

# 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

Tuesday, October 23, 2001

Published every business day  
since 1993

## RUSSIAN FEDERATION

### Politics

#### **Putin Plotter Has Links With Al-Qaeda**

• After releasing information last week describing a plan to assassinate Russian President Vladimir PUTIN during a January visit to Azerbaijan, Azeri officials on Monday revealed that Kianan ROSTAM, an Iraqi convicted of organizing the plot, has links to Osama BIN LADEN's al-Qaeda network. Araz GURBANOV, spokesman for the National Security Ministry, said ROSTAM underwent training in Afghanistan and in 1997 reached Russia's breakaway republic of Chechnya. ROSTAM "was in contact with people who were at Osama BIN LADEN's training camps," said GURBANOV, who did not link BIN LADEN to the plot, the Associated Press reported. ROSTAM was arrested last November, tried on terrorism charges, and sentenced in August to 10 years in prison. GURBANOV said ROSTAM, who fought alongside Chechen separatist rebels and married a local woman, came to Azerbaijan in early 2000 on a false Russian passport. Last fall, he began preparing explosive devices at his home in Baku with the help of two unnamed foreigners, GURBANOV said. A total of 48 radio-controlled explosive devices were found during an investigation of ROSTAM's home, following his arrest. Officials learned of the plot to kill PUTIN during a planned visit there through intercepted telephone conversation with an Afghan citizen who also fought Russian troops in Chechnya. Russian officials have long claimed that BIN LADEN supports Chechen rebels with money and training.

#### **Russia's Population Drops By 589,700**

• Russian officials of the State Statistics Committee on Monday said that the Russian population shrank by more than half a million people, or 0.4 percent, in the first eight months of 2001, the Associated Press

reported. The drop of 589,700 people continued a trend that has long had worried Russian officials. In 1999, seen as the worst of recent years, the drop was 768,000 or 0.5 percent. Russia's population is now 144.2 million people, the State Statistics Committee said. The government is seeking to counter Russia's sharp population decline with a program aimed at improving health, encouraging women to bear more children and fostering immigration. Heavy drinking, poor nutrition and medical care, and environmental pollution plague Russia. In the first five months of this year, 17,000 Russians died of alcohol poisoning. This was a rise of about 30 percent for the same period in 2000, the Associated Press reported. Low birth rates combine with a short average life span appeared to accelerate the population drop.

#### **Railway Minister Charged With Abuse Of Office**

• Russian prosecutors on Monday charged Railways Minister Nikolai AKSYONENKO, for abuse of office. AKSYONENKO has denied the accusations and spoken of a plot to undermine him and the reforms he has launched at the ministry, Reuters reported. AKSYONENKO was called to testify on Friday, but the minister refused to sign accompanying documents, including one barring him from leaving Moscow. The charges allege that AKSYONENKO authorized an illegal expenditure of \$2.3 million in 1997. It said additional investigations into alleged diversion of funds to build homes for individuals

with no connection to the ministry and non-payment of \$370 million worth of taxes by the railways were under way. The violation carries a maximum 7-year prison sentence, UPI reported. Vremya Novostei reported, "The scandal could be a very noisy one as serving officials of Nikolai AKSYONENKO's rank are not normally invited to the prosecutor's office to be issued with charges and orders to remain in Moscow." Charges were also brought against other officials in the ministry. AKSYONENKO, who has served as railways minister since 1999 when he was also first deputy prime minister to then President Boris YELTSIN, has rejected media reports that he resign. AKSYONENKO, once so powerful that he came close to being nominated one of YELTSIN's prime ministers, has become far less visible in the Vladimir PUTIN Cabinet. PUTIN demoted him from first deputy prime minister to railways minister, the post AKSYONENKO held before his links with top power brokers led to his promotion to No. 2 in the Cabinet, the Associated Press reported. AKSYONENKO accused prosecutors of playing political games and promised to take the issue to Prime Minister Mikhail KASYANOV. AKSYONENKO said the charges were groundless as his ministry was the only one in Russia allowed to combine state functions with business activities. Russia's rail network of 159,000 kilometers (100,000 miles) of track has a reputation for being overstaffed and inefficient. It is the last natural monopoly to survive almost intact from Soviet days. Plans, however, are under way to reform the over bureaucratic ministry.

#### **Khristenko On North European Gas Pipeline**

- Following a meeting with Finnish Prime Minister Paavo LIPPONEN, Russian Deputy Prime Minister Viktor KHRISTENKO announced that a group of Russian, German and Finnish specialists will draw up a detailed plan within three or four month for the construction of a North European gas pipeline. The pipeline is planned to cross the territory of Finland. LIPPONEN noted that talks focused on Russian-Finnish cooperation. ITAR-TASS reported that KHRISTENKO and LIPPONEN discussed the financing of projects within the framework initiative. According to KHRISTENKO, the expansion of the area, by which Russian gas is delivered to Europe meets the interests of Russia and of the whole of Europe. He said that the existing gas transportation routes—across Ukraine, as well as across Belarus and Poland—~~together with the North European gas~~

pipeline complement each other, "without being an absolute alternative to each other."

#### **Economy**

|  |
|--|
| <p><b>Ruble = 29.55/\$1.00 (NY rate)</b><br/> <b>Ruble = 29.57/\$1.00 (CB rate)</b><br/> <b>Ruble = 26.30/1 euro (CB rate)</b></p> |
|--|

#### **EBRD In Talks To Buy Stake In Vneshtorgbank**

- The European Bank for Reconstruction and Development (EBRD) and Russia are in talks on the EBRD buying a stake in the country's second biggest bank, *Vneshtorgbank* (VTB), a government official said today. "*Vneshtorgbank* management is considering a proposal by the European Bank for Reconstruction and Development on a purchase of a stake. The Central Bank has now submitted the issue to the cabinet," a government source told Reuters. He said the stake amounted to 20 percent and the EBRD had offered \$300 million for it. The Central Bank, which has promised to sell its stakes in commercial banks by 2003, owns 99.9 percent of VTB, which mostly deals with foreign trade. VTB was still to undergo evaluation so that the government could calculate how much it was worth.

#### **Business**

#### **RusAl To Determine Romanian Refinery's Fate**

- *Russian Aluminum (RusAl)*, Russia's leading aluminum producer, will decide whether to shut down the *Oradia Alumina Refinery* in Romania, which it controls, because of high costs. Moscow industry sources said the *Oradia* plant is currently able to produce 180,000 tons of alumina per year at a cost of between \$230 and \$240 a ton, RosBusiness Consulting reported. Most of this is consumed by *RusAl*. *Oradia's* rated capacity is 240,000 tons. *RusAl* is paying about \$100 per ton more for *Oradia* alumina than if it bought it on the open market where alumina is fetching between \$120 and \$130 per ton. *RusAl's* analysts who examined *Oradia's* operation last year recommended against *RusAl's* involvement in running the plant. *RusAl* officials said they are planning to use river transport to cut rail costs associated with the *Oradia* operation. *Oradia* uses outdated processing equipment; the plant was built in 1976. This is obliging *RusAl* managers to import about 10 percent more bauxite for refining

into alumina than the industry norm. Russia Journal quoted *RusAl* spokesman Vadim AKCHURIN as saying, "No exact information is available about the cost of production there." But "in principle, the high cost of production and transportation makes domestic sales of *Oradia's* alumina in Romania more attractive for *RusAl*."

### EUROPEAN REPUBLICS

#### Ukraine To Fight Money Laundering

- Ukrainian President Leonid KUCHMA has ordered the Finance Ministry, Tax Ministry, and other officials to create money laundering watchdog agency. He called for concrete proposals on its powers and limitations within two weeks. Finance Minister Igor MITYUKOV said funds for the watchdog would be made available in the budget for 2002 and that he expected the unit to start work next year. The body will not be a law enforcement agency and therefore no special law is needed for its creation. Head of Ukraine's tax administration Nikolai AZAROV said, "Such a body has to be created to collect financial information and to clarify dubious transactions." The Berlin-based anti-graft group Transparency International has rated Ukraine as one of the 10 most corrupt countries. Ukraine is seeking to join the Paris-based international Financial Action Task Force (FATF) to fight criminal funding and improve its cooperation with other countries fighting against illegal funds and dubious transactions. AZAROV said that illegal capital in Ukraine affects the state budget and national security. The unofficial economy is estimated to be about the size of the official economy. Economists estimate that capital flight abroad reached \$10 billion to \$20 billion since 1991. Analysts say Ukraine also needs to implement legal, administrative, and tax reforms to fight money laundering and corruption, Reuters reported.

#### Ukraine Seeks \$140M WB Land Reform Loan

- Ukrainian Deputy Prime Minister Leonid KOZACHENKO said on October 16<sup>th</sup> the government is seeking a \$140 million from the World Bank in 2002 to help push through land reform. He told reporters after a meeting with World Bank officials that the government and the Bank are working on a joint credit program, which would allow Kiev to complete the distribution of land certificates to

6.5 million farmers. The government has already distributed certificates to more than one million farmers but around 5.3 million certificates still need processing, he said. The government said the distribution of land certificates is vital to create a new class of private landowners and quicken the reform of the ailing agricultural sector, once known as the breadbasket of the Soviet Union, Reuters reported. KOZACHENKO said the government needed 600 million hryvnias (\$112 million) to complete the certificate process. The World Bank funds would be used to train staff for the agricultural sector, create a nationwide system to account for all land plots in Ukraine, and launch an education campaign on land rights. KOZACHENKO hopes the parliament will adopt the credit program in February. This would allow the government to receive the funds in the first half of the year. World Bank officials have previously said Ukraine needs to adopt laws, which would allow the free sale and purchase of land and its use as collateral to attract foreign investments to its agriculture.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Ardzinba Comments On Joining Russia

- Abkhaz President Vladislav ARDZINBA stated that the Abkhaz republic is, "a de-facto and de-jure independent state." In an interview to the Nezavisimaya Gazeta, he expressed his readiness, "to solve the issue of equal intergovernmental relations with Georgia through negotiations." ARDZINBA said Abkhazia is seeking, "associate relations with Russia." ARDZINBA believes this will allow his country to become a member to the U.N. and other international organizations, implement its foreign policy and domestic politics together with Russia, enjoy common currency and customs regulations, and jointly protect its border. ARDZINBA noted that, "there is no alternative to the Russian peacekeeping force, because Russia is a state genuinely interested in stability in the region which [Russia is] capable to ensure." Commenting on the Georgia's efforts to internationalize the peacekeeping contingent, ARDZINBA stated that it reflects Georgia's "intention to attract the international contingent under the NATO aegis which will solve the Abkhaz problem by a Kosovo or Bosnia scenario."

#### Turkey To Replace Russian Peacekeepers?

- Former Georgian defense minister Tengiz KI-

TOVANI expressed concern that the Russian peacekeepers in the zone of the Georgian-Abkhaz conflict will be replaced by the Turkish troops. "Turkey is showing an increased strategic interest to Abkhazia, which is not in line with the Georgian national interests, thus [we] should not allow Turkish troops in Abkhazia," KITOVANI told the Prime News Agency. He said that the Russian military withdrawal is not possible without the consent of Abkhaz officials, even though the Georgian parliament passed a resolution terminating the mission of the Russian peacekeepers. Everything will depend on political will of Russian President Vladimir PUTIN, he noted. KITOVANI believes that if the political settlement to the Georgian-Abkhaz conflict is not achieved, more skirmishes between the Abkhaz troops and Georgian-Chechen gunmen will likely to occur. He accused the Georgian officials of transferring the North Caucasus gunmen to Abkhazia. According to KITOVANI, the main purpose of the gunmen was to instigate strikes against the Russian peacekeepers. This would not have happened if the U.S. had changed its position toward terrorism after September 11<sup>th</sup> attacks, he concluded.

#### **Israeli Border Guards End Visit To Georgia**

- A delegation of Israeli border guards ended their four-day visit to Georgia on Saturday. During the visit, the delegation led by the commander of the Israeli border troops, Yaacov GANNOT, met with the chairman of the Georgian State Border Guard Department, Lieutenant-General Valery CHKHEIDZE, to discuss cooperation between the two countries in the field of border protection. The delegation also visited several Georgian border guard outposts, a mobile motorized unit, a border guard training center in Lilo, the aircraft plant in Tbilisi, and the 2<sup>nd</sup> division of border troops stationed in Poti on the Black Sea, the press center of the State Border Guard Department told ITAR-TASS. GANNOT expressed the "readiness to render assistance to Georgian border guards."

#### **Georgia-Armenia To Discuss Bilateral Issues**

- Georgian President Eduard SHEVARDNADZE arrived in Armenia today on a two-day official visit to discuss bilateral cooperation. SHEVARDNADZE held extended talks with Armenian President Robert KOCHARYAN, who met him at the international airport of Zvartnots. He will also meet with the

Armenian parliament, chairpersons of the standing commissions, factions and deputy groups.

Ahead of SHEVARDNADZE's visit, KOCHARYAN said Armenia is closely watching the development of military cooperation between Georgia and Turkey. ITAR-TASS reported KOCHARYAN as saying, "The present scope of cooperation does not worry us although it doesn't make us happy either for reasons that are well understandable." Each country has a right to choose partners for cooperation, he said, but at the same time the depth of relations between Armenia and Georgia, the logic of historical ties between them and their peoples presuppose that they will not build their relations with third countries to the detriment of each other. KOCHARYAN noted that Georgia's interest in joining NATO is an "internal matter." He said that there should be no line of confrontation in the South Caucasus. The Armenian President stressed the Russian presence in the Caucasus is a stabilizing factor. "The South Caucasus has always been very sensitive to changes in the balance of force both inside the region and outside it," he said adding that, "sharp fluctuations in the balance of force built over decades are simply dangerous, and the process should develop in an evolutionary way." He noted the Russian military base in Georgia's predominantly Armenian-populated southern district of Javakheti is a guarantee of regional security and the sole source of survival for much of the district's population, RFE/RL Newline reported. KOCHARYAN said the question of closing that base must be resolved by Moscow and Tbilisi alone.

#### **Kocharyan Comments On NK Settlement**

- Armenian President Robert KOCHARYAN said that the more Russia is involved in the Nagorno-Karabakh settlement efforts, the more chances there will be for success. As a co-sponsor of the Organization for Security and Cooperation in Europe (OSCE) Minsk Group, "Russia pursues an objective policy," he told ITAR-TASS on Monday. He believes that, "at this stage of the Karabakh settlement process, the existing format of the OSCE Minsk Group remains to be most acceptable." On Georgia's role, KOCHARYAN said that its, "active participation in regional projects and the creation of a security system in the South Caucasus is indirect assistance to the settle-

ment of the conflict.” The President noted that his direct contacts with Azerbaijani President Geidar ALIYEV, “have provided a good basis for comparing approaches and identifying points,” where their positions converge. In his view, the effectiveness of such meetings now “is not high” and at the present stage of the peace process, “the center of gravity has shifted to the co-chairmen. Our direct dialogue may resume as may be necessary although we are trying to use all opportunities provided to us by international forums.”

#### **Uzbek Not To Reopen Afghan Border Bridge**

- Uzbek Foreign Minister Abdulaziz KAMILOV said Monday that for security reasons Uzbekistan has no plans to reopen a border bridge to allow humanitarian aid into Afghanistan. The Friendship Bridge in the southern city of Termez, around 40 miles from the Afghan city of Mazar-i-Sharif, is the main border crossing between the two states. This was the route taken by the Soviet army when they marched into Afghanistan in 1979. He noted that aid might be flown or ferried to Afghanistan instead of opening the border bridge, Reuters reported. KAMILOV said, “We already have experience providing this kind of assistance and we do have several options for delivering it.” He specified that aid could be sent across the Amu Darya River by ferry or flown in by helicopter. Uzbekistan has allowed the U.S. to use its airspace and airbase for search-rescue and humanitarian purposes only.

#### **Uzbek-US To Clean Up Anthrax Stockpiles**

- Uzbekistan and the U.S. have agreed to clean up and tighten controls on stockpiles of anthrax and other biological weapons, the Associated Press reported. U.S. Ambassador John HERBST initialed the agreement on Monday in Tashkent. The U.S. has reached similar accords with Russia, Ukraine, and Kazakhstan. One U.S. official pointed out that the hazardous material buried on an island in the Aral Sea in 1988 is considered an environmental threat. The U.S. has also expressed concern that hazardous material could be seized by or sold to

terrorists. In addition, Washington has pledged to help Tashkent upgrade security at its research institutes and other sites where deadly germs and toxins are stored. In an interview with The New York Times, Sodyq SAFAEV, Uzbekistan’s Deputy Foreign Minister, who is visiting Washington this week, called the agreement both timely and wise. “Today everyone understands how important it is to combat biological weapons,” he said. He stressed that the anthrax on the island threatened the world because, “not only rats and animals might be able to reach this material, but terrorists. All countries should help rid us of this potential threat.”

Russia continues to live with the fear of anthrax contamination, even though “super bug” strains developed by the Soviet Union are kept under lock and key. At its height, 70,000 people worked on the Soviet germ warfare program, including 9,000 scientists and engineers who turned anthrax, the plague and smallpox into weapons of mass destruction, according to U.S. expert. At the start of the 20<sup>th</sup> century, Russia recorded 60,000-70,000 cases of the skin sores in cattle each year, and 14,000-20,000 cases in people, 20 percent of which ended in death, said Benjamin CHERKASSKY, Russia’s premier anthrax specialist. Poor hygiene and the collapse of veterinary clinics with the fall of the Soviet Union mean that farm and leather industry workers still contract the illness today, he told Reuters. Germ warfare experts see no connection between the U.S. anthrax cases and the Soviet strain. “If the anthrax [being spread in America] had been a real [biological weapon] strain, then I think that the Capitol Hill staff would have all been placed in emergency wards and would have died within two days,” independent Russian biological weapons expert Lev FYODOROV said. “The biological weapon strain of anthrax is potent —100 percent death rate.” Separately, BUSH administration officials said the Pentagon had approved a project to make a potentially more potent form of anthrax bacteria to see if the vaccine the U.S. intends to supply to its armed forces is effective against that

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.