

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Putin Approves US Use Of Russian Airspace**

□ Russian President Vladimir PUTIN has agreed to allow the US to use Russian airspace in retaliatory strikes to the September 11<sup>th</sup> terrorist attacks in New York City and Washington DC, Time magazine reported on its Web site. Citing an unidentified diplomatic source, the weekly also reported that the Russian leader told US President George W. BUSH in a telephone conversation that he would “personally urge” leaders of the former Soviet republics in Central Asia, to join the antiterrorist coalition. Last week, Chief of General Staff General Anatoly KVASHNIN said, “Russia has not considered and is not planning to consider participation in a military operation against Afghanistan.” Earlier, Russia sent his Security Council Secretary Vladimir RUSHAILO to Central Asian state to insist that they act only with Russia and not the West, with regard to the anti-terrorism effort, The Wall Street Journal reported. “Over-flight rights and the use of bases in Tajikistan and Uzbekistan [where the Kagaity air base is some 12 miles, or 19.1 kilometers from the Afghan border] are likely to facilitate US operations in the region,” the source said. **Intercon** sources indicate that Russia is seeking US approval for strikes against Chechens in Georgia. This would no doubt challenge the government of Georgian President Eduard SHEVARDNADZE directly and do little militarily to fight the Chechen rebels.

#### **Putin Discusses Terrorism With CA Leaders**

□ The announcement by Kazakh President Nursultan NAZARBAYEV that, “Kazakhstan is ready to support an action against terrorism with all the means it has at its disposal,” prompted Russian President Vladimir PUTIN to contact all leaders of former Soviet Republics in the Central Asian region.

The Kremlin said in a statement that PUTIN and the five Central Asian leaders had discussed, “coordinating operations in the light of the developing situation in and around the region,” Reuters reported. PUTIN also discussed Russia’s participation and commitment to the US led-fight against terrorism with US President George W. BUSH. He said that Russia will provide the US with full access to Russia’s airspace, provided that the attack is in line with international law. BUSH said PUTIN was forthcoming in their discussions on terrorism. He noted he was pleased with his approximately one-hour long talk with him on Saturday. The US President added today in a Rose Garden press conference that BUSH said PUTIN clearly understands that the Cold War is over and that the US and Russia can cooperate. On Saturday, PUTIN met with his top security ministers at his Black Sea resort in Sochi to consolidate one firm Russian approach to the anti-terrorism campaign and what if anything it will ask for in return. Defense Minister Sergei IVANOV and other military officials have been reluctant to offer assistance to the US.

### Economy

#### **Duma-Gov’t Agree To Increase 2002 Revenues**

□ Russia’s government and parliament have tentatively agreed to increase next year’s budget revenues by 100 billion rubles (\$3.17 billion). The government and the State Duma have already started

debating the 2002 draft budget ahead of its first reading on September 28<sup>th</sup>. Deputies demand more generous social spending, while the government insists on tight budget policy and considers foreign debt repayment a priority. "The government has tentatively agreed to raise [revenues] by 100 billion [rubles] [at a 2002 projected average ruble/dollar rate of 31.5]," Gennady RAIKOV, head of Peoples' Deputy faction in the Duma told Reuters after consultations between Finance Minister Alexei KUDRIN and the Duma leaders. The government's original revenue projection stood at 1.998 trillion rubles. The Duma demanded the government increase revenues by 119.1 billion rubles and said it should raise its gross domestic product forecast to 11.035 trillion rubles from 10.6 trillion rubles. It also wanted to change the deflator index to 115.0 percent from 114.8 percent. RAIKOV said the 100 billion rubles of new revenues would be split evenly between foreign debt payments and domestic needs. Out of the domestic needs part, 15 billion rubles would be channeled to regions to increase public employees' wages.

Ruble = 29.43/\$1.00 (NY rate)

Ruble = 29.44/\$1.00 (CB rate)

Ruble = 26.90/1 euro (CB rate)

## **Business**

### **Russian Electricity To Be Sold Via System**

□ Deputy Prime Minister Viktor KHRISTENKO on Friday announced that all electricity generated in Russia will be sold via the Trading System Administrator, starting from the second quarter of 2002. The charter documents of the Trading System Administrator will be upgraded within two weeks. Itar-Tass reported. The producers and consumers of electricity will equally share places in the body's observer council. "The government will not take a direct part in the functioning of the trading floor, but it will send a commissioner to veto every ruling of the council that breaks the law or limits the competition on the electricity market," KHRISTENKO said. The federal wholesale market of electricity, which is being used to sell small amounts of electric power, will be merged with the Trading System Administrator. Such organizations as the *Unified Energy Systems of Russia* grid will not have more than 50 percent of votes in the observer council, and their presence will be reduced to 25 percent beginning December

31, 2002, KHRISTENKO said. The Trading System Administrator is one of the government's steps to reform the electric power system.

### **Yukos-China Head Toward \$20B Pipeline Deal**

□ Russia's *Yukos* and China have struck a \$20 billion deal to build a vast oil pipeline network to transport 20 million tons a year by 2005, rising to 30 million tons a year by 2010. Interfax news agency reported that the construction costs and transit tariffs are due to be finalized by July, 2002. The new pipeline is to take crude from fields in Angarsk in eastern Siberia into China. Mikhail KHODORKOVSKY, chief executive of *Yukos* said the new agreement takes Sino-China relations to a new level, "...a new direction for Russian oil exports and the diversification of energy sources for China." Reuters reported that a blueprint for the pipeline will be ready by 2003. Russia Prime Minister Mikhail KASYANOV and his Chinese counterpart ZHU Rhonji signed a deal outlining the plans for the pipeline, Hart's European Offshore Petroleum

## **EUROPEAN REPUBLICS**

### **Estonian Electoral College Selects President**

□ After nearly a month of political wrangling, the Estonian Electoral College has selected former communist Arnold RUUTEL on Friday to be the nation's next President. Electoral commission head Heiki SIBUL told the assembly RUUTEL had topped the ballot with 186 votes, giving him two votes more than the majority he needed to become the next head of state. RUUTEL was backed by the Parliament's opposition. He was the chairman of Estonia's Supreme Soviet legislature when the country regained independence from Moscow in 1991 and was once a member of the central committee of Estonia's Soviet-era communist party. RUUTEL and Parliament Speaker Toomas SAVI were the top two candidates in the first round vote held earlier Friday. The Electoral College was called to choose the president after a deadlocked parliament failed to choose a President in August. Estonia now joins countries such as Poland and Lithuania who have ex-communist leaders and are vying to join the European Union (EU) or NATO. Despite his communist past and leftist leanings, RUUTEL, a trained agricultural specialist, told Reuters just before winning the election, "Estonia's foreign policy priorities should stay the same. I fully back

membership in the EU and NATO." Many Estonians consider the RUUTEL selection as somewhat of a set back. Incumbent President Lennart MERI, who leaves office on October 8<sup>th</sup>, was barred by the Constitution from seeking a third term.

#### **Kinakh Welcomes IMF Resumption Of Aid**

□ Ukrainian Prime Minister Anatoly KINAKH on Friday hailed the resumption of aid from the International Monetary Fund (IMF), saying it would help the cash-strapped country to make progress in debt talks. The IMF renewed lending to Ukraine on Thursday after a half-year halt, approving a \$377 million loan disbursement. "In the coming days we will receive the IMF tranche which will go to replenish the central bank's hard currency reserves. It will have a positive impact on financial stability," KINAKH told reporters. "It is a very positive signal for investors... But more important is that we can now start official talks with [individual] creditors on our debts," he told Reuters. Ukraine has already agreed to restructure \$580 million in debts to the Paris club of sovereign creditors over 12 years with a three-year grace period, but the deal was conditional on the IMF program being on track. The Prime Minister said the government would now start separate talks with individual countries on details of the restructuring deal. KINAKH said the resumption of the IMF program would also unlock loans from other lenders. The World Bank has approved a \$250 million loan. It will disburse \$150 million immediately and the rest before the year end. The government plans to use the funds to finance social programs.

#### **Ukraine-Kazakhstan Discuss Joint Projects**

□ The Ukrainian-Kazakhstan intergovernmental commission at its meeting in the Kazakh capital Astana on today will focus on a project to build a joint production of nuclear fuel with Russia's participation. The governmental press service said First Deputy Prime Minister Oleg DUBINA will head the Ukrainian delegation. The meeting will also discuss participation of Ukrainian companies in the refurbishing of the Kazakh seaport of Aktau and cooperation in farming machine building among other issues, Itar-Tass reported. Trade between Ukraine and Kazakhstan in the first six months of this year increased 2.1-fold compared with the same period last year and reached \$395.4 million.

### **SOUTH CAUCASUS & CENTRAL ASIA**

#### **Georgia Detains Two For Visa Violations**

□ Georgian border guards on Saturday detained one Sudanese and one Jordanian on the border with Azerbaijan for violating visa regulations. The press center of the border guard department told Itar-Tass that, "work is under way to identify the detainees," but did not elaborate. Meanwhile, Tbilisi police detained six Pakistani nationals, who were living illegally in Tbilisi without proper registration.

#### **Shevardnadze Seeks Relations With Russia**

□ Responding to a series of tit-for-tat allegations, Georgian President Eduard SHEVARDNADZE in his weekly radio address said that Georgia will, "seeks to have friendly relations with Russia and take into account its interests in the South Caucasus." He called on Russia, "to solve the problems emerged in the two countries' relations of late amidst mutual understanding and with regard for mutual interests." SHEVARDNADZE suggested, "It would be good if a meeting of leaders of law enforcement bodies of Georgia and Russia were held in the near future with the aim of discussing issues of cooperation between the two countries in the sphere of combating terrorism." The President added that Russia has neither the factual nor legal basis to implement any military operations on the territory of Georgia which is allegedly hiding Chechen terrorists, Prime NewsAgency reported. Russia has failed to provide Georgia with any proof that there are terrorists on its territory. He added that if Russia annex parts of Georgia, that it will lose the World community's favor, as it will not approve such a move. SHEVARDNADZE said he is ready to cooperate with Russian officials on all the accusations about the Chechen terrorists in Georgia. He added that if Georgia is making a mistake and terrorists do live in the Pankisi Gorge, then Georgia will acknowledge this mistake and do what it takes to correct it. He noted that the supposed general representative of Chechnya in Tbilisi Hizri ALDAMOV's organization is not registered and thus he cannot be an official representative of anything.

SHEVARDNADZE stressed that the appearance of former Georgian State Security chief Igor GIORGADZE on Russian television, "exceeded all expectations." He called yet again for the extradition of GIORGADZE, who is accused of organizing the

1995 assassination attempt, from Russia where he is in hiding. Georgia has repeatedly submitted factual information through legal channels proving GIORGADZE's connection to the assassination. Russia officials claim that they can not locate GIORGADZE, but somehow the Russian media does not seem to have a problem finding him for interviews and commentary. SHEVARDNADZE added that nothing will impede his visit to US. The Georgian President said the focus of talks with the US President will be not only US-Georgian cooperation, but also Georgia-Russia relations.

#### Georgia To Get Helicopters From US In Oct.

□ Georgia was to receive 10 out of 12 Huey helicopters on September 12<sup>th</sup> as a gift to Georgia. This has been postponed until October due to the terrorist attacks of the World Trade Center and the Pentagon. Several Russian foreign economic institutions said in an interview with Itar-Tass last week that the US has been practicing for long free deliveries of outdated morally and physically aircraft to developing countries, many of which were forced to spurn down these gifts, Itar-Tass reported. In fact, the helicopters were transferred to Georgia through a Congressional initiative with a \$10 million spare parts and training package three years ago.

Two military transport helicopters, UH-1H, were transferred from the General Headquarters of the Turkish Army today to the Georgian Army. The cost of each military helicopter is \$2.5 million. The Turkish side will take care of all maintenance and technical services and expenses until 2005. The helicopters have the capacity to carry 1500 kilograms with 14 passengers. Defense Minister David TEVZADZE, Head of the General Headquarters of the Georgian Military General Lieutenant Joni PIRTSKHAL-AISHVILI, Turkish Ambassador to Georgia Burak GURSEL, a delegation from the Turkish Military Headquarters and officials of the Georgian parliament attended the handover ceremony.

#### Two US Planes Land In At Tashkent Base

□ Despite threats by Afghanistan's Taliban against Uzbekistan cooperating with the US, Uzbekistan allowed two US military transport planes on Sunday to land at the military airfield Tuzel outside Tashkent. The Guardian reported that the planes, C-130 Hercules and C-141 Starlifter, transported some 100 US military personnel, intelligence equipment, and foodstuffs. Uzbek and US officials declined to either confirm or deny the information. However, Russian media reports that two C-130 cargo planes landed at a military airfield, where technical equipment including intelligence-gathering apparatus was unloaded. Uzbekistan has a 90 mile border with Afghanistan and could serve as a potential base for launching military strikes on Afghanistan. Uzbek officials have said they would consider all forms of cooperation with Washington, including use of their military bases. Runways at Tuzel can take all heavy transport aircraft, essential to any supply air brigade. The gigantic base is barely 100 kilometers (60 miles) from the Afghan border and only a half-hour flight from the Afghan capital, Kabul. Uzbekistan could also ensure US servicemen a relatively secure working environment, Reuters reported.

Uzbekistan is open for consultations and discussions on the best way to eliminate terrorist centers, camps, and bases in Afghanistan and elsewhere. Uzbek President Islam KARIMOV also said the US would be justified in striking against Afghanistan if there was conclusive evidence that last week's terror attacks in New York and Washington were prepared on Afghan territory. KARIMOV called Afghanistan, "one of the training grounds where terrorists of all denominations are trained," United Press International reported. Specifically, Uzbekistan believes that members of the Islamic Movement of Uzbekistan (IMU), which seeks to establish an Islamic military state inside Uzbekistan and overthrow the current government, are trained in Afghanistan. The US government placed the IMU on its list of international terrorist groups last year.

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