

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

New US-Russian Relations

- US President George W. BUSH and Russian President Vladimir PUTIN are breaking new ground in bilateral relations, during this time of world-wide concern over terrorism. US and Russian relations have not been this close since World War II. The initial contact to BUSH by PUTIN in the hours after the terrorist attacks in New York City and Washington and his order to Russian troops to stand down marked the beginning of this new thaw. Through a series of diplomatic meetings between US Deputy Secretary of State Richard ARMITAGE and Russian Deputy Foreign Minister Vyacheslav TRUBNIKOV in Moscow as well as parallel meetings with US Secretary of State Colin POWELL and Russian Foreign Minister Igor IVANOV, the US and Russia were able to reach an agreement on the level of cooperation Russia would provide to the coalition fighting terrorism. ARMITAGE in Moscow had asked Russia for their help. IVANOV in Washington responded by saying, "We're inclined to be helpful," The Washington Post reported. The real push for a commitment came on September 22nd, when BUSH broke away from a National Security Council meeting at his Camp David retreat to contact PUTIN, who was meeting with his top military, security, and intelligence chiefs in his summer residence in the resort of Sochi. PUTIN had gathered his men to "meet and look in their eyes...to see everybody is ready to agree and see that everybody is ready to be creative," Federation Council deputy Mikhail MARGELOV said. Top officers in the Russian military had balked at helping the US, let alone offering it use of airbases in Central Asia. Michael A. MCFAUL of the Carnegie Endowment said, "The phone call made a big impression on [PUTIN]. He decided to go with his gut. He decided to go with the West."

After this warming turning point, PUTIN announced the actions and assistance Russia would provide to the anti-terrorist effort. He also issued a 72-hour ultimatum for Chechen rebels to surrender and begin peace talks. The US cautiously responded in kind by supporting PUTIN's call for peace talks. White House spokesman Ari FLEISCHER said that BUSH shares PUTIN's concerns about the role of "international terrorists" in Chechnya and called on the Chechen leadership to sever its connections to groups like Osama BIN LADEN's al-Qaeda network. This give-give relationship is still fragile and new. MCFAUL said, "Potentially, this could be the real end of the Cold War." MARGELOV said, "This is a second change of the same value as 1991 to change our relations and the way we see each other."

Comment: This new powerhouse alliance, however, could fall apart at any point. Russia could derailed this partnership by expanding its war against Chechen rebels into Georgia, a nation strongly supported by the West. The US could jeopardize Russia's support of the coalition's cooperative efforts by linking BIN LADEN to Iraqi President Saddam HUSSEIN and expanding the target of its strikes to Baghdad. Russia has long objected to US sanctions against Iraq, which owes Russia millions in debts. It should be noted that shortly after the attacks MARGELOV, who is described as being close to PUTIN, accused HUSSEIN of being the mastermind behind the attacks.

Russia Airliner

Explodes Over Black Sea

• Today a *Sibir Airlines'* TU-154 jet, carrying 66 passengers and 11 crewmembers on a regularly scheduled flight to Novosibirsk from Tel Aviv, plunged into the Black Sea, the Associated Press reported. An Emergencies Ministry official in Novosibirsk said the crew were all Russian but that most of the 65 or so passengers were Israeli citizens. An Armenian pilot in the area reported seeing the plane explode and disintegrate into the sea. Garik OVANESYAN, the flight director of *Armenian Airlines*, said he had spoken with the eyewitness pilot who said he saw flames, an explosion and then fragments of aircraft plunging toward the water. A second explosion occurred from the debris in the sea. The cause of the crash remains unclear. Federal Security Service (FSB) director Nikolai PATRUSHEV confirmed there was a mid-air explosion. A plane was sent to the site of the crash from Gelendzhik and a rescue ship is on the way, Interfax reported. Rescue equipment, emergency officials, and FSB investigators are also flying to the crash site. A source at the US Defense Department suggested that the plane was downed by a SAM-12 (or an S-200) ground-to-air missile during Ukrainian military exercises, *CNN* reported. The US official noted that Ukraine had been test-firing live surface-to-air missiles from the Crimea at the time. Ukraine has denied it downed the plane. Ukrainian military spokesman Konstantin KHIVRENKO said, "Neither the direction nor the range [of the missiles] correspond to the practical or theoretical point at which the plane exploded. So the Ukrainian military has no involvement, either practical or theoretical, in this accident." He added that the missiles used in the exercise do not have the required range to hit the airplane. Emergency Ministry spokeswoman noted the sea was 1,000-meters (3,000 feet) deep where the plane went down. Russia said that it cannot rule out that the explosion could be terrorist related. Conflicting reports state that the plane stopped over in Bulgaria, picking up six additional passengers. The flight was part of a regularly scheduled return flight every Thursday from Tel Aviv. However, a Sibir airlines official in Novosibirsk said the plane would not normally have passed over the Black Sea and appeared to have been off course. "Why should they have been given such an air corridor?" she asked. Israel has suspended all outgoing flights from Tel Aviv.

Economy

<p>Ruble = 29.48/\$1.00 (NY rate) Ruble = 29.51/\$1.00 (CB rate) Ruble = 27.02/1 euro (CB rate)</p>

Finance Ministry To Review State Debt

• Russia's Finance Ministry will consider a strategy for managing state debt, including setting up a debt management agency, on October 16th, a Finance Ministry source said. The strategy will set out the principles of managing domestic and foreign debt, state assets, and liabilities, the early analysis and prevention of risks and smoothing out a 2003 foreign debt payment peak, the source told Reuters. Russia faces \$19 billion in foreign debt payments in 2003, after \$14 billion this year and next. Analysts have suggested the new agency would buy out Russia's debts from the market. The source said the Finance Ministry would like the agency to be a state company able to open accounts. "It is proposed that it be set up on the basis of *Vneshekonombank (VEB)*, which has great potential, in personnel as well as in information," the source said. *VEB* is the government's foreign debt agent. Under a planned banking restructuring scheme, *VEB* is to be split into a purely banking entity and a council to review the debt. The source said there were several technical questions to be solved, including whether the agency would become *VEB's* legal successor as many agreements had been signed in its name. "Creditors may be unhappy by the appearance of a new structure."

Business

Gazprom-Rosneft To Develop Oil Deposits

• Chairman of the *Gazprom's* board Alexei MILLER and *Rosneft* president Sergey BODANCHIKOV signed an agreement on the joint development of five large oil deposits in the Yamalo-Nenets autonomous region and on the shelf of the Barents Sea today. This information was reported in a joint statement obtained by RosBusiness Consulting. *Rosshelf*, a subsidiary of the Russian gas monopolist, and *Rosneft's* subsidiary Rosneft-Purneftgaz, that own licenses for the development of these five deposits, are going to create a joint venture for the implementation of the agreement. The total volume of these deposits was estimated at 380 million tons of oil and 4.3 trillion cubic meters of gas.

EUROPEAN REPUBLICS

Lithuanian CB To Tighten ForEx Rules

- Lithuania's Central Bank today said it will tighten currency exchange rules to prevent banks imposing excessive fees on transactions as the country prepares to peg the litas to the euro next year. Head of the Central Bank's monetary policy department Raimondas KUODIS told Reuters, "At the start of next year we will face two parallel processes—the introduction of euro cash in Euroland on January 1st, followed shortly by a switch of the litas peg from the dollar to the euro in Lithuania." He added, "The second process is done on our initiative and we feel we need to take measures to smooth the process as amounts of currency exchange operations will increase at that time." The litas is currently pegged to the dollar at a rate of four-to-one, under a currency board arrangement. The country plans to shift the peg to the euro on February 2nd to help its drive to integrate into the European Union. "The bank's board decided to impose a one percent fee ceiling for litas/dollar cash exchange operations starting December 1st," KUODIS said. Currently, the fee ceiling for dollar/litas exchange in cash is two percent, which allows banks to trade the dollar within a 3.92/4.08 litas band. The one percent currency exchange fee ceiling will also apply to euro/litas cash exchanges when the litas is re-pegged to the euro in February 2002, KUODIS said.

Kasyanov To Visit Ukraine And Moldova

- Russian Prime Minister Mikhail KASYANOV begins a two-day working visit to Ukraine and Moldova today. A source in the governmental staff reported to journalists that the main topic of negotiations between the Russian top official and authorities in Ukraine and Moldova will be gas problems. Ros-Business Consulting said they will discuss the work of a gas pipeline that passes from Russia through the territories of Moldova to Europe, issues on electrical industry, and agricultural cooperation. In addition, they will discuss possibilities for an increase in traditional exports from Moldova, such as wine, fruit, and cognac. KASYANOV may also raise a question on the fate of Russian military warehouses that remained in Moldova after the withdrawal of Russian troops.

On his arrival in Kiev, KASYANOV said that Russia sees its partnership with Ukraine as strategic. He

voiced confidence that an inter-governmental accord on the restructuring of Ukraine's gas debt to Russia could be signed today. Ukraine is expected to increase its exports to Russia by \$1 billion as compared to the last year, KASYANOV said. Russia already accounts for 50 percent of Ukraine's exports, he said. Russia's exports to Ukraine in 1999 were \$2.5 billion larger than Ukraine's to Russia. Ukraine built up its exports by 45 percent in the first half of this year, while Russia's to Ukraine decreased by five percent, Itar-Tass reported. KASYANOV said he was going to discuss problems in bilateral trade.

SOUTH CAUCASUS & CENTRAL ASIA

PACE Recommends Georgian Reforms

- Parliamentary Assembly of the Council of Europe (PACE) suggested that Georgia start reforms in its Interior Ministry and the Prosecutor General's office beginning in January 1, 2003, said Elena TEVDORADZE, the chairman of the parliamentary committee on human rights. She participated in last week's PACE session in Strasburg. According to her, the Council of Europe stated these goals for Georgia earlier. However, this is the first time the Council of Europe has given Georgia a specific deadline for the reforms to begin. By 2003, she said, Georgia will have to pass a number of laws that will form the basis for upcoming reforms.

Two Deputies Resign From CUG

- On Tuesday night, two Citizens Union Party of Georgia (CUG) deputies, David MAGRADZE and Zaza DVALI, announced their resignation from the faction. In his letter to the chairman of the faction, MAGRADZE stated that he is not going to join any other faction in the parliament. He will remain politically independent. DVALI did not comment on his resignation. The break up of the parliamentary majority began after Georgian President Eduard SHEVARDNADZE announced his resignation from the post of the chairman of CUG. On Tuesday, a new faction called Alliance for New Georgia was formed within the parliamentary majority.

Rus-Armenian Troops On Joint Combat Duty

- Russian and Armenian Defense forces have been put on permanent joint combat duty at Gyumri military base today. Russia's Army General Staff Chief General Anatoly KVASHNIN attended the opening ceremony. An Armenian Defense Ministry

spokesman told Itar-Tass that the forces comprise Armenia's air defense troops, an air grouping and an anti-aircraft missile regiment from a Russian military base. The joint forces are seen as an important part of the Commonwealth of Independent States (CIS) collective air-defense system which was set up in 1995. Russian Air Force Commander Anatoly KORNUKOV said in May that, "the joint combat duty has only a defensive character, it is not directed against anybody and does not threaten anybody." He stressed that accords between Russia and Armenia are called to secure inviolability of the two countries' borders and of Russia's military sites in Armenia. Russian Defense Minister Sergei IVANOV highly praised the Armenian military's part in live fire practices during his visit to Yerevan.

Tajikistan Arrests Four Islamic Radicals

- Officials in Tajikistan arrested four men belonging to a radical Islamic group for preaching religious intolerance and attempting to undermine Constitutional rule. An Interior Ministry spokesman said the four activists from the Khizbi Tahrir movement had been arrested over the past three days. "We seized religious leaflets and books calling for the overthrow of the existing rule," the spokesman told Reuters. Khizbi Tahrir, which also operates in neighboring Uzbekistan, aims to topple governments in former Soviet Central Asia and create a single Muslim state in the sprawling region bordering Russia and China. Tajik security officials say there may be as many as 2,000 Khizbi Tahrir activists in Tajikistan, hiding mainly in its north near the Uzbek border. Uzbek officials have accused the Taliban government in Afghanistan of offering assistance and training to Islamic rebels, operating Central Asia. Tajikistan lost tens of thousands of people in the 1992-1997 civil war between Islamic militants and the Moscow-backed secular government. After a peace accord, a coalition government has been trying to maintain stability. Russian troops patrol its volatile border with Afghanistan.

Oil Companies Continue Work In Kazakhstan

- Royal/Dutch Shell* and *British Petroleum* said on Tuesday they were sticking to their plans in Kazakhstan despite worries over security in Central Asia after terrorist attacks in the US and the drop in oil prices by 20 percent since the attacks. Oil-rich Kazakhstan shares borders with Turkmenistan and Uzbekistan, both of which border Afghanistan. The ruling Taliban in Afghanistan has failed to hand over suspected terrorist mastermind Osama BIN LADEN. Martin FERSTL, President of the *Shell* companies of Kazakhstan, said on the sidelines of the KIOGE energy conference in Astana, "Investment changes have not been made, investments go ahead as before, although we have increased security measures on the *CPC [Caspian Pipeline Consortium]* pipeline," the *Russia Journal* reported. Russia has also expressed a continued interest in the transit of Kazakh oil and gas through its territory, Russian presidential special envoy for Caspian settlement Viktor KALYUZHNY said. He said that Russia gives priority to the CPC, which transports oil from the Tengiz oil field in Kazakhstan to the sea terminal in Novorossiisk, as well as to increasing the capacity of the Atyrau-Samara oil pipeline. "Both projects are graphic examples of cooperation between our countries and of the complementariness of our economies, and guarantee, at least in a medium-term perspective, the tapping of Kazakhstan's strategic oil potential," he said. Guy Hollingsworth, president of *Chevron Eurasia* told Reuters, "We have contingency plans, we look at scenarios for all different oil prices, high prices, low prices." He stressed, "We don't see prices going low enough to stymie development here in Kazakhstan." He further pointed out that *Chevron* planned to move ahead with its investment in the company even if oil prices fell further. *Chevron*, owner of 50 percent of the *Tengizchevroil* joint venture developing the vast Tengiz oilfield, was the first US major to enter Kazakhstan after the fall of the Soviet Union.

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