

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

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RUSSIAN FEDERATION

Politics

Explosion Kills One At Gov't Headquarters

□ A powerful explosion tore through the headquarters of the Russian-backed government in Chechnya during a Cabinet meeting Monday, killing a woman and injuring five people, officials said. The blast came three days before the 10th anniversary of Chechnya's initial declaration of independence in 1991. The bomb was planted in a bathroom below the third-floor hall where top government officials were meeting. The blast sprayed glass from windows of the imposing four-story building and blew out doors. Five people, some of them Cabinet members, were treated at the scene. An Associated Press reporter saw several wounded people being carried into ambulances. Russian forces and Chechen police quickly evacuated the building and blocked off surrounding streets. The force of the blast was equivalent to up to 2.2 pounds of TNT, Major General Sergei KIZYUN, the military commandant of Chechnya, was quoted as saying by the Interfax news agency. "The explosion was so strong, the whole building shook," Aminat MADAYEVA, an aide to the Russian-backed government appointee, Akhmad KADYROV, said. She added, "I was so scared, I thought the rebels were storming the building, because there were so many threats that rebels would seize Grozny by September 6th." For the third straight day Monday, Russian forces blocked all roads leading to major towns in Chechnya in anticipation of the independence anniversary. Chechen rebels have laced the province with car bombs and mines aimed against federal forces, unleashed attacks on local officials they accuse of collaborating with the Russians, and sometimes even erected their own checkpoints to show off their strength.

Two Russian Soldiers Injured In Kosovo

□ Two Russian peacekeepers were shot and injured, one of them seriously, in an attack in Pristina, Kosovo capital early today. A spokesman for the NATO-led peacekeeping force KFOR said four Kosovo Albanians were involved in the incident outside a Pristina nightclub and that one of them was also shot and wounded. A third Russian soldier at the scene was unhurt. The injured peacekeepers were taken to a Russian field hospital near Pristina and Russian military police were investigating the case, the spokesman told Reuters. No further details were immediately available. Russian troops are part of the 43,000-strong KFOR multi-national peacekeeping force deployed in the province, which is populated mainly by ethnic Albanians who seek independence from Serbian-dominated federal Yugoslavia. Many among Kosovo's majority Albanians resent Russian troops because of Moscow's close Slav Orthodox bond with Serbia.

Primakov Steps Down Fatherland Party Head

□ Former Russian Prime Minister Yevgeny PRIMAKOV announced Monday he was stepping down from his post as leader of Fatherland parliamentary faction in the Russian State Duma. He said he would continue to sit with the party in the Duma. "This does not mean I'm leaving big politics," he told reporters. Deputy head of the faction, Vyacheslav VOLODIN, was chosen as PRIMAKOV's replacement Monday. PRIMAKOV, an Arab affairs expert and a former foreign minister and foreign intelligence chief, has been

acting as an informal Kremlin adviser and envoy in recent months, the Associated Press reported. In June, he traveled to the Middle East on what he called a fact-finding mission and delivered a message from President Vladimir PUTIN to the governments of Syria, Jordan, Egypt, Libya, and Tunisia. It is possible that PRIMAKOV may receive a formal appointment in the Foreign Ministry. Sergei MARKOV, head of the Moscow-based Institute of Political Studies said, "PRIMAKOV is more comfortable representing the interests of the country than the interests of a small group of deputies." Fatherland emerged as a powerful opposition bloc in 1999, but was overshadowed by PUTIN's rise to Kremlin heights. PUTIN quickly became the most popular politician in the country and PRIMAKOV opted not to run against him for president in 2000. Fatherland's main branch outside parliament, headed by Moscow Mayor Yuri LUZHKOVA, has concluded a formal alliance with the pro-PUTIN Unity party.

Russia To Increase Nuclear Reactors In Iran

□ Deputy Atomic Energy Minister Yevgeny RESHETNIKOV said today that a team of Russian specialists plans to visit Iran to present a feasibility study for assembling more nuclear reactors at Bushehr. "Iran can order from us the construction of at least one more reactor," RESHETNIKOV said. He said negotiations with Tehran on signing the contract could start as early as December, Itar-Tass reported. He noted that work at the Bushehr plant was on schedule and the first reactor was likely to be shipped in November. News of RESHETNIKOV's comments comes during the visit of Israeli Prime Minister Ariel SHARON to Moscow. SHARON is expected to press Russia on stopping the transfer of nuclear know-how to Iran. The US and Israel have criticized Russia's construction of the 1,000 megawatt nuclear power plant at Bushehr though Moscow. Tehran insists the project has no military purpose. The US sees the development of nuclear technology in Iran as a threat. Iran does not recognize Israel and calls for its destruction as the only solution to the Middle East problem, Reuters reported. Iranian Defense Minister Admiral Ali SHAMKHANI has postponed his scheduled trip to Russia because it would coincide with SHARON's visit, the official IRNA news agency reported.

Putin Criticizes NATO Expansion

□ During an official trip to Finland, Russian Presi-

dent Vladimir PUTIN on Monday criticized plans to expand NATO eastwards. He said that only a person with a "sick mind" could believe Moscow posed an aggressive threat to European security. He stressed, "we don't see any objective reason for the Baltic states to become members of NATO... We think it is a mistake." PUTIN made the remarks on the second day of his visit to non-aligned Finland, which is not seeking to join NATO but insists that the door to the western alliance must remain open and that states have a right to decide whether to join. Estonia, Latvia, and Lithuania all aim to join NATO, but Russia vehemently opposes enlargement of NATO. PUTIN said it was up to the countries themselves to decide their defense policy, and Russia did not intend to fan any hysteria over the issue. Finnish President Tarja HALONEN believes that the Baltic States will join NATO and that it is just, "a matter of when."

Economy

Ruble = 29.41/\$1.00 (NY rate)

Ruble = 29.46/\$1.00 (CB rate)

Ruble = 26.11/1 euro (CB rate)

Ruble Slips Slightly

□ Russia's ruble lost four kopecks against the dollar today under pressure from excessive market liquidity and without apparent Central Bank support for the national currency. The ruble's weighted average for today settlement in the key unified morning session dropped to 29.4458 rubles per dollar from 29.4063 on Friday. The Central Bank cut its official next-day exchange rate to 29.45 rubles per dollar from a previous 29.41 rubles per dollar. "Bank balances [at the Central Bank] are very strong and they must have hit the foreign exchange market. As long as there is an excess of liquidity, there is a pressure against the ruble," said *Aljba-Alliance* dealer Artyom ROSHCHIN. Banks' balances on their correspondent accounts at the Central Bank, an indicator of market liquidity, slipped to 97.37 billion rubles today from 97.76 billion rubles on Monday, but remained high, Reuters reported. Dealers said the Central Bank did not intervene with dollar sales, allowing the ruble to touch a new support level, seen at 29.45-29.46 rubles against the dollar. Dealers said current dollar demand was traditional for the post-summer holiday revival of market activity. They noted that despite Russia's

strengthening economic performance dollars were still seen as a safe investment.

Business

Nifty Suspends Access In Russia, Kazakh

□ Major Internet access provider *Nifty Corp.* said today that some *Nifty* subscribers stand to lose millions of yen in a spate of illegal connections mainly from Russia using stolen subscriber passwords. In an in-house investigation, the company found that more than 20 subscribers were affected. *Nifty* stands to lose millions of yen if the illegal connections are left unchecked. *Nifty* plans to suspend 38 access points in Russia, Kazakhstan and other countries this week, Kyodo reported. The company is also planning to ask for police assistance. *Nifty* has laid out measures to curb illegal access after discovering a sharp increase in the number of cases from Russia. The company on Monday informed its subscribers via its Web site of the Russia connections suspension.

EUROPEAN REPUBLICS

Fitch Raises Estonian Rating

□ International ratings agency *Fitch* on Thursday raised Estonia's long-term foreign currency rating from BBB+ to A- and its short-term foreign currency rating from F2 to F1. "The long-term local currency rating was raised to A+ from A. Following these actions the ratings have been removed from Rating Watch Positive and the Long-term Outlook is now Stable," *Fitch* said in a statement. "Economic developments during the past 12 months have been impressive...[and] future fiscal prospects are good. Despite the fact that the weaker global environment is likely to trigger a slowdown in GDP [gross domestic product] growth to around 4-5 percent, the government expects a deficit of 0.2 percent of GDP this year," it added.

Lugar Urges Baltics To Join NATO

□ US Senator Richard LUGAR (Rep.-IN) on Saturday said that NATO should issue invitations next year for the former Soviet Baltic states to join the military alliance. Latvia, Lithuania and Estonia regained independence 10 years ago after a five-decade occupation by the Soviet Union. Their desires for NATO membership are controversial

since Russia opposes any expansion by the alliance. During a speech in Riga, LUGAR said, "I think it is important to have objective criteria so that in fact there is compatibility of forces, that each of the Baltic states make a contribution to the total defense of all. But at the same time that there be certainty that all three are involved and that there is literally a decision that they will be historically a part of NATO." LUGAR added that Bulgaria and Romania should be considered, even if they were to fall short of some NATO requirements.

Lukashenko Accused Of Murder

□ Colonel Oleg ALKAYEV, who served as director of the Belarus prison carrying out capital punishment, has accused Belarus President Alexander LUKASHENKO of sanctioning and then covering up the murder of opposition figures. From self-exile in Berlin, ALKAYEV said he left Belarus after he was ordered to make his executioner's gun available on several occasions for unlawful killings beginning in 1999. He was told by top Belarus Interior Minister officials on two occasions to lend them the gun for training purposes. Later, he realized that several opposition figures, including a former interior minister and an ex-head of the electoral commission, had disappeared on the very days his gun was on loan, Reuters reported. When he began to suspect the link between the loan of his gun and the disappearances he approached various officials, who told him to keep his mouth shut. ALKAYEV said, "At first, I thought LUKASHENKO didn't know everything and that he would speed up the investigation. After he ended the investigations, and got involved in the cover-up, I became convinced he knew." Belarus has called ALKAYEV's statement a lie and a provocation ahead of presidential elections on September 9th. In June, two Belarus investigators defected to the US and gave details of the previously secret case of the missing pistol. Soon afterwards, ALKAYEV left Belarus, going first to Russia and then to Germany. US State Department reports show that the LUKASHENKO could be responsible for up to 30 murders.

SOUTH CAUCASUS & CENTRAL ASIA

US Sides With Azerbaijan On Caspian Dispute

□ US Undersecretary of State Elizabeth JONES told reporters in Baku that the US is prepared to

assist Azerbaijan if tensions with Iran over the Caspian Sea worsen. She said that Washington could provide political support as well as aid for border guards and customs officers to strengthen its borders and fight weapons and drug smuggling. JONES met with Azeri President Geidar ALIYEV and other officials Sunday and Monday before departing for the neighboring former Soviet republics of Georgia and Armenia. The US has sought to exercise influence in the Caspian Sea region and to reduce the influence of Iran, which US officials say sponsors terrorism. Azerbaijan has accused Iran of violating its territorial waters and airspace, in July and August respectively. Iranian officials said no violation had occurred since no borders have been drawn in the Caspian. A Turkmen-hosted summit on the Caspian's legal status to be held in October has been postponed.

NK Elections Heat Up Dispute

□ The Council of Europe has called on the Nagorno-Karabakh authorities to refrain from holding elections to bodies of local self-government, scheduled for this Wednesday. Speaker of the Azeri parliament Murtuza ALESKEROV said that the election in the dispute enclave were, "running counter to principles and norms of international law," and were not legitimate. In an official statement ALESKEROV said that the election was, "one more attempt to fix the aftermath of the occupation of 20 percent of Azerbaijani land," and, "another political provocation, rudely violating civil rights of 50,000 Azerbaijanis expelled from Nagorno-Karabakh." ALESKEROV believes that illegitimate local elections will "negatively affect" the course of peaceful negotiations on the settlement of the Nagorno-Karabakh conflict. Armenia strongly disagrees with the Council of Europe statement. Press secretary of the Armenian Foreign Ministry Dzyunik AGADZHANYAN stated, "We do not share the opinion of the Council of Europe leadership, since we are convinced that, by holding the elections to bodies of local self-government, Nagorno-Karabakh people only exercise their legal rights in compliance with

international norms. We disagree with the opinion, contained in the statement of the Council of Europe leadership that the elections in Karabakh can be detrimental to the negotiating process. We are sure that only authorities, formed through elections and enjoying the expressed will of people, can and have the right to conduct political talks, having the vote of people's confidence."

Armenia Signs Military Cooperation With Syria

□ Armenian Defense Minister Serzh SARKISYAN said on Sunday that he had signed military cooperation accords during his recent visits to Syria and Lebanon. "The agreements reached with the defense ministers of these countries enable a close cooperation in the military-technical, military-economic and military-scientific areas," SARKISYAN said. The documents do not need to be ratified by the national parliaments, therefore it is possible to start working now, he remarked. Armenia should use the capacities of its defense industry, be that weapons, ammunition or uniforms.

Kashagan Partners Bid For BP-Statoil Stakes

□ All seven foreign oil firms developing Kazakhstan's giant Kashagan oil field have exercised their rights to split between them the stakes of departing *BP* and *Statoil*. In June, *TotalFinaElf* struck deals to buy *BP*'s 9.52 percent and *Statoil*'s 4.76 percent stakes in the Caspian Sea offshore field, which industry insiders predict is the largest oil discovery in three decades. The remaining six partners have exercised their right to buy part of the stakes equivalent to their weight in the consortium. The combined 14.28 percent stake has an estimated price tag of nearly \$500 million, Reuters reported. This gives *Total*, *Shell*, *Eni*, *ExxonMobil*, and *BG* 16.66 percent apiece in the field, while *Phillips* and Japan's *Inpex* will have 8.33 percent each. *BP* declined to comment, while *Statoil* representatives could not be reached. The Kashagan field has estimated recoverable reserves of between 10 billion and 30 billion barrels. Italy's *Eni* is the field operator. Oil is expected to begin

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