russia

and four other former Communist countries, said the group has faced worse problems in Russia than in any other country under his supervision. The Russian Orthodox Church has denied it is behind the attempts to shut down the Salvation Army, but has said it regards humanitarian activities by the Salvation Army as an attempt to win over believers. Next month, the Salvation Army will mark its 10th anniversary of operating in post-Soviet Russia. It also operated briefly in Tsarist Russia before the 1917 Bolshevik Revolution.

Economy

Ruble = 29.47/\$1.00 (NY rate)

Ruble = 29.47/\$1.00 (CB rate)

Ruble = 27.09/1 euro (CB rate)

Kudrin Forecasts 2003 Economic Expectations

□ Russian Finance Minister Alexei KUDRIN today said the government was already looking at forecasts for 2003, basing them on expectations for a pessimistic or optimistic turnout of events. KUDRIN told leaders of parliamentary blocs the optimistic 2003 forecast for the price of Russia's key oil export was \$23.5 a barrel while the pessimistic outlook was \$18.5. The higher figure would give Russia a budget surplus of 126.6 billion rubles (\$4.30 billion) in 2003; the lower a deficit of 41.1 billion rubles. The Russian government has made a practice of drawing up such "what if" economic outlooks when considering its budget plans. The oil price is particularly key as production and exports of crude, metals and gas account for roughly three-quarters of the country's gross domestic product (GDP). The 2002 budget, which KUDRIN was discussing with the parliament leaders ahead of a first reading on September 28th, includes an oil price of \$18 a barrel for the spending side of the finance package, but \$22 a barrel for revenues. The budget surplus next year is expected to hit 126.5 billion rubles. KUDRIN said the 2003 forecast for the ruble was an average rate of 32 per dollar, versus an expected 31.5 next year and 30 in 2001.

FinMin Cancels Bond Auction

□ Russia's Finance Ministry decided to cancel an OFZ bond auction which it was due to be held on Wednesday, the Central Bank said in a statement. No explanation was given for the decision. Russian Prime Minister Mikhail KASYANOV had

earlier urged his country to remain calm after the US terrorist attacks prompted concern over the fate of the dollar. The announcement on the auction came from the Central Bank as it acts as the Finance Ministry's agent for the issue and placement of government bonds. The ministry had been due to auction six billion rubles of four-year OFZ bonds on Wednesday, Reuters.

MICEX Suspends Dollar-Ruble Trade

□ Russia's main foreign exchange trade venue, the Moscow Interbank Currency Exchange (MICEX), said today suspended ruble-dollar afternoon trade due to problems with the settlement bank in the US. "Due to technical problems which arose at the *Bank of New York*, which is MICEX's settlement bank for the US dollar, trade in US dollar instruments will not be held on MICEX's 'afternoon' SELT session on September 13th," MICEX said in a statement. The *Bank of New York* maintained offices in the now collapsed World Trade Center. The dealers said in fact no regional exchanges took place, only MICEX. The ruble's weighted average for today settlement in the key morning trade session fell slightly to 29.4696 per dollar on after 29.4455 per dollar on Wednesday.

Business

LUKoil-Yukos Stand Up For TNK

□ Two Russian oil companies *LUKoil* and *Yukos* stood up for the *Tyumen oil company (TNK)* on Thursday. *LUKoil* and *Yukos* decided to use a letter concerning the privatization of *TNK* submitted to the MinFin consulting group to the Russian government and to join their efforts. This time, they act against the reconsideration of the results of the privatization. They have had some concerns about the possibility of the privatization and taxation of *TNK*. A speech delivered by *LUKoil* and *TNK* officials yesterday seems to have been just a public relations thing. It was rather emotional. But still the same thing happened all the time when the oil companies were noticing threats to their activities in government's actions, [Izvestia](#) reported.

Gazprom Consumer Debt Totals \$2.7 Billion

□ *Gazprom* Consumer debts, which are never expected to be paid off, reached 80 billion rubles (about \$2.72 billion), *Gazprom* board member Alexander SEMENYAKA declared at a press conference

after meeting with shareholders today. According to him, *PricewaterhouseCoopers*, *Gazprom's* auditor declared these debts questionable as well. In addition, it was declared at a press conference that consumers of the Samara region owe 2 billion rubles (about \$67.9 million) to *Samaratransgaz*, *Gazprom's* regional subsidiary. *Gazprom* officials finished their meeting with shareholders of the gas company in Samara today. Similar meetings were held in Perm, Astrakhan, Krasnodar this week. Head of the Depository of *Gazprom* Vladimir TATSY stressed at a press conference in Samara today that the number of *Gazprom* shareholders had reduced by 900 people in the Samara region last year. 15,000 shareholders hold *Gazprom* shares now. Among them are 19 legal entities. In general, shareholders in the Samara region hold 80 million of *Gazprom* shares.

EUROPEAN REPUBLICS

Ukraine's Establishes New CD Production-Rules

□ The Ukrainian government, facing the threat of US trade sanctions, introduced on Thursday new rules for compact disc production aimed to combat piracy, Reuters reported. According to a government statement, all CD makers will have to apply to the Education and Science Ministry for a production permit and a special identification code which will be stamped on each disc they produce. Under the new rules, producers will also have to gain permission from copyright owners. The ministry will have the right to halt CD production if a company violates the law. US officials said last month they would suspend Ukraine's duty-free access to the US market and begin steps to impose other sanctions on Ukrainian goods. Ukrainian government officials estimated the nation could lose over \$200 million a year following the sanctions. The fight against CD piracy is also a part of Ukraine's campaign to qualify for World Trade Organization (WTO) membership. Ukraine has become a haven for intellectual property pirates and some estimate it is Europe's biggest producer of counterfeit CDs. The US music industry estimates it loses more than \$200 million annually from pirated Ukrainian discs sold in Eastern and Central Europe and as

far away as South America.

SOUTH CAUCASUS & CENTRAL ASIA

Russia-Armenia Sign Defense Agreement

□ Russian Defense Minister Sergei IVANOV and his Armenian counterpart Serzh SARKISYAN signed today an agreement "On Russian Military Detachment In Armenia" and a protocol on the results of Russian Defense Minister's visit to Armenia, Mediamax news agency reported. The protocol provides for sending Russian military experts to Armenia and for additional territories to expand a Russian military compound in Armenia. After a signing ceremony SARKISYAN told journalists that to date, over 40 Armenian-Russian military agreements have been reached. According to SARKISYAN, Armenia and Russia, "intend to raise a bilateral military cooperation on a qualitatively new level." He also stressed that Armenian-Russian relations are strategically important. On the same day, IVANOV was decorated with an Armenian military medal for, "a significant contribution to the development of military cooperation between Armenia and Russia and for strengthening Armenian-Russian friendship," SARKISYAN said. A number of Russian officers, members of the delegation, were also decorated with memorable military rewards. The Russian military delegation arrived in Yerevan on Thursday and inspected the Russian military base in Armenia today. SARKISYAN said, "The stronger the Russian military base, the better the republic's security is ensured." Today, Russian President Vladimir PUTIN is expected to arrive in Yerevan for summit talks with Armenian President Robert KOCHARYAN.

Russia To Reschedule Tajik Debt

□ Russian Prime Minister Mikhail KASYANOV told reporters that Russia intends to offer rescheduling Tajikistan's debt, which runs at \$160 million, on easy terms. His statement came after talks today with his Tajik counterpart Akil AKILOV. "We are aware of all the complexities which exist in Tajikistan

now and therefore we shall offer easy terms for a debt rescheduling," the Russian Prime Minister emphasized. KASYANOV pointed out that Russia is utterly interested in steady deliveries of cotton from Tajikistan. Russia intends to provide Tajikistan with farm machinery, primarily cotton harvesters, as well as with pumps, irrigation systems, and other equipment. In October, the sides intend to hold a special session of the Rus-Tajik inter-governmental commission, KASYANOV announced.

Bin Laden Must Be Turned Over

□ Kazakhstan's Energy Minister Vladimir SHKOLNIK told Reuters in an interview that if Osama BIN LADEN is found to be behind attacks on the World Trade Center and the Pentagon, the Saudi-born militant should be held accountable for his actions. He said, "If he is guilty of the act, I think that he should be brought to justice as soon as possible." He stressed that the terrorist problem, "must be resolved." SHKOLNIK was in Washington to meet with government officials and representatives from major US oil companies, including *Chevron* and *Exxon Mobil*, to discuss developments in Kazakhstan's oil sector. SHKOLNIK said his country has been warning the international community for several years now of problems with the Taliban government. "This [Afghanistan] is the source of not only regional [Caspian] instability, but also a threat to the international community overall. We have to take every possible measure to stop the threat of terrorism out of Afghanistan." He stressed that the terror attacks in New York and Washington should not scare the US into altering its energy policy and encouraging American oil firms to reduce exploration activities in other countries and drill domestically instead. "The United States should not retreat from the regions [of the world] where it has successful operations in terms of production of energy resources." He also emphasized that, "We believe that the [oil] resources we have in the Caspian region will play a significant role in providing stability in the world energy markets."

Paul M. Joyal, *President, Editor in Chief*
Clifton F. von Kann, *Publisher*
Oleg D. Kalugin, *Content Advisor*
Jennifer M. Rhodes, *Principal Editor*
Tatyana Kotova, *Contributing Editor*

Daily Report on Russia is for the exclusive use of the subscriber only. Reproduction and/or distribution is not permitted without the expressed written consent of Intercon. *Daily Report on Russia* □ copyright 2001, Intercon International, USA.

Daily Report on Russia is published Monday-Friday (excluding holidays), by Intercon International, USA. Subscription price for Washington, D.C. Metro area: \$950.00 per year. A discount is available for non-profit institutions.