

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia Closes Bases To Fund Military

• In an effort to cut military costs abroad, Russia has announced that it will dismantle its intelligence and electronic surveillance base in Cuba, south of the capital in Lourdes, and the Cam Rahn Naval base in Vietnam. What "dismantle" means is still unclear. The Russian pullout from Vietnam will start on January 1st, military officials said, but no definite date was announced for the Cuba station. The closing of the Cuban base will allow Russia to redirect the \$200 million rental of the Lourdes installation for modernization of the Russian military. Russia's chief of the general staff General Anatoly KVASHNIN said \$200 million would be enough for 20 spy satellite launches and 100 radar stations for the army. The Vietnam base annually costs Russia the amount needed to build and fully arm a modern nuclear submarine, he said. Lourdes, operating since 1964, operated as the cornerstone of Russia's electronic surveillance of the U.S. The Lourdes base alone accounts for 75 percent of Havana's intelligence material, a senior Fidel CASTRO aide once said. Cuba has criticized Russia's pull out, noting that the Cuba government hasn't granted permission to close it and that the Russian government did not go through the proper channels. Russia today dismissed Cuban criticism, saying the decision was made only after long talks with Havana. Deputy head of the Georgian National Security Council Jemal GAKHOKIDZE noted that Russia could withdraw from the military base at Gudauta within a few days, if Russian President Vladimir PUTIN shows his political will. According to an OSCE agreement, Russia had agreed to pull out of Gudauta before July 1st. GAKHOKIDZE said that PUTIN's intention to close the base in Gudauta and his recent announcement on closing

Russian military bases in Cuba and Vietnam might signify Russia's new strategic objectives, which will improve the climate of the international relations, Prime News Agency reported.

KVASHNIN said the spy facility on Cuba helped to, "decide defense issues during that period of the Cold War. Now, the military-political situation has changed and there has been a qualitative leap in military equipment." Independent defense expert Pavel FELGENHAUER said, "PUTIN is saying to the Russian military: forget about the United States and get down to the business of putting things in order in your own house... It's preposterous to spend a lot of money in eavesdropping on the United States when you can't win a war in Chechnya." U.S. President George W. BUSH welcomed Russia's decision to close the Cuban spy center, saying it was a sign of an improving U.S.-Russia relationship. "

Vladimir LUKIN, a former Russian ambassador to Washington and a senior lawmaker, told *NTV* television the decisions were a sign the Cold War was over. "Now the most important problem we are facing now is Central Asia and the Northern Caucasus," he said. The President called on the military to, "seek ways that could save resources, including those within [the military]." PUTIN called for more money to pay Russian military salaries and purchase modern weapons. Russia will spend nearly \$1 billion more this year to purchase new weapons.

**Interior Min.
Seeks Counter-Terrorism**

Laws

- The Russian Interior Ministry is seeking to close loopholes in existing counter-terrorism laws so that terrorists will not be able to escape justified punishment, Interfax reported. The Russian Security Council's interagency commission on social security and the struggle with criminality and corruption said the same day that existing legislation is incomplete and must be "perfected" quickly, RFE\RL Newline reported. Meanwhile, Justice Minister Yuri CHAIKA criticized the Russian State Duma for failing to act more promptly on anti-terrorism legislation his ministry proposed six months ago.

Ivanov On Need For Pipeline Networks

- Russian Foreign Minister Igor IVANOV, speaking at the meeting of Foreign and Trade ministers of the Asia-Pacific Economic Cooperation (APEC) forum member-countries, stressed that it is necessary to create a network of gas and oil pipelines, energy bridges to China, Japan and the Korean peninsula to provide energy security in the Asia-Pacific region. He pointed out that deposits of hydrocarbons in Siberia and on the Far East can be used as a resource base. He added that, "State-of-the-art nuclear technologies are also promising for generating electricity." IVANOV said that Russia is ready, "to contribute into securing reliable and efficient transport infrastructure by using capacities of Russian sea ports, transpolar air routes from Asia to North America over Siberia and Far East."

Kvashnin Met Tajik, Opp. Afghan Officials

- Russia's Armed Forces Chief of the Staff Anatoly KVASHNIN held closed-doors talks with top Tajik and opposition Afghan officials today to discuss military aid to anti-Taliban forces. An unnamed Tajik official said KVASHNIN had flown into Dushanbe overnight and left immediately after the meeting. "Anatoly KVASHNIN met the President of Tajikistan Emomali RAKHMONOV and Minister of Defense Sherali KHAIRULLAYEV early in the morning, then the new Northern Alliance commander Muhammad FAHIM and Foreign Affairs Minister Abdullah ABDULLAH," he said.

They discussed the situation in Afghanistan after the U.S. launched strikes against the ruling Taliban and Russian military help for the opposition Northern Alliance fighting the purist Islamic movement, Reuters reported. Russia has pledged military support for

the Northern Alliance as part of international efforts to depose the Taliban which Washington accuses of harboring Osama BIN LADEN.

Economy

<p>Ruble = 29.49/\$1.00 (NY rate) Ruble = 29.55/\$1.00 (CB rate) Ruble = 26.69/1 euro (CB rate)</p>
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Russia's Poor To Decline In the Next Decade

- Yevgeny GONTMAKHER, the head of the department of social policy of the Russian government, said on Tuesday that the percentage of Russians classified as poor will fall from the current 30 percent to 15 percent over the next 10 years, assuming the economy continues to grow, Interfax reported. According to a report in Vedomosti, Russians are feeling less pessimistic about their economic futures. In 1999, 83 percent of Russians said their economic situation had deteriorated during the past year, but in 2001, only 31 percent of Russians said they are worse off now than a year earlier.

Business

Renaissance Capital Hires Western Staff

- Moscow investment bank *Renaissance Capital* on Wednesday hired 10 former staff members of Western banks, consulting firms, and competitors just as financial institutions are eyeing draconian staff cuts. *Renaissance* said former staff of *JP Morgan*, *Bear Sterns*, *UBS Warburg*, *Deutsche Bank*, German investment bank *Concord*, consults *Bain & Company*, *Andersen* and other institutions had joined the Moscow bank. Russia's still-growing economy is a rare bright spot in recession-threatened Europe, where several major financial houses have announced thousands of staff cuts. Moscow's finance houses appear to be taking advantage of these circumstances to plump up their staffs, Reuters reported. "Our strong market position, together with Russia's very positive economic situation relative to the rest of the world, is enabling us to collect the very highest caliber of professionals to our firm," *Renaissance Capital's* Stephen JENNINGS said the statement.

Renaissance said it had appointed Hodson THORBER, a former partner at *Andersen* in Moscow who advised the Russian government on a sweeping utility reform, managing director of *Renaissance's*

investment banking group. Alexander SAVIN, a former senior manager at *Bain & Company*, was appointed director of the Investment banking group. Former *UBS Warburg* EMEA Team managing director Robert HAGON joined as a senior sales trader and Heidi WURZEL, formerly of institutional sales at *Concord*, joined as vice president of *Renaissance's* equity product group.

Norilsk-Argosy Finalize Agreement

- *Norilsk Nickel* has finalized an agreement with Australia's *Argosy Minerals Ltd.* which could lead to the development of a nickel project in New Caledonia. Under the terms of the agreement, *Norilsk* will reimburse *Argosy* some \$7.166 million in preliminary funding. By spending a further \$15 million, *Norilsk* will earn the right to take up a 45 percent stake in the project, which aims to tap the Nakety and Bogota nickel deposits in the Northern Province and construct a smelter capable of yielding 50,000 tons of nickel a year. Development of the French territory project is estimated by *Argosy* to cost \$800 million. Eventually, *Norilsk* could end up with a 90 percent interest, with local group *Societe des Mines* holding 10 percent, *Argosy* said.

EUROPEAN REPUBLICS

Ukraine-Belarus To Boost Cooperation

- Ukrainian Prime Minister Anatol KINAKH and his Belarus counterpart Henadz NAVITSKI on Tuesday in Kiev discussed bilateral relations and the need to broaden economic and trade cooperation, Interfax reported. This was NAVITSKI first official trip in his capacity of prime minister. The two sides signed five agreements, including on cooperation in the spheres of security, on nuclear safety, on energy conservation, and on customs and border control. KINAKH told journalists that this December the two countries hope to resolve the issue of Ukrainian enterprises' debts to Belarusian partners, but failed to mention what amounts are involved. Trade turnover between both countries in January to July 2001 stood at \$422 million, down 17 percent from the same period last year.

- The Estonian government said President Arnold RUUTEL officially appointed Henrik HOLOLEI, currently overseeing government preparations to join the European Union (EU), as the country's new Economic Minister. "Premier Mart LAAR had proposed the candidacy of Henrik HOLOLEI to the President for official appointment on Monday morning. President Arnold RUUTEL signed the decision to appoint HOLOLEI," the government said in a statement. HOLOLEI was sworn in at a parliament session. HOLOLEI, the head of state chancellery's EU integration bureau, will replace Mihkel PARNOJA, who resigned last month saying tough decisions over the privatization of key state companies had taken a personal toll.

SOUTH CAUCASUS & CENTRAL ASIA

Eni Acquires 5 Percent Stake In BTC

- Italian energy group *Eni* said today it had acquired a five percent stake in the Baku-Tbilisi-Ceyhan (BTC) pipeline project from *State Oil Company of Azerbaijan (SOCAR)*, which holds a 50 percent stake in the project. Led by British *BP*, the project aims to build a 1,745 kilometer (1,084 mile) pipeline from Baku in Azerbaijan through Georgia to the Turkish Mediterranean port of Ceyhan. The other partners include oil and gas firm *Unocal* and Norway's *Statoil*. *Eni* added that the project was currently in the "detailed engineering phase" and that the maximum transportation capacity of the Baku-Tbilisi-Ceyhan pipeline is estimated at approximately 1 million barrels of oil per day, Reuters reported.

Georgia To Restrict Russian Secret Service

- Georgian President Eduard SHEVARDNADZE expressed hope in reaching an agreement with Russian President Vladimir PUTIN that will restrict the activity of the Russian secret services in Georgia, Prime News Agency reported. According to SHEVARDNADZE, when former Russian President Boris YELTSIN was in power, the secret service played its own game without any compliance with the Georgian or Russian governments. YELTSIN, "would say one thing in front of all the CIS presidents and his secret service would do something totally different and unacceptable," SHEVARDNADZE said. The Georgian President believes that due to his Russian Federal Security Service (FSB) experience, PUTIN, "knows what the secret service is

Ruutel Approves New Economic Min.

When you need to know it as it happens

and what it is capable of." "This will allow him to avoid mistakes," SHEVARDNADZE was quoted by the Prime News Agency.

Abkhazia Drafting Documents To Join Russia

• Abkhaz Vice President Valeri ARSHBA told journalists today that officials in Sukhumi are drafting documents for joining the Russian Federation. According to ARSHBA, "historically, integration with Russia has been a priority of the Abkhaz foreign policy." Abkhaz Prime Minister Anri JERGENIA stated that, "we are talking about establishing the associate relations." He said that this is in line with the Abkhaz constitution. "Abkhazia will remain the subject to the international law and the [Abkhaz] independence, supported by the constitution, will be preserved." "It does not mean that Abkhazia will join Russia as a subject of the federation," JERGENIA noted. "Associate membership includes the elements of the confederate relations," with some joint jurisdiction including the border protection, custom service, common currency, closer economic cooperation and other common interests, JERGENIA said. Meanwhile, Georgian President Eduard SHEVARDNADZE said that Georgia is ready to grant Abkhazia, "exclusive rights." "Basically, it [will be] a state within a federation," with more rights than, for instance, North Ossetia and Tatarstan enjoy in Russia. According to SHEVARDNADZE, officials in Abkhazia realize that Abkhazia will not be accepted into the Russian Federation, or become independent. SHEVARDNADZE expressed hope that the Georgian-Abkhaz dialogue will bring results. The Georgian President noted that, "the Abkhaz realize that if a war starts, they will be destroyed as a nation."

Itera To Reconsider Cutting Off Gas

• International gas group *Itera* is likely to reconsider its warning to cut gas supplies to Georgia by 50 percent, Prime News Agency reported. According to the *Itera* office in Tbilisi, the company might restructure Georgia's debt for the natural gas supplies. *Itera* is expecting specific proposals from the

Georgian officials. *Itera* had warned Georgian gas distributing company *Gruzgaz* that it will cut gas supplies to Georgia by half for an outstanding debt of \$90 million. According to *Itera*, the decision to restrict gas supplies was not politically motivated and should not be considered as a way to punish Georgia. *Itera* said that a similar offer was issued to the government of Ukraine. As a result, Ukraine's President Leonid KUCHMA promised to pay off a debt of \$20 million. *Itera* also warned Armenia that it would halt all gas supplies as of October 15th, if it did not pay for its debt. Although Armenia owes only \$37 million to *Itera*, it has a less fiscal discipline to make payments than Georgia. *Itera* has decided to delay any cut offs, "for the time being," a spokeswoman for *Armrosgazprom*, which controls Armenia's entire gas infrastructure, said. Armenian Energy Minister Karen GALUSTIAN said in late June that *Gazprom* had written off Armenia's gas debt under a debt swap deal, RFE/RL Newline reported.

AES Quits Armenian Utility Tender

• U.S. utility AES has dropped out of a tender for four Armenian low volt power grids, leaving Russia's *Unified Energy System (UES)* as the only bidder, Armenian Energy Minister Karen GALUSTIAN said. In an interview with Armenian public television, he did not elaborate on why AES was dropping out. The only company to qualify and confirm its participation in the tender is *UES*. Spanish *Union Fenosa Acex* qualified to participate, but has not confirmed it will bid. The Armenian government is selling 75 percent of four local grids. The European Bank for Reconstruction and Development (EBRD) is planning to buy 20 percent of the companies directly, Reuters reported. The government has said it would like to speed up the privatization tender and it could be held by early December.

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