

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

Monday, October 22, 2001

Published every business day
since 1993

RUSSIAN FEDERATION

Politics

Bush-Putin On START II, ABM

• Following the conclusion of the Asia Pacific Economic Cooperation forum (APEC), U.S. President George W. BUSH and Russian President Vladimir PUTIN met on Sunday to discuss counter-terrorism efforts and a new strategic framework including arms control. PUTIN said the two presidents made "progress" in talks about a START II treaty on strategic offensive weapons reduction. "Now our task is to develop parameters of such weapons and to develop a reliable and verifiable method to reduce nuclear arsenals of Russia and the United States," he said. BUSH said the two presidents agreed to renew efforts to establish a new strategic framework that would encompass significant reductions of nuclear arsenals. BUSH and PUTIN continued to disagree on the future of the 1972 Anti-Ballistic Missile (ABM) treaty. The U.S. believes the treaty is out of date and stands in the way of defending the U.S. against potential terrorist missile attacks. PUTIN calls ABM an important element of stability, Kyodo news reported. "Both our nations must be able to defend ourselves against the new threats of the 21st century including long-range ballistic missiles," BUSH said. BUSH complimented Russia on its "full and responsible role" in the global alliance against terrorism, thanking PUTIN for sharing intelligence, granting over-flight rights for humanitarian aid flights and assisting diplomatically. PUTIN complimented the U.S. on its "measured and adequate," response to the September 11th attacks. He also called for such military action to end soon. The presidents also discussed Iraq, the Middle East, the Balkans as well as Russia's increasingly amicable relationship with the U.S.-led NATO military alliance. PUTIN told BUSH, According to The New York Times, that he was more willing to accept greater Western military

assistance to Georgia, if that would help Georgian President Eduard SHEVARDNADZE gain control over the border between Georgia and Chechnya. Georgian officials received no confirmation of this discussion.

Berezovsky Named Russia's Most Wanted

• Prosecutor General investigator Nikolai AT-MONYEV issued a resolution to put one of Russia's most influential tycoons of the 1990s, Boris BEREZOVSKY, on Russia's most wanted list on September 20th for his fraudulent business activities with the Swiss-based *Forus* firm. The Prosecutor General's office charged BEREZOVSKY in absentia on three counts of Russia's Penal Code. "Boris BEREZOVSKY is charged with complicity to fraud, complicity to not return hard currency from abroad and money laundering," Semyon ARIYA said. In August, the Prosecutor General's office opened a separate criminal investigation into the dealings of *Forus*, which is suspected of siphoning off revenues posted abroad by Russia's biggest airline, *Aeroflot*. In 1995-1996, *Forus* acted as *Aeroflot*'s agent in Switzerland, collecting huge fees transferred by foreign airlines for non-stop flights over Russia's territory, investigators say. BEREZOVSKY reportedly controlled the Swiss firm via affiliated companies and had access to money transfers that were subsequently misused, UPI reported. In 1999, investigators summoned BEREZOVSKY as a suspect in the probe on *Aeroflot*. Charges were later dropped and after he was invited several times to testify as a wit-

ness. Even though BEREZOVSKY has been on the most wanted list for over a month, Russia has failed to notify Interpol. The oil tycoon had another brush with authorities recently, when a Moscow arbitrary court ruled to liquidate the TV6 television network controlled by BEREZOVSKY. Minority shareholders filed a lawsuit against TV6, claiming that it mismanaged its finances, building debts exceeding its assets. BEREZOVSKY argued that the authorities were trying to shut down the network down because its independent reporting was critical of Kremlin officials. On Wednesday, BEREZOVSKY offered \$10 million to Russia's LUKoil oil giant to buy out the 15-percent stake in TV6, owned by LUKoil's subsidiary that filed the lawsuit demanding closure of the station.

Malaysia To Receive Russian Missiles

- Malaysia will receive Russian-made anti-tank cruise missiles and received an offer to swap its older U.S. Hornet fighters with a new version, the official Bernama news agency said on Saturday. The agency quoted an official from Rosoboronexport, Russia's top arms exporter, as saying the Metis-M missiles, capable of destroying tanks and other armored vehicle from a distance of one kilometer, would be delivered soon. "We signed the agreement in May and the system will be delivered soon," the official told Bernama on the sidelines of a Malaysian air show on northern Langkawi Island. The agreement also provides for possibility of joint production of the missiles, the agency said. Bernama also reported that Boeing confirmed it would exchange its new F-18 E (single-seater) and F-18 F (twin-seater) Super Hornet fighters for Malaysia's F-18 D. Anthony PARASIDA, Boeing's vice president for F-18 Program Military Aircraft & Missiles System, said the exchange involved an option for Malaysia to replace eight of its F-18 D with the newer version. If Malaysia takes the offer, the Royal Malaysian Air Force will have 16 to 24 up-to-date Super Hornets fighters, PARASIDA said.

Economy

Ruble = 29.55/\$1.00 (NY rate)
Ruble = 29.56/\$1.00 (CB rate)
Ruble = 26.50/1 euro (CB rate)

Russia-OPEC Hold Oil Talks

- Russian President Vladimir PUTIN and Venezu-

elan President Hugo CHAVEZ, the current chair of OPEC, met today in the Kremlin to discuss Russia's oil policy and sales with OPEC. Russian Foreign Minister Igor IVANOV stressed that a possible cut in Russian oil output was not touched on. He stressed that the presidents focused on, "coordinating prices." IVANOV added Russia would closely watch OPEC's meeting in Vienna on November 14th and could make some decisions in line with the cartel's strategy. ITAR-TASS quoted PUTIN as saying, "Russia is supporting a fair corridor for oil prices." CHAVEZ is on a tour of major oil producers and consumers in Europe and the Middle East. On Wednesday, he said that it would be useless for OPEC oil exporters to reduce production further, if countries outside the cartel kept increasing output. Russia, one of the leading non-OPEC oil producers, has continually boosted exports to service its debt burden. Russia is expected to increase oil output to some 340 million to 350 million tons (7.03 million barrels per day) of crude in 2001 from 323 million tons in 2000 while exports could rise to 155 million tons from 143 million, Reuters reported.

Business

Itera To Boost Investment, Production

- Russia's second largest independent gas producer Itera is forging ahead with plans to raise investment and production, but says independent producers must be allowed to export its output. Itera President Valerie OTCHERTSOV told gas executives at a two-day gas conference in Paris his company was seeking partners who would find it, "a reliable partner." Itera, with an annual turnover of \$30 billion, plans to go ahead with a public listing of certain holdings on the Frankfurt exchange next year, Reuters reported. Companies of the Itera group are targeted to produce over 24 billion cubic meters (bcm) of natural gas this year. This is expected to rise to 80 bcm in the next 20 years. Itera has invested over \$800 million in the development of gas and gas condensates and is developing four small gas and condensate fields with reserves of 1.9 trillion cubic meters of gas which will produce between 1.6 to 25 bcm a year. Itera plans to increase capital investments to \$1.5 billion within the next seven years. "These are rather ambitious plans and in order to meet them and to develop the gas market in Russia, all the independent gas companies will have to have a

quota to export gas," OTCHERTSOV told Reuters. Currently only *Gazprom* is allowed to export Russian gas and supplies one third of European gas imports, a market that *Itera*, the largest independent gas supplier for markets of the Commonwealth of Independent States (CIS) and the Baltic states, wants to join. He said there was a possibility the government would establish quotas for independent companies when the technical capacity of *Gazprom*'s export pipelines is increased. "We are optimistic. I believe that the steps will be taken by the government when the technical possibilities exist...which would be in about five to 10 years' time," OTCHERTSOV said.

Yukos To Buy Kvaerner Units

- Russia's second-biggest oil firm Yukos today announced it will purchase two London-based units of struggling Anglo-Norwegian engineering group *Kvaerner* for \$100 million. Yukos owns a 12.1 percent stake in *Kvaerner* and last week bid for an additional 12.9 percent stake, which would make it the group's biggest shareholder. Yukos is considering measures to help *Kvaerner* through its current financial difficulties, including purchasing its new shares. The Russian firm, however, said it will limit its stake in *Kvaerner* to a maximum of 40 percent. *Kvaerner* is currently seeking debt refinancing and plans to issue up to two billion Norwegian crowns (\$227.9 million) in new shares in a bid to stave off bankruptcy. "The possible purchase of two *Kvaerner* units is a separate project from our participation in *Kvaerner* share capital," Hugo ERICSSON, head of Yukos' international information department, told Reuters. *Kvaerner*'s decision to sell the two units is subject to the approval of its existing board and that of a new board, to be elected at a shareholders' meeting on November 2nd, when Yukos representatives could be added to the body. Yukos said its decision to purchase was subject to a number of conditions. The purchase will be executed in the second half of November and the transfer of ownership soon after.

EUROPEAN REPUBLICS

Ukraine Condemns Cultural Center Bombing

- The Ukrainian Foreign Ministry has voiced concern over Sunday's bombing attack on the Ukrainian Cultural Center in Moscow. In a statement to ITAR-

TASS, the Ukrainian Foreign Ministry expressed hope that both the attackers and masterminds would be found and punished. The ministry said it expected Russia to take appropriate measures to prevent such acts of provocation in the future. In a fire-igniting attack, two young men wearing masks had thrown a petrol bomb at the doors of the Ukrainian Cultural Center Sunday evening and escaped. The Cultural Center security staff put the fire out. The two attackers left leaflets at the center saying it was in protest against the loss of Russia's Tupolev-154 airliner downed by a stray Ukrainian missile over the Black Sea and against Ukraine's policy towards the disputed naval base of Sevastopol in the Crimea. The leaflets also contained threats against the Ukrainian leadership and ethnic Ukrainians working in Moscow.

SOUTH CAUCASUS & CENTRAL ASIA

Shevardnadze On The Abkhaz Conflict

- In his weekly radio address to the nation, Georgian President Eduard SHEVARDNADZE stated that the skirmishes, which have taken place in the past two weeks in Abkhazia, were caused by an uncontrolled group of gunmen, which tried to reach the North Caucasus. This was not accomplished and the military actions began. The President stressed that the group consisted of not only Chechens, but also other North Caucasus minorities. This proves, the President believes, that the escalation of conflict in Abkhazia was not related to the Pankisi Valley problem, or Georgian gunmen.

Meanwhile, the officials in Sukhumi stated that a few gunmen are now hiding in Abkhazia. "These are mainly the Georgian refugees who try to find their way to the Gali region," deputy defense minister of Abkhazia Vyacheslav ANKVAB told the Prime News Agency. He said that a group of Chechens headed by their field commander Ruslan GELAEV escaped to the Kodori Gorge, controlled by Georgia. ANKVAB mentioned that from October 3rd to October 17th, the Abkhaz army lost 16 people, whereas the gunmen lost 60 to 70 people.

Russian Troops Dispatched To Border

- In the wake of renewed fighting in Abkhazia, Russia on Saturday dispatched troops to its border with Georgia. Russia stated this was necessary to prevent the threat of armed gangs crossing

the border from Georgia's separatist province of Abkhazia. *RTR* state television showed dozens of armored vehicles traveling down roads in southern Russia's Kabardino-Balkaria region towards the border. Commander of Russia's southern military district General Gennady TROSHEV said, "I will do everything to ensure that not a single outlaw crosses from a neighboring country or territory into Russia. Let no one be in any doubt. We will use whatever equipment is necessary —artillery, aviation, whatever is required. No one will get into Russia." *RTR* reported that the troops appeared to be headed for a long deployment as supplies included field kitchens and other equipment.

Huey Handover Tuesday

- A ceremony for the handover of U.S. military UH-1 Huey helicopters will be held on Tuesday at the Alexeevka military airfield, Georgian Defense Ministry told the Prime News Agency. According to the U.S. Embassy in Georgia, the U.S. Defense Ministry and the U.S. Agency of Defense Security Cooperation are financing the project, which consists of three stages. First, six operable UH-1H helicopters, along with the maintenance equipment, will be transferred to Georgia. The cost of this stage is \$6 million. Second, four UH-1H helicopters, which will be stripped for spare parts, will be delivered to Georgia. This part of the project will cost about \$2.3 million. Third, a training program in the U.S. will be provided for 11 Georgian military pilots, 21 aviation technicians, and two flying control officers. This final stage of the project costs about \$2.5 million. This project was the initiative of the Senate Foreign Relations Committee under the chairmanship of Senator Jesse HELMS (Rep. NC)

Turkmen Assist Refugees

- Turkmenistan, playing a neutral role in the U.S.-led coalition against terrorism, says it is interested in the quick completion of the campaign against Afghanistan's Taliban rulers, who are sheltering Osama BIN LADEN, the Associated Press reported. The country also is concerned about civilian casual-

ties and fears an influx of refugees, which according to the U.N. High Commissioner for Refugees could rise to 50,000 Afghans. The U.N. is sending food and other vital supplies for Afghans through Turkmenistan, where some aid agencies have reportedly been waiting for weeks for permission to launch relief operations. President Saparmurat NIYAZOV has agreed to allow U.S. planes to use Turkmen airspace for humanitarian flight in connection with operations in Afghanistan. Uzbekistan has supported U.S. air strikes.

Turkey Lobbies Central Asian Nations

- Turkish Foreign Minister Ismail CEM is on a tour of Central Asian nations aimed at forging closer links between these states and NATO in the campaign against terrorism, Reuters reported. He is meeting with the presidents of Azerbaijan, Turkmenistan, and Uzbekistan. CEM is pushing a wide and sometimes vague agenda of humanitarian aid, inter-religious dialogue, and security cooperation on his rapid tour of the region. CEM reiterated that Turkey would "look favorably" on any request to join a peacekeeping force, "when the conditions are right not just in Afghanistan, but also in the whole region that is part of this wide struggle against terrorism." Turkmenistan and Uzbekistan, both Central Asian neighbors of Afghanistan, have promised to provide air corridors and air bases for the U.S. to deliver humanitarian supplies to the region. CEM has proposed that Turkey host a meeting between the European Union (EU) and countries of the Organization of the Islamic Conference to, "get rid of the exploitation of our religion and to maintain understanding and cooperation." Besides ethnic links, Turkey points to its position as a NATO member, EU candidate and firm backer of the U.S. retaliatory campaign as grounds for becoming a leader in managing the aftermath of attacks. Turkey has offered to give military training to anti-Taliban forces in Afghanistan, allows transport aircraft to land at Incirlik air base, and says it could lead a future peacekeeping force for Afghanistan.

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 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.

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.