

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

US Changes Its Tune On Chechnya?

□ Two days after Russian President Vladimir PUTIN proposed a deadline for the initiation of peace talks with the Chechen rebels, Washington appears to be softening its position on Russia's military offensive against separatists in Chechnya. US President George W. BUSH welcomed PUTIN's call for negotiations with Chechen President Aslan MASKHADOV. White House spokesman Ari FLEISHER told reporters, "The Chechen leadership, like all responsible political leaders around the world, must immediately and unconditionally cut all contact with international terrorist groups such as Osama BIN LADEN and the al Qaeda organization." Russian officials have long stated that Chechen rebels are trained and supported by wanted terrorist Osama BIN LADEN. The White House said on Wednesday the US has known for years that al Qaeda had connections in Chechnya. BUSH said, "To the extent that there are terrorists in Chechnya, Arab terrorists associated with the al Qaeda organization, I believe they ought to be brought to justice. We do believe there's some al Qaeda folks in Chechnya." The US has long criticized Russia for using excessive force against the Chechen rebels. In the 2000 presidential campaign, BUSH said he would cut off aid to Russia until it withdrew from Chechnya. Now, it appears that Russia and the US are fighting a common enemy. The White House appears to have lessened its criticism of this campaign. FLEISCHER denied there was any "deal" exchanging US support on Chechnya for Russia's cooperation on terrorism. Igor BUNIN of the Center for Political Technologies pointed out, "The ultimatum was not for Chechnya's benefit, but purely for the West's. The point was to establish Russia's right to carry out anti-terrorist operations

in Chechnya in the same way the United States wants to act against the Taliban." Reuters noted that in the past the Soviet Union launched violent crackdowns, while the West is focused elsewhere in the world. In 1991 when the US was waging a war against Iraq, the Soviet Union moved tanks into Lithuania and Latvia to crackdown on independence movements. In 1956 when the world was focused on the Suez Crisis, the Soviet Union suppressed protesters in Hungary. In these actions, many fear that Russia could take its war against the rebels across its southern borders into Georgia, while the rest of the world supports a war against terrorist networks in Afghanistan and elsewhere.

Comment: The ultimate object of such a move is not so called, "Chechen terrorists." No individuals or groups in Georgia pose any significant threat to Russia or its military campaign in Chechnya. But any military action could challenge the stability of the Georgian government. Georgian President Eduard SHEVARDNADZE is a staunch support of the US and the West. Khisri ALDAMOV, a Chechen spokesman loyal to MASKHADOV, responded, "This is genocide, not terrorism. The Americans are accusing one man, terrorist BIN LADEN. But the Russians give their ultimatums to the whole Chechen people... The Chechen people are fighting for their legally elected president."

US Distributes Resolutions To UN Security Council

□ US officials late Wednesday submitted to the permanent members of the UN Security Council a draft resolution to fight terrorism.

The resolution included a plan to stop the financing of clandestine groups or supporting agencies. It also sets out regulations to deal with immigration, extradition, exchanges of information, and the prosecution of perpetrators and networks suspected in the September 11th terrorist attacks. All members of the UN Security Council gave Washington's proposals strong support, according to envoys at the session. The resolution will now be sent to permanent members' capitals for approval. Today, John NEGROPONTE, the new US ambassador to the UN, will introduce the text to the full Security Council. The aim is to get the resolution adopted before the 189-member General Assembly begins a debate on counter-terrorism Monday. The new resolution would invoke Chapter 7 of the UN Charter, which makes the measure mandatory on all countries immediately as part of international law, Reuters reported. Washington, as well as European Union members, regards the September 12th Security Council resolution that expresses, "readiness to take all necessary steps" to respond to the attacks as a mandate for military force, although it falls a step short of direct authorization. The US can also invoke Article 51 of the UN Charter on self-defense.

Soviet Arms To Supply The Northern Alliance

□ Russian Defense Minister Sergei IVANOV said Russia will supply the Afghan Northern Alliance with old Soviet weapons, better suited to fight in the harsh Afghan terrain, rather than new state-of-the-art equipment. Interfax quoted IVANOV as saying, "The Northern Alliance only likes Soviet-made weapons. It openly says it does not need any other types of weapons, not even modern Russian ones." The Northern Alliance is one of several groupings opposing the ruling Taliban, which is harboring terrorist suspect Osama BIN LADEN. IVANOV briefed NATO on the Northern Alliance's arms wish-list, which includes Kalashnikovs, artillery systems, armored personnel carriers, and ammunition. Russian President Vladimir PUTIN last Monday announced that Moscow was stepping up arms supplies to the Northern Alliance as part of efforts to support the US-led global drive against terrorism. IVANOV has urged the West to share the cost of the delivery of the Soviet arms. He said that Russia carries the, "main workload," in supporting the Afghan opposition and said that Moscow, "wouldn't object if other countries concerned, whose number

is growing recently, give us material assistance." Pakistan has rejected the increase of arms sent to the Northern Alliance, which is an ethnic minority in Afghanistan.

Ivanov Seeks Two-Way Intelligence

□ Russian Defense Minister Sergei IVANOV said today that Russia wanted a genuine two-way exchange with the US in any swap of intelligence in the battle against terrorism, Interfax news agency said. Speaking to Russian journalists in Brussels, IVANOV said intelligence exchanges with Washington on Afghanistan had become intensive, but the flow of information should not be one-way, Reuters reported. He suggested that Washington should be prepared to disclose any intelligence information it might have about Chechnya. "Russia has given, and will continue to give, the United States intelligence information about international terrorism, including about Afghanistan...Moscow has asked, and continues to ask, for information from the American side about issues that interest us. This means not only Afghanistan, but also other geographic areas, including Chechnya," he said. IVANOV made his comments after a meeting on Wednesday with his NATO counterparts in which he repeated Moscow's offer to give Washington broad support for its anti-terrorist drive. **Comment:** Does this include a full exchange of information on the whereabouts and involvement of Igor GIORGADZE wanted for the assassination attempt against Georgian President Eduard SHEVARDNADZE?

Chem. Weapons Convention Should Be Signed

□ Russian presidential envoy to the Volga region and former prime minister Sergei KIRIYENKO on Wednesday urged a dozen countries to sign the 1997 International Chemical Weapons Convention or face condemnation as aiding terrorists. He urged the Hague-based Organization for the Prohibition of Chemical Weapons (OPCW) to take "tough actions" against the countries which have not signed the convention into law. Echoing US President George W. BUSH's comments in forming a coalition against terrorism, KIRIYENKO said, "The option is either you join the convention or you become suspects who open the way to terrorism." Nineteen countries, including Iraq, Libya, Syria, North Korea and Egypt, have not signed the convention □ which calls for a ban on the development, production and stockpiling

of chemical weapons — since it came into force in 1997. “Many of these [non-member] countries are in the Middle East,” KIRIYENKO said without referring to a specific state, and adding that all ought to be members of the OPCW. Reuters pointed out public concern over biological and chemical warfare has mounted in the wake of the September 11th terrorist attacks. Russia is aiming to destroy its 40,000 tons of toxic agents by 2012. The US has 32,000 tons, KIRIYENKO said.

Germany Calls For United Effort On Dirty Fight

□ Head of the German bank regulator BAKred and designated president of Financial Action Task Force (FATF) to fight money laundering Jochen SANIO has called for an emergency global conference of anti-money laundering experts to unite against fighting dirty cash flows. He told Reuters, “Now that there will be an all-out war against terrorism, we will have to take away the money away from the enemy.” The world’s leading industrial powers agreed this week to cooperate in starving militants of funding needed to orchestrate horrific attacks. FATF, conceived in 1989 primarily to combat drug trafficking cash, has 29 member nations and acts as an organizational hub for information, but has no police authority. SANIO would like targeting rebel groups at the top of its agenda. FATF publishes lists of non cooperative countries in an effort to shame them into compliance. The list includes Nauru, Egypt, Lebanon, Hungary, and Russia.

Economy

<p>Ruble = 29.00/\$1.00 (NY rate) Ruble = 29.44/\$1.00 (CB rate) Ruble = 27.05/1 euro (CB rate)</p>
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Rus-Foreign Banks To Play By The Same Rules

□ The Central Bank today announced foreign and local banks will have to meet the same requirements of starting capital when opening a bank. It will set no further limits on foreign capital in the overall banking system. The limits are currently set at 12 percent of the total. Foreign banks currently have to have minimum capital of 10 million euros to start up in Russia, but domestic banks only need five million euros in ruble equivalent. First Deputy Central Bank Chairwoman Tatyana PARAMONOVA said,

“We foresee making the charter capital requirements for domestic and non-domestic [banks] for newly-created banks the same to create equal conditions,” Reuters reported. At a Cabinet meeting devoted to banking reforms, Prime Minister Mikhail KASYANOV called for reforms, which will allow banks to become, “a real instrument of financial intermediation.” Many analysts believe it is necessary for Russia to weed out and close down weak banking institutions. Vedomosti reported the Finance and Economy Ministries wanted to set a minimum capital requirement of 10 million euros from January 1st next year for new banks and for existing banks to reach this level by 2005. But it said the Central Bank was against any such level. A plan suggested by a committee of industrialists said only banks with capital of \$10 million to \$20 million should be able to carry out general banking operations and that this should be raised to \$50 million over two years.

Business

Norilsk Favors Higher Palladium Price

□ Russia’s *Norilsk Nickel*, the world’s largest producer of palladium, said a price of \$450 to \$500 per troy ounce was good for the market. “I believe this is the real price of palladium which the market needs today,” *Norilsk*’s general director Yuri KOTLYAR told Prime-Tass news agency. “A stable price within this range will favor a widening in the sphere of its usage and will not force users to seek a substitute. Also, we can forecast an increase in palladium demand for electronics.” KOTLYAR did not say at what price *Norilsk* would resume spot sales. The market price is \$425 to \$435. *Norilsk* sells its palladium under term contracts with end users. It suspended spot sales of palladium and other platinum group metals in August due to low world prices. Palladium hit a low of \$426 in August due to seasonal slow demand in the automobile, jewelry and electronics sectors, combined with uncertainty over the prospects for a fast recovery

EUROPEAN REPUBLICS

Ukraine Receives IMF Installment

□ Ukraine’s Central Bank on Tuesday received about \$375 million in a loan installment from the International Monetary Fund (IMF). The IMF renewed lending to Ukraine last week after a half-year halt, approving the \$375 million loan disbursement.

Since 1998, the fund has disbursed \$1.59 billion in its \$2.6 billion program. "We have received the tranche in SDRs (special drawing rights), it will be about 375 million in dollars," Sergei YAREMENKO, head of the Central Bank's currency regulation department, told Reuters. Ukraine's Central Bank gross hard currency reserves stood at \$2.311 billion on September 7th. Ukraine has a mixed track record with the IMF and loans have frequently been halted because the government failed to fulfill its promises. Central Bank Chairman Volodimir STELMAKH said Ukraine hopes to receive an IMF installment worth about \$375 million by year end.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia-Azerbaijan Agree On Tariffs

□ Georgia and Azerbaijan have overcome all disagreements, including those concerning tariffs, over the transit of gas from Azerbaijan to Turkey through the territory of Georgia, Prime News Agency reported. Today, Georgian Foreign Minister Irakli MENAGARISHVILI told journalists that, "Georgia will receive transit fees with money and gas." The ratio of money-gas transit payment will be defined annually dependent on the situation on the Georgian energy market and the volumes of gas Azerbaijan will ship to the world markets, MENAGARISHVILI stated. The minister did not specify the exact amount of the transit tariffs. He stressed, however, that the tariff rate, "reflects the world practice." MENAGARISHVILI added the experts are working on the final text variant of the document before it is submitted to the heads of states. The agreement reached is in line with the national interests of Georgia and Azerbaijan, which makes it beneficial for both sides, he concluded. According to the Prime News office in Baku, Georgian President Eduard SHEVARDNADZE will meet his Azeri counterpart Geidar ALIYEV to sign the agreement in Baku on September 29th. The intergovernmental agreement between Azerbaijan and Turkey, "On Export of the Azeri Gas from the Shakh-Deniz Field" was signed on March 12th.

Shevardnadze Tries To Comfort Georgians

□ Georgian President Eduard SHEVARDNADZE told journalists today that he maintains contact with the Russian officials over the accusations that Georgia is harboring Chechen terrorists. In response to Russia's accusations, Georgian Army Chief of Staff Joni PIRTSHALASHVILI met in Moscow with his Russian counterpart Anatoli KVASHNIN, SHEVARDNADZE stated. The President said that Interior Minister Kakha TARGAMADZE will go to Moscow on September 28th. If necessary, SHEVARDNADZE stated, all the "power ministers" will go to Moscow to meet with the governmental officials. He also noted that he is in talks with the US. On October 5th, SHEVARDNADZE will meet with US President George W. BUSH at the White House.

Commenting on the current political situation, SHEVARDNADZE said Abkhazia is stable, although there are "some forces" that should be observed. Head of the Parliamentary Committee on Defense and National Security Gia BARAMIDZE said some 400 gunmen are located in Abkhazia. He said Russia may use this fact as a pretext to keep its military base in Gudauta. According to BARAMIDZE the ultimate purpose of the "provocations" which are under way, is to instigate a military conflict that will involve Russian troops stationed in Abkhazia and will subsequently encroach into the entire territory of Georgia. Today, UN Secretary General's Special Representative to the Georgian-Abkhaz conflict Diter BODEN confirmed there are gunmen in Abkhazia. He said the UN mission does not have any information if there are any gunmen in the Kodori Gorge. According to BODEN, the rumors on a possible military conflict in Abkhazia, "are artificially exaggerated." He believes that the problem can be settled by the mutual efforts. BODEN also said that the UN will resume helicopter patrols of the upper part of the Kodori Gorge upon the permission of the Georgian Defense Minister David TEVZADZE and the presidential envoy to the Kodori, Emzar KVITSIANI. Prime News Agency reported.

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