

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

Thursday, September 6, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Bombs And Protests Mark Independence

□ Security measures put in place by Russian federal troops in Chechnya for a second day failed to prevent further attacks in Grozny on the 10th anniversary of the declaration of Chechen independence. A rebel placed bomb blew up a police vehicle in Chechnya today, wounding five officers. RIANovosti news agency reported from the outskirts of the devastated regional capital that Russian forces had closed it to ordinary traffic and stepped up identity checks because of fears of large-scale rebel strikes. Earlier this week, rebels detonated a bomb in the Pro-Moscow government headquarters, as a cabinet meeting was in progress, shot down two helicopters in the southern region, and carried out hundreds of hit-and-run attacks. These attacks and others in the past 10 days appeared not to affect Russian President Vladimir PUTIN who in Finland said, "In point of fact there are no hostilities underway," in Chechnya, [The Washington Post](#) reported. He added, there is no, "Chechen problem as such," but merely one of the, "opposition of the so-called religious extremists to establishing normal life in the republic." Russian authorities suggest that normal life continues to function in the breakaway province with schools open and people going about their usual working day. [The Washington Post](#) points out that the Russian media no longer reports on "cleansing" operations, brutal assassinations of Russian-appointed Chechen officials, dumps of bodies discovered near Russia's largest military base, or the miserable living conditions of thousands of Chechen refugees in neighboring republics and nations.

In Moscow, police arrested about 10 demonstrators who staged a pro-Chechen independence protest in

front of the offices of the Federal Security Service (FSB), Russian news agencies said. Police moved in on the group as they unfurled banners calling for independence for the region, Reuters reported. Chechen refugees and several human rights organizations representatives protested at the Russian Embassy in Tbilisi to mark the 10th anniversary of the declaration of Chechen independence. The demonstrators, totaling about 70, demanded to withdraw "Russian occupational forces" from Chechnya and Georgia, to stop the Chechen genocide, and to negotiate with the legitimate President of Chechnya Aslan MASKHADOV, Prime News Agency reported. The Russian diplomats, following PUTIN's attitude that there is no war, did not address the crowd. Today, the celebration of the Chechen independence will be held in the Pankisi Gorge in Georgia, which is home to over 6,000 Chechen refugees.

Rus. Accuses Of Aiding Iran's Arms Programs

□ A US senior official claimed on Wednesday that Russian companies continue to provide Iran with nuclear, chemical and biological weapons and technical know-how. The unnamed official said, "We still see evidence that Russian enterprises are helping Iran develop the expertise to produce WMD [weapons of mass destruction]... That still is a sore point in our relations," Reuters reported. The administration of former US President Bill CLINTON imposed sanctions on Russian companies and institutes accused of helping Iran with a nuclear

weapons program. The official noted that new US sanctions were under consideration, but had been the subject of talks between US President George W. BUSH and Russian President Vladimir PUTIN. He added that the US believes the Russian government is aware of the assistance to Iran but he did not say the government approved of it. He noted that the assistance to Iran included Russian scientists, but he gave no details.

Rus-China Cooperate In Airliners And Energy

□ Russia and China plan to cooperate in atomic energy and civilian airplanes as part of commercial deals to be signed by the two countries during Chinese Premier ZHU Rongji's visit this week. Russian Deputy Prime Minister Ilya KLEBANOV said the two countries would be signing, "seven important documents," during ZHU's visit. According to Interfax, KLEBANOV said Russian and Chinese officials have also agreed on a feasibility study concerning the supply of Russian oil pipelines to China and the setting-up of an inter-government panel on cooperation in the telecommunications field. Russia has been stepping up its ties with China, since President Vladimir PUTIN came to office in March, 2000. Last July, PUTIN and Chinese President JIANG Zemin signed a landmark friendship treaty in Moscow.

Despite good relations, Russia's Defense Ministry said that a Chinese aircraft briefly violated Russian airspace over the Altai Mountains on September 2nd. The plane returned to China before any Russian planes were able to intercept it, [Kommersant Daily](#) reported. The violation highlights both the collapse of Russian radars in that region and the reluctance of the military to do anything that might undercut friendship with Beijing, the paper suggested.

FSB Foils Budding Spy Ring

□ Russia's Federal Security Service (FSB) is pleased to announce that they have foiled a spy ring in Krasnoyarsk from attempting to steal military secrets for an unnamed country in the "Asia-Pacific region." The FSB said that the spy ring was in the "preparation phase," and that no criminal charges had been filed. It said foreign intelligence had attempted to acquire, "information about Russian military technology, including state secrets," Reuters and Interfax new agency reported. The FSB says foreign intelligence agencies have become more

active in spying on Russia since the collapse of the Soviet Union.

Russia Wants Off Money Laundering List

□ Russian delegates at the Paris meeting of the Financial Action Task Force (FATF) have requested that Russia be removed from the money laundering blacklist. The delegates are hopeful they will convince the international watchdog. An announcement is expected on Friday, which would lift an immediate threat of financial sanctions. In June, the FATF gave Russia, the Philippines and Nauru only until the end of this month to crack down on money laundering or face possible sanctions. Since then, the Russian parliament passed a bill to prevent money laundering, which Russian President Vladimir PUTIN signed into law in August. One Russian delegate told Reuters, "The adoption of the law will, I think, be seen as a serious practical step toward implementation of the anti-money laundering system." The law places control over certain financial transactions and a body is to be established to oversee them. The FATF could send monitors to Russia by year-end or 2002 to assess Russia's progress.

Economy

<p>Ruble = 29.45/\$1.00 (NY rate) Ruble = 29.45/\$1.00 (CB rate) Ruble = 26.36/1 euro (CB rate)</p>
--

Russia Posts Budget Surplus

□ Russian Finance Minister Alexei KUDRIN said today that in the first eight months of 2001 Russia's budget surplus dropped to 1.5 percent of gross domestic product (GDP), compared with 1.6 percent of GDP in the first half. Russia ran a surplus of 85.1 billion rubles (\$2.89 billion) in the first eight months of this year. The ministry said Russia ran a budget deficit of 11 billion rubles or 1.4 percent of GDP in August alone. The primary surplus, calculated before debt payments, amounted to 263.1 billion rubles, or 4.7 percent of GDP in January-August. Budget revenues in the first eight months of this year fell behind the period's target by 5.5 percent to touch 980.1 billion rubles, while spending amounted to 895.0 billion rubles, Reuters reported. Budget revenues in August exceeded the month's target by 5.9 percent to rise to 133.25 billion rubles, including 80.1 billion rubles in tax revenues, while

spending amounted to 144.28 billion rubles, or just 79.8 percent of the plan.

The Finance Ministry said most of the main expenditure items were under-financed largely due to a failure to sign contracts on budget funding in time. Budget financing of foreign debt servicing amounted to 97.9 percent of a target due to difference between a foreign exchange rate built in the payment schedule and an actual rate on repayment date, the ministry said. Russia repaid \$1.2 billion to the Paris Club of sovereign creditors in August.

Business

Copper Plant To Produce Platinum

□ Russia's *Kyshtym Electrolytic Copper Plant* will start producing secondary platinum group metals, palladium and platinum, in powder by the end of September. The plant's head engineer Sergei BOBOV told Reuters Wednesday, "We have installed a facility with a design capacity of 1.5 tons (of PGMs) per year and we expect it to start producing these precious metals in two weeks." He declined to estimate how much platinum and palladium the plant expected to produce this year, saying it would depend on suppliers of the raw materials. BOBOV said *Kyshtym* had no plans to export PGMs. "We have found domestic consumers—plants producing catalysts. They furnish raw materials to us and we supply the metals in powder," he said. Palladium and platinum are used in the car industry to produce catalysts to clean toxic exhaust gases.

EUROPEAN REPUBLICS

Kuchma Pushes For WTO Entry

□ Ukrainian President Leonid KUCHMA ordered his government today to focus its efforts on joining the World Trade Organization (WTO) in 2002. Ukraine applied in 1993 to join the WTO, but the organization has demanded that it tighten copyright laws and crack down on video and compact disc piracy. Ukraine, with the reputation of Europe's biggest producer of counterfeit CDs, is trying to avert the threat of extensive US trade sanctions. To qualify for WTO membership, Ukraine will have to push through some radical legislative reform and change at least 60 laws, Reuters reported. Ukraine hopes to widen markets for exports and improve relations with the West. Joining the organization would give it access to the WTO's 142 members'

markets. KUCHMA said that WTO membership should be "a priority" for the government. Ukraine's government has said it wants closer relations with European and other Western bodies.

Ukraine To Pay Creditors \$2.3B In 2002

□ Ukraine plans to pay approximately \$2.3 billion to its creditors in 2002. Principal payments will amount to \$1.22 billion, Finance Minister Igor MITYUKOV said on Wednesday. He said that the Finance Ministry will be very careful about borrowing on the world markets in 2002. Ukraine plans to borrow \$250 million from the World Bank and extend a credit agreement with the European Union (EU) in order to support the balance of payments, Itar-Tass reported. It will also continue cooperation with the International Monetary Fund (IMF). Ukraine plans to borrow about \$925 million from various sources. Ukraine has concluded talks with the EU on a 42 million euro credit under 150 million euro agreement signed on June 30, 1999. The IMF Board of Directors is expected to decide on the disbursement of a \$380 million installment at the end of September under an extended facility agreement.

Belarus Charges Italian With Spying

□ Belarus' State Security Committee (KGB) Wednesday charged an Italian citizen, Antonio Angelo PIU, with spying and a Belarus woman, Irina USHAK, with treason, following their arrest in April. "PIU and USHAK were arrested, caught red-handed during an exchange of documents which contained material of a military nature," the KGB said in a statement. The two have been held in custody since their arrest. If convicted, they could face up to 15 years in prison. PIU is director and owner of *Anirsavida* joint venture operating in Belarus. The charges were brought on the heels of Italian Foreign Minister Renato RUGGIERO's visit to Moscow. In July, a German citizen, Christopher LETZ, was convicted of espionage and sentenced to seven years in prison. This was the first foreign spy case in Belarus' since independence.

Estonia Energia-NRG To Sign Bank Agmts.

□ Estonia's state energy firm *Eesti Energia* and US *NRG Energy* said today they will sign an agreement with banks to arrange a 285 million euro (\$253.3 million) loan to renovate two power plants. The firms declined to name the banks in a joint statement. "The renovation of the Narva

power plants is the biggest financial investment ever made in the Baltic states and the arrangement of the loan necessary for this will be entrusted to some of the world's leading banks," the statement said. *Eesti Energia* signed a deal last August to sell a 49 percent stake in the oil shale-fired Narva power plants, which provide over 90 percent of the country's power, to *NRG Energy* for \$70.5 million. In July, both announced they had agreed on sale details to clear the way for the renovation of the plants with only the financing scheme left to be sealed. *Energia* and *NRG* have already signed the renovation agreement with Finnish *Foster Wheeler Energia*, an arm of *Foster Wheeler Corp.*, picked in May as the best from three bids placed in a re-tender for power plants renovation, Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

Atlantic Caspian To Exploit Kizaloy Gas Field

□ London-based Atlantic Caspian has earned the right to exploit the Kizaloy gas field from the Kazakhstan government. The field is estimated to contain 109 bcf of gas, according to Hart's European Offshore Petroleum News. The field has four gas wells, which are capable of production. Reserves estimates for Kizaloy come from the Official Reserves Report of the Republic of Kazakhstan. The field was discovered in 1967, but has never been developed and exploited. Atlantic Caspian's new deal may offset the disappointment suffered by the company last year when it plugged and abandoned a well on the Akkul oil field in Kazakhstan that was estimated to contain up to 1 billion bbl of oil. Kizaloy is only 30 kilometers from a dual trunk gas pipeline linking into the Kazakhstan national gas grid.

Turkmenistan Restricts Foreign Visas

□ On Wednesday, Turkmenistan began limiting the entry of foreign nationals in connection with the festivities marking the 10th independence anniversary on October 27th. The Turkmen Foreign Ministry has instructed Turkmen diplomatic missions abroad, consular departments in regions and the

Ashkabad airport to limit the number of visas issued. The limits will be applied to citizens of Afghanistan, Pakistan, Iran, Russia, Tajikistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Armenia, Azerbaijan, and Georgia. The stricter control over the issuance of visas to these citizens will be exercised in cases of deaths of their family members, business trips, and tourism. The date of lifting these limits has not been announced.

Kazakhstan Cuts Refinancing Rate

□ Effective today the Kazakhstan's Central Bank has cut its key refinancing rate from 12 percent to an annual 11 percent. It urged local banks to soften loans to the fast-growing economy. Central Bank Chairman Grigory MARCHENKO told a news conference that, "Positive economic trends continued in August." He added that consumer prices had not grown in August, and inflation might fall to under seven percent this year. Consumer prices grew by 9.8 percent in 2000. Inflation might fall to five to seven percent next year and four to six percent over the next two or three years, he said. "It is obvious that given this falling inflation the refinancing rate will go down as well. I believe refinancing rate cuts will help bring down credit rates on loans granted to the economy by commercial banks." MARCHENKO said loans in the national tenge currency were currently granted at an average annual rate of 16.5 percent, while credits in foreign currency were available at an average of 14.2 percent. Central Bank data shows commercial banks had granted the economy loans worth a record \$2.7 billion so far this year, Reuters reported. MARCHENKO said the economy was likely to continue booming over the next few years. He said private savings in the nation of 15 million had topped \$1.116 billion by the end of August. Pension funds that have accumulated over \$1 billion in assets have turned into aggressive investors and revenues amassed in the National Fund, popularly known as the fund for future generations, reached \$1.115 billion by August 31st.

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.