

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia-Iran Sign Military-Technical Agmt.

• Russian Defense Minister Sergei IVANOV today met with visiting Iranian Defense Minister Rear Admiral Ali SHAMKHANI to boost bilateral relations, specifically in the military-industrial complex. The two ministers signed a military-technical cooperation agreement, similar to ones Russia holds with other nations. The agreement, Russia stressed, meets international norms and standards. "The document creates the possibility for holding talks on the deliveries of defensive weapons to Iran," IVANOV said. Military sales between Russia and Iran could total \$300 million a year. Russian media reports have said the Iranians are especially interested in acquiring long-range S-300 air defense missiles to protect the Bushehr nuclear power plant and other strategic facilities, medium-range Buk M1 and Tor M1 air defense missiles and Su-27 fighter jets. Iran also would like to buy supersonic Yakhont anti-ship missiles which have a range of 186 miles, Iskander-E tactical ground-to-ground missiles with a range of 174 miles and 550 BMP-3 armored infantry vehicles. Iran has requested that Russia provide it with a border surveillance system for the 577-mile Iranian-Afghan border. Russia agreed in March to provide Iran with an estimated \$7 billion worth of defensive weapons in the next few years. IVANOV said last month that Russia's weapons supplies to Iran are small and only fulfill previous contracts. The US and Israel are deeply worried that improving military ties between Russia and Iran could lead to the spread of weapons of mass destruction. US officials have claimed that a nuclear power plant Russia is building in Bushehr in southern Iran could help Tehran develop nuclear weapons. Russia and Iran both deny the allegations.

Iran and Russia are helping equip the anti-Taliban opposition, but both countries are concerned about the consequences of possible US strikes. Iran has warned the US not to use its airspace if there is an attack.

Russia Delivers Aid To Anti-Taliban Force

• The first shipment of Russian aid to the anti-Taliban forces, the Northern Alliance, arrived in Tajikistan today. Deputy Emergencies Minister Yuri BRAZHNIKOV said that this was the beginning of measures to fulfill a presidential order to provide humanitarian assistance to the Northern Alliance. Russian President Vladimir PUTIN has promised humanitarian aid and military assistance to the opposition Alliance forces fighting Afghanistan's ruling Taliban. But the President has ruled out any Russian participation in any military action by Washington and its allies in response to the September 11th attacks. The aid, to be delivered to northern Afghanistan across the Pyandzh River later on Tuesday, consisted of woolen blankets, large tents, medicines and food, including five tons of sugar. BRAZHNIKOV said Russia was acting in close cooperation with the UN High Commissioner for Refugees.

CIS Not To Join US Strikes

• Head of Russia's Federal Security Service (FSB) Nikolai PATRUSHEV said that former Soviet states would not directly participate in possible US strikes on Afghanistan, but will provide assistance. He

made this statement following a meeting of security and intelligence chiefs of the Commonwealth of Independent States (CIS) in Dushanbe, Tajikistan. Russia maintains strong influence over the Central Asian nations north of Afghanistan. He said, "I believe the CIS should not take part in the military action in Afghanistan, but nonetheless we must take part in fighting international terrorism." Last week, Russia appeared to give its first official consent for its Central Asian allies to provide a launch-pad for US strikes on Taliban-ruled Afghanistan by hinting that Tajikistan might offer the use of Dushanbe airport. Russian President Vladimir PUTIN also said Russia would deliver humanitarian aid and weapons to the anti-Taliban alliance controlling northern Afghanistan. PATRUSHEV said Moscow and CIS governments were sharing intelligence with Washington and its allies about Osama BIN LADEN's whereabouts. A joint declaration signed by the security chiefs hit out at the, "double standards applied by certain states," to the issue of terrorism. Russia has been criticized by the West for its use of force in its military offensive against Chechen rebels.

Shooting Spree Kills Six In Chechnya

- Unidentified gunmen went on a shooting rampage Monday in the Chechen village of Avtury killing six people, the Interfax news agency reported. The 20 gunmen forced the victims out of their homes and shot them in the street. Some of those killed were police officers. Before leaving Avtury, they set fire to one of the houses and took one villager hostage. Meanwhile, Russia's Interior Ministry press center in Chechnya said a group of foreign Islamic militants was killed in clashes that took place Sunday night in the village of Starye Atagi, near Grozny. The fighting broke out after Russian interior troops encircled a Chechen rebel camp in the village, prompting them to open fire on government troops. Another militant was taken into custody; however, his identity was not released in order to protect the ongoing investigation, United Press International reported.

Economy

<p>Ruble = 29.43/\$1.00 (NY rate) Ruble = 29.47/\$1.00 (CB rate) Ruble = 27.07/1 euro (CB rate)</p>

Moscow To Borrow 300M Euros

- The Moscow City Government announced it will borrow 300 million euros from foreign lenders, the first Russian entity to tap international markets since the country's near default on its foreign debt in 1998, Reuters reported. Russia's federal government plans to resume its own foreign borrowing next year with a eurobond issue of up to \$2 billion. It will closely watch the Moscow City government's initiative to assess likely pricing for its own paper. Although most borrowers serviced eurobonds properly in the three years since the country's 1998 financial crisis, the extent of the trouble and a collapse in confidence in Russia effectively closed the door to further issues. The euros will be borrowed via a credit from Germany's *BHF-Bank*. It will issue loan participation certificates to be lead managed jointly by *ING Barings* and *UBS Warburg*. "The timing of the placement will be set after meetings with investors, depending on market conditions, allowing the city to make an issue at an acceptable yield," the city government said. The city had previously wanted a straight Eurobond issue, but it cannot make one before the government returns to the market with its sovereign bond, planned for next year. After the crisis, Russia prohibited regional governments from issuing internationally traded securities before the sovereign.

Business

Volkswagen To Build Plant In Russia

- Volkswagen will begin construction of a car assembly plant in Russia next spring, Russia's Trade and Economic Minister German GREF said in an interview published Monday. The plant will be located in the Moscow or St. Petersburg region and will initially assemble 20,000 to 25,000 cars per year, GREF told *Kommersant Daily*. Eventually, it will assemble 300,000 cars annually. The plant will assemble the Bora, Passat, and Skoda Fabia models. GREF said that German Chancellor Gerhard SCHROEDER and Russian President Vladimir PUTIN had approved the project during PUTIN's visit to Germany last week. In June, *General Motors* signed a landmark agreement with Russia's giant *Avtovaz* to make 75,000 sport utility vehicles a year. The \$340 million deal is the biggest foreign investment in the country's car industry, the Associated Press reported.

EUROPEAN REPUBLICS

Estonian CB Predicts Lower Growth In 2002

- Estonia's Central Bank said economic growth could be significantly lower next year, compared with 2001. "We cannot rule out that the Estonian economy will reach the lowest point of a growth slowdown in the beginning of 2002," the Central Bank said in a statement. "In this case it is possible that, contrary to current forecasts, Estonia's economic growth next year could be significantly lower than in 2001," it added. The Central Bank's current forecast for 2002 gross domestic product (GDP) growth is 5.1 to 5.7 percent. This forecast was made in spring and is due for a possible revision in November. The Central Bank forecast 2001 GDP growth at 4.5 to 5.3 percent, Reuters reported.

Voronin Calls Off Negotiations

- Moldovan President Vladimir VORONIN has called off negotiations with Igor SMIRNOV, the separatist leader of the Dniester region. Speaking on national television late Monday, VORONIN accused Dniester, a self-styled state which fought a short but bloody war against Moldova in 1992, of being a "residence for the mafia" run by criminal groups. VORONIN had made settling the Dniester conflict as a main priority, following the Communist Party's victorious election. The President said, "As the political leader of Dniester, Igor SMIRNOV is a completely and utterly spent force. Negotiating with him is pointless. It does not lead to anything." He expressed hope that a new leader would replace SMIRNOV in the unrecognized Dniester elections in December. Dniester broke away from Moldova in 1990 over fears that an independent Moldova might unite with ethnic kin in Romania. Hostilities have long since ceased, but the region maintains border patrols with Moldova and is bristling with arms. Moldova has proposed offering the region broad autonomy, but Dniester wants full independence, Reuters reported.

SOUTH CAUCASUS & CENTRAL ASIA

Georgia Grants US Use Of Airspace

- Georgia has agreed to grant US requests for the use of its airspace, if necessary in connection with possible military operations against targets in Afghanistan in retaliation for the September

11th attacks. Foreign Ministry spokesman Kakha SIKHARULIDZE told Rustavi-2 television, "Several days ago, we received a note from the US government with the request, and the Georgian government advised its agreement that if the need arose, [Georgian] airspace could be used. We received such a note at the Foreign Ministry and we gave a positive response." Georgian President Eduard SHEVARDNADZE previously offered Washington all forms of assistance for a retaliatory strike after the attacks.

Targamadze Speaks On TV

- In an interview to the First Channel of the Georgian television, Interior Minister Kakha TARGAMADZE stated that if the position of prime minister is introduced in Georgia, he will not be interested in taking it. He also said that any talks among the political elite about the post-SHEVARDNADZE epoch are "insulting" because President SHEVARDNADZE's term expires only in 2005. Commenting on his last week visit to Moscow, TARGAMADZE said that Russia and Georgia have very different vision on the situation in Abkhazia and the Pankisi Valley. TARGAMADZE said he tried to persuade the Moscow officials that the Pankisi is not an anti-Russian base for training the Chechen militants and smuggling arms. According to him, both sides agreed to analyze the situation in the Pankisi based on the available information, statements of the politicians, and press reports. "The Moscow talks did not focus on any joint operations, because this might involve Georgia into a bigger Caucasus war," TARGAMADZE said. The minister added that Georgia will use its own forces to control the territory which is under Georgia's jurisdiction.

South Ossetia Denies Accusations

- In an interview to the Prime News Agency, Prime Minister of South Ossetia Dmitry SANAKOEV said that his republic is ready to cooperate with Georgia to prove that the Chechen field commander Ruslan GELAYEV and his squad are not hiding in South Ossetia. He stressed that neither GELAYEV nor any other Chechen militants are in South Ossetia. He said that there were very few cases when the Chechens would use the territory of South Ossetia to get to North Caucasus. Generally, he stressed, it is groundless to accuse South Ossetia of harboring Chechen terrorists.

US Embassy In Armenia Lays Foundation

- The US embassy in Armenia held a ceremony marking the laying of the foundations for a new \$80 million complex. US Ambassador to Armenia Michael LEMMON, who is about to end his mission, attended the ceremony along with Catholicos of All Armenians Gagerin II. The grounds will house the embassy building, the edifice of an office of the US International Development Agency, a marine office, a warehouse, a shop and other auxiliary buildings in a 20-hectare area. A Boston-based architectural company will do the blueprints, and Armenian builders will be sub-contractors. Armenian construction materials will be used. The building of the US embassy, which is now in use, will be sold. The Americans have pledged to take care of the Yerevan Lake, on whose banks the area will be built, Itar-Tass reported.

Armenia Not To Join NATO or RBU

- Armenian President Robert KOCHARYAN said his country has no plans to join NATO. Armenia cooperates with NATO under the Partnership for Peace program on a scale that matches Russia. Speaking about NATO expansion to the East, he stressed that, "Armenia is a small country and it should express its attitude towards global processes in accordance with its weight on questions of global security." He believes that, "everything that may cause counteraction and lead to the emergence of new dividing lines is harmful. KOCHARYAN warned, "It will be dangerous to introduce a new military element in the South Caucasus." In his view, "it is necessary to be extremely cautious. Otherwise, we will have to," solve inevitable problems.

In addition, KOCHARYAN said that the accession of Armenia into the Rus-Belarus Union is not on the agenda. At the same time, he said that Yerevan welcomes current processes in Russia and Belarus. "The process of their economic integration has objective roots, there is a mutual interest, but I see no such interest in Armenia," KOCHARYAN said on Saturday. The President added, "We have neither common borders with Russia nor mutually advantageous transit carriage [railroads]." KOCHARYAN also stressed that political forces in his country, except perhaps the Communist Party, have differing views with regard to the

Russia-Belarus Union and believe that it leads to the loss of sovereignty and infringement upon independence, Itar-Tass reported.

Armenian Church Calls For NK Peace

- The head of the Armenian Apostolic Church, Catholicos Gagerin II said the mission of his Church is to help settle the Nagorno-Karabakh conflict. "Our predecessors and we have met with the spiritual leaders of Azerbaijan many times in order to recreate the atmosphere of trust between our countries and peoples, improve relations and bring peace back to this region," he told a group of Russian journalists on Saturday. Itar-Tass noted that Patriarch Alexy II of Moscow and All Russia mediated all these meetings.

Rus-Kazakhstan Discuss Arms Deals

- A delegation of the Russian arms exporting enterprise *Rosoboronexport* will hold several negotiations in Astana, Kazakhstan, the CNA agency reported referring to the press service of the Kazakh Defense Ministry. The Russian delegation will meet with the Kazakh First Deputy Prime Minister, the leadership of the Security Council, Defense Ministry, and defense industry committee of the Energy Ministry. Russian experts will also meet with representatives of the *Kazakhspetsexport*. Russian and Kazakh officials will discuss bilateral supplies of arms and military equipment and their transit in the territory of the Commonwealth of Independent States (CIS), RosBusiness Consulting.

**The Daily Report on Russia and The FSU
will not be published
on Monday October 8th
in observance of Columbus Day.**

Georgia-Armenia: The Next Cold War?

- On September 25th, at a Parliamentary Assembly of Council of Europe (PACE) session in Strasburg, Armenian Parliamentary Deputy Armen RUSTAMYAN called for defending the rights of ethnic Armenians living in Georgia's southern region called Javahetia. Georgian Presidential aide on ethnic issues Aleksei GERASIMOV called these accusations "lies" and said that RUSTAMYAN might have acted on behalf of Russian officials accusing Georgia of violating the rights of the minorities. According to GERASIMOV, the Organization for Security and Cooperation in Europe's (OSCE) experts have inspected the situation in Javahetia several times and reported no rights violations among the 100,000 Armenians living there. He stressed that Georgia does not violate the rights of any ethnic minorities. He added that the Council of Europe can send its monitoring mission to Javahetia to monitor the situation any time.

These accusations have been building since Russian President Vladimir PUTIN visited Armenia in September. Editor in chief of the opposition Yerevan newspaper Armenian Time Nikol PASHINYAN believes that in light of recent political developments PUTIN during his visit must have directed Armenian President Robert KOCHARYAN to start, "an offensive" against Georgia. According to PASHINYAN, "[We] may assume that KOCHARYAN voluntarily accepted it because the deal will be mutually beneficial." An unstable situation between Armenia and Georgia will allow Russia to keep its military base in Akhalkalaki. As a result, Georgia will not be able to join NATO. Armenia will end up in a state of military alert, which will postpone the 2003 presidential elections indefinitely. The postponement would be seen as a political victory for KOCHARYAN, who increasingly is experiencing political discontent and growing protests.

In another article titled "Anti-Georgia Propaganda Has Begun," Armenian Time mentioned an Armenian television program aired Sunday about the Armenians living in Abkhazia and how they participated in military actions against Georgians during the Georgian-Abkhaz Conflict. "It appears that by these propagandistic acts Armenia has started a Cold War against Georgia." This campaign comes before Georgian President Eduard SHEVARDNADZE's planned visit Yerevan from October 23rd to 24th.

Today, chief of staff of the Armed Forces of Russia Anatoly KVASHNIN is meeting with KOCHARYAN, Armenian Catholicos Gagerin II, and Defense Minister Serge SARKISYAN in Yerevan. KVASHNIN stated at the Zvartnots airport that the main theme of the negotiations in Armenia would be the prospects of the Armenian-Russian military cooperation. He pointed out that Russia had approved of Armenia's readiness to give the US an air corridor, the ARKA news agency reports. At the same time, he underlined that Russia's 102nd Base, located in the territory of Armenia, will not be used in the anti-terrorist operations, including those in the territory of Afghanistan.

Comment: When viewed from a broader prospective, these Armenian-Georgian developments appear to be part of a larger campaign to destabilize Georgia from the north and south. In the north, Russia's military and political officials have been pushing to expand the military campaign against Chechnya into Georgia's Pankisi Valley and Kodori Gorge. Georgia has firmly refused to allow such operations and denied it is harboring any significant terrorists formations. Clearly, Georgia does not want to see the Chechen War expanded into its own territory. Russia now claims that the Chechen rebels are linked to Islamic militant terrorists such as wanted Osama BIN LADEN. This appears to be part of a justification to enter Georgia under the cloak of combating global terrorism. If it is true that Russia is bolstering friendly Armenia to instigate turmoil for Georgia on its southern border, then it can only be because of a larger plan. The fear is that the Russian military will cross into Georgia or pressure the Abkhaz to capitalize on the tension and reactivate hostilities in the Kodori Gorge region, which is still under Georgian control. There have been various accusations that Chechen field commander Ruslan GELAYEV along with members of the Georgian Forest Brotherhood are operating in the Kodori Gorge. Tensions within Georgia remain at an all time high with external and internal crises mounting by the day. This includes the disintegration of the ruling coalition party, political infighting, and a constant psychological warfare campaign against Georgia as harboring and supporting Chechen terrorists. However, with all this, President SHEVARDNADZE has the confidence to fly to Washington to meet US President

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