

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

Tuesday, September 18, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Russia Offers Intelligence, Not Bases

□ Top Russian officials said that it is not likely that Russia will participate in any US strikes against those responsible for the terrorist attacks of September 11th. They also dismissed suggestions that former Soviet territory in Central Asia could be used as bases for reprisals. Russia has offered intelligence information on terrorists and their strongholds, as well as political and diplomatic support. Interior Minister Boris GRYZLOV said, "According to our agreements, Russia will give the United States information about terrorists' bases, their camps and about persons identified as terrorists." Russia can also provide extensive knowledge about Afghanistan gained during the 1980s war lost by the Soviet Union in that rugged land, where prime suspect Osama BIN LADEN is believed to be in hiding. Russian military expert Mikhail KREIMER said, "The most important support Russia can offer the United States is the creation of organizations which can coordinate the work of the intelligence services of different countries against terrorism to prevent attacks...Russia has very good sources of information...Terrorism is a problem that directly affects our country." About one of every seven Russians is a Muslim. Any blatant support for a Western military campaign against Islamic militants could leave Russia vulnerable to reprisals and unrest in its own territory. GRYZLOV also pointed out that Russia could expect a flood of refugees, if the US aimed strikes against Afghanistan.

Muscovite Poll On US Attacks

□ A telephone survey conducted by ROMIR polled more than 500 adult Muscovites to gain reaction to Tuesday's terrorist attacks against the US. The survey showed that 34.9 percent of respondents

deemed the attacks as part of an unfolding campaign of terror against the US. Less than a third, 29.2 percent, of those polled consider the tragic events to be the starting point of a worldwide terrorist campaign. Twenty-one percent of respondents thought Tuesday's attacks were singular acts of violence, committed by a group of extremists while 5.7 percent said the attacks marked the beginning of World War III, United Press International reported. The ROMIR poll also showed that 38.4 percent of the Muscovites polled expected Washington to launch retaliatory actions against the states suspected of being related to the attacks. Slightly more than 14 percent of those polled thought that the White House would react to the crisis by launching internal investigations and punishing its own officials whose faults led to the tragic events. When asked who to blame, 48.9 percent cited Islamic extremists; 7.6 percent blamed other religious extremist groups, while 7 percent said the attacks were launched by secret services of some countries. More than 5 percent of those polled thought the attacks were perpetrated by anti-globalists radicals while 3.5 percent blamed the US Secret Services. More than 23 percent were undecided. Nearly 30 percent thought the search for perpetrators and their supporters was more likely to succeed than fail and 31.4 percent thought just the opposite. Finally, 13.7 percent said the perpetrators would never be found. Approximately, 47 percent of respondents believed Russia could also be hit by a similar wave of terrorist attacks. Only 21.6 percent of Muscovites rule out attacks on

their home soil. The attacks would cause a short-term economic crisis with no consequences on global economy, 34.6 percent of those polled said. According to 32.7 percent of respondents, the attacks wouldn't harm the Russian economy. Nearly, 14 percent said the Russian economy would benefit from the rise of oil and non-ferrous metals prices. Only 7.6 percent of respondents said that the attacks would lead to a global economic crisis. More than 11 percent remained undecided.

Economy

Ruble = 29.44/\$1.00 (NY rate)

Ruble = 29.45/\$1.00 (CB rate)

Ruble = 27.22/1 euro (CB rate)

Russia Makes \$24.9 Million IMF Payment

□ Russia paid a scheduled \$24.98 million to the International Monetary Fund (IMF) Monday, a Finance Ministry official said. Russia is scheduled to pay about \$2.0 billion to the Fund this year. The next payment is due on September 28th. Russia's relationship with the Fund cooled after the 1998 financial crisis, but IMF officials have praised the economic and reform policies of President Vladimir PUTIN. Russia has no program with the Fund, but has borrowed billions of dollars since the fall of the Soviet Union.

Business

Russian Telecom Consolidation For 2002

□ Russian regional telecommunications firm *Uralsvyazinform* on Monday said it would take over six smaller firms via share swaps in the first quarter of 2002 and then would sell American Depositary Receipts (ADRs). The swaps are part of a merger plan mandated by *Svyazinvest*, Russia's state telecommunications holding, which wants to consolidate dozens of small regional firms into seven large operators to improve the sector's efficiency and attract investment. *Uralsvyazinform* would become the sole operator in its region after swapping shares for those of six firms □ *Chelyabinskvyazinform*, *Uraltelkom*, *Tyumentelkom*, *Khantymaniiskokrtelkom*, *Yamalelectrosvyaz* and *Kurgan Region Electrosvyaz*. They will serve as local branches of the combined company. The swap is planned for the first quarter of 2002, said Vladimir RYBAKIN, general director of *Uralsvyazinform*. He said, "A Level Three ADRs

issue is planned after the process of reorganization is over and also taking into account the market situation. Tentatively, it is going to be the end of 2002 or 2003." *Svyazinvest*, which holds 53.2 percent in *Uralsvyazinform* and controlling stakes in the other six companies, will hold 41.35 percent of the combined company before the ADR sale. Russia's State Property Fund, which holds stakes in some of the smaller telecommunications firms, would own another 5.03 percent, Reuters reported. *Uralsvyazinform* shareholders have approved the issue of billions of new ordinary shares and preferred shares to swap for shares in the other six firms. The swap ratios must be approved by shareholders of the regional companies at shareholder meetings later in September and in early October.

Russia To Auction OFZ Bonds

□ Russia's Finance Ministry plans to auction up to 10 billion rubles (\$339.6 million) in three or four-year OFZ bonds and six-month GKO treasury bills in October, Deputy Finance Minister Bella ZLATKIS told Reuters. "We plan a paper with a three or four-year maturity...and probably one six-month paper. The two would be worth not more than 10 billion rubles," ZLATKIS said.

EUROPEAN REPUBLICS

Attacks Could Lead To EU Enlargement

□ The European Union's (EU) top enlargement official Guenter VERHEUGEN said that the horrible attacks against the US could, "have a positive effect," on the expansion of the EU. He said that the attacks could rally public support for more European integration. VERHEUGEN stressed that integration was the best way to make Europe a safe place for its citizens, unite the continent and guarantee peace, democratic and economic stability. "I expect that people are more aware now of what the basic importance of the enlargement process is and that we will get even more public support for it," he said while in Vilnius. Lithuania is one of 12 candidates for EU entry. Neighboring Baltic States Latvia and Estonia are also in talks with Brussels for EU entry, as well as Poland, the Czech Republic, Hungary, Slovakia, Bulgaria, Slovenia, Cyprus, Romania, and Malta.

Ukraine Drops Charges Against Tymoshenko

□ The Ukrainian Prosecutor General's Office on Saturday dropped charges against former deputy prime minister Julia TYMOSHENKO and her husband, Alexander, who is the head of the corporation *United Energy Systems of Ukraine*. In the beginning of the year, the Prosecutor General's Office accused Julia TYMOSHENKO of attempted large-scale contraband and document falsification. This charge involved the smuggling 3 billion cubic meters of Russia's natural gas in 1996. She was arrested on February 13th on a \$79-million bribery charge and jailed in Lukyanovsky prison. Other charges included tax evasion. Her husband and another head of *United Energy Systems of Ukraine*, Valeri FALKOVICH, were arrested in August, 2000 on charges of embezzling \$800,000 in a metal export deal in 1990. In late March, Julia TYMOSHENKO was released from prison and immediately made a statement that she would rally Ukraine's opposition forces in a bid to challenge President Leonid KUCHMA at the next presidential election. The charges against her were dropped and later filed again because, sources said, her political activity annoyed the regime. Alexander TYMOSHENKO was released when a Kiev court declared the prosecutor general's office to extend his detention until February, 2002 "illegal." TYMOSHENKO's lawyer said more details will be provided on why all charges were dropped in the coming week, United Press International reported.

SOUTH CAUCASUS & CENTRAL ASIA

President's Relations With Zhvania Unharmd

□ Georgian President Eduard SHEVARDNADZE said his resignation announced on Monday will not spoil his relations with Georgian Parliamentary Chairman Zurab ZHVANIA. He noted that he is good friends with ZHVANIA and expressed hope for further cooperation with the Parliamentary Chairman. Prime News Agency reported that the President predicted the possible resignation of up to 15 Citizens Union Party of Georgia (CUG) deputies as a result of his announcement.

On Monday, the two-week term deadline passed, whereby if 100 deputy signatures were collected

against ZHVANIA he would voluntarily resign. Mean

while, ZHVANIA's position is still in jeopardy. Head of the Socialist faction Zahari KUTSMASHVILI plans to introduce his variant on how the parliamentary opposition can force ZHVANIA's resignation. The first step will be to make changes to Article 102 of the parliamentary procedure. This article requires 157 deputies to pass a vote. The changes would reduce this requirement to 118 votes needed to pass legislation. KUTSMASHVILI said that to make changes to the Article only 79 votes are needed, which he believes the opposition can achieve. When these changes are made, then the opposition will be able to get the 118 votes sufficient to force ZHVANIA's resignation.

Russia Demands Terrorists Be Handed Over

□ The Russian Foreign Ministry today issued an official demand that Georgia immediately extradite to Russia the 13 Chechen terrorists detained in June and close a rebel broadcasting center and a Chechen "mission." Foreign Ministry spokesman Alexander YAKOVENKO stressed at a news briefing that despite numerous requests of Russia, "not a single of a hundred of terrorists who, according to the statements of the Georgian side, were 'blocked' at the Ingush stretch of the Georgian-Russian border in October 2000" was turned over to Russia. The note also demanded that Georgian authorities take rigid measures against bandits who train and plan new acts of terror while staying in Georgia's territory, in particular in the Pankisi Gorge, Itar-Tass reported. YAKOVENKO said, "It is not a secret that supply of the bandits and propaganda support of their activity are done through the so-called 'representative office of the Chechen republic of Ichkeria' and the 'information center,' which openly acts in Tbilisi." Prime News Agency reported that Russia called on Georgia to reject a passive policy toward terrorists. The note urged Georgia to stand up and fight against terrorism.

Georgian Interior Minister Kakha TARGAMADZE said there are no terrorists in the Pankisi Gorge. Georgian President Eduard SHEVARDNADZE today met with his power ministers. Defense Minister David TEVZADZE stated that if the US requests it, Georgia will open its territory and airspace for the US to conduct the retaliatory measures against those

responsible for the terrorist attacks in the US. He believes that this decision will not harm Georgian-Russian relations. However, Russia might make some accusation against Georgia.

Putin's Armenian Visit Cut Short

□ Russian President Vladimir PUTIN and Armenian President Robert KOCHARYAN met on Friday to discuss bilateral and regional issues and sign a number of significant agreements. PUTIN's visit was cut short due to the terrorist attacks in the US and concern over further security risks in Russia. According to Sergei PRIKHODKO, deputy head of the presidential administration, Russian-Armenian talks will also touch upon the transfer of shares in local enterprises to Russia to clear a \$100 million debt. As a result of talks, Russia will become a major owner of Armenian energy, electronic and metal enterprises, the *Vedomosti* reported. Deputy Prime Minister Ilya KLEBANOV noted that, "Russia wants to make investments in Armenian enterprises." KLEBANOV and Armenian Defense Minister Serzh SARKISYAN, partially coordinated a list of enterprises to be transferred to Russia. According to SARKISYAN, Russia is interested in the *Ajaransky Copper and Molybdenum Works*, *Mars Electronic Equipment Factory*, *Nairit Chemical Works*, *Mathematical Machines Research Institute* and its industrial arms *Elektron* and *Orbita* factories. Cooperation between the foreign policy and defense establishments of the two countries is developing actively and close contacts have been practically established between all the state structures. In spite of the growth of mutual trade exchanges in 2000-2001, their volume, "still lags behind the potentials of the two countries." Following his visit to Armenia, PUTIN met with several key ministers and *Gazprom* head Alexei MILLER and *Itera* president Igor MAKAROV to brief them on the results of his Armenian visit.

Aliyev Postpones Visit To Iran

□ Azeri President Geidar ALIYEV has postponed a visit to Iran due to start today, the presidential

press service said. No details were released on why the visit was postponed, but both sides agreed to reschedule the visit, Reuters reported. Prime News Agency reported that the talks were indefinitely postponed. Talks during the visit were to focus on the escalating row over right to oil and gas fields beneath the Caspian Sea. The visit was arranged following a dispute in July, when an Iranian gunboat and military aircraft ordered two Azeri research vessels hired by a British oil firm to retreat from an oilfield claimed by both Tehran and Baku. During Iranian Deputy Foreign Minister Ali AHANI visit to Baku in August, ALIYEV called on Iran not to use force in the dispute. Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan disagree on how to divide the Caspian Sea. Existing Caspian agreements were drawn up when only Iran and the Soviet Union bordered the sea. Since the collapse of the Soviet Union, Kazakhstan, Azerbaijan and Turkmenistan have also made claims, hoping the Caspian reserves will make them rich.

Azeri President Geidar ALIYEV and Russian President Vladimir PUTIN on Monday discussed the coordination of efforts to fight international terrorism. According to the Russian press they discussed regional cooperation and the prospected of increased cooperation with the Caucasus states.

New Eurasian Econ. Comm. Head Nominated

□ Kazakh President Nursultan NAZARBAYEV announced in an Almaty meeting of the State Council of the Eurasian Economic Community that at President Vladimir PUTIN's request he has nominated Vladimir RAPOTA to head this group, *gazetasng.ru* reported. A professional intelligence officer, RAPOTA has served since 1991 as deputy director of the SVR, deputy secretary of the Russian Security Council, director of the Russian arms sales agency *Rosvooruzhenie*, and most recently as first deputy trade minister as well as first deputy industry, science and technology minister. **Comment:** RAPOTA's appointment continues PUTIN's trend of appointing former intelligence officers and

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.