

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Russia-NATO To Sign Cooperation Pact

- Russian and NATO lawmakers are expected to sign a cooperation pact today in Ottawa. The agreement establishes the framework for cooperation between Russia's parliament and the consultative NATO Parliamentary Assembly. Rafael ESTRELLA, the assembly's president and a Spanish Socialist lawmaker, said the move was significant amid increasing antiterrorism cooperation between Russian President Vladimir PUTIN and the West since the September 11th attacks. He told Reuters on the sidelines of a NATO Parliamentary Assembly meeting in Ottawa, "My feeling is that Russia is reconsidering its role in Europe, they are more assertive now, they are finding they are no longer the outsider and have a role to play in European security and they want to play it." Another official said the agreement was further confirmation, "the issue of Russia eventually joining NATO is on the table." PUTIN has softened his opposition to NATO expansion, claiming that the organization must reform to focus politically rather than militarily. ESTRELLA said, "One of the most important elements of this document is that we have managed to identify our areas of differences and we have gone a long way ... now we can discuss our differences on strategic concept of NATO...We are understanding what the other thinks and that is a big step." The NATO assembly meets twice a year to discuss political, technical and security issues affecting the alliance. Cooperation between the NATO assembly and Russia's parliament, began in 1991 when Russia became one of the 17 associate members. Associate countries can participate in debates, make amendments to resolutions but cannot vote.

Kovalyov Given Nine Year Sentence

- Former Russian justice minister Valentin KOVALYOV was handed a nine-year suspended jail sentence Wednesday for embezzlement and bribe taking, Russian news agencies reported. KOVALYOV, a justice minister under Russian President Boris YELTSIN in 1995, was charged with embezzling over one billion old-value rubles (about \$34,000 at today's rate) from a public foundation, which he set up. About three-quarters of this was funneled into KOVALYOV's private bank accounts, Itar-Tass news agency said. The former minister's aide, Andrei MAKSIMOV, who ran the foundation, was given a six-year suspended sentence. In suspending the sentences, the court took into account the poor state of their health and that they had spent more than one year in custody, Reuters reported. KOVALYOV resigned in July, 1997 after a newspaper printed grainy photographs of a video film purportedly showing him with scantily clad women in a sauna. KOVALYOV, a lawyer and former Communist Party apparatchik, said the tape had been faked, but stepped down in order to try to clear his name.

Economy

Ruble Slips Against The Dollar

- The ruble slipped against the dollar today and is expected to stay in a narrow band over the next few days, driven mostly by client orders, dealers said. After morning trade, the Central Bank kept its

official next-day rate at 29.52 rubles, unchanged for the third straight session. But in later interbank trade, the currency slipped to 29.5250/29.5350 rubles from 29.51/29.52 at the open. "The Central Bank did not intervene in the market and it seems this level represents the natural balance of demand and supply on the market," said Dmitry SOLOVYOV, a trader with *Commerzbank*. Traders said they expected a further gradual ruble depreciation this week with banks carefully testing to find the next ruble support level, Reuters reported. Dealers said the Central Bank seemed comfortable with the current ruble level and expected it to stay out of the market unless the ruble started to fall too quickly. The 2001 budget target for the ruble is an average rate of 30 rubles to the dollar this year. The Central Bank tends to intervene to stop the ruble falling or rising sharply.

<p>Ruble = 29.49/\$1.00 (NY rate) Ruble = 29.53/\$1.00 (CB rate) Ruble = 27.18/1 euro (CB rate)</p>
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IMF To Discuss Oil Impact With Russia

• International Monetary Fund (IMF) head Horst KOEHLER is to discuss the impact of recent oil price falls on Russia's macro-economic situation and other key issues during a visit to Moscow. However, the idea of new loans from the Fund to Russia, once the biggest borrower from the IMF, is not on the horizon. KOEHLER, making his first visit to Russia since taking up the IMF managing director's job, is to meet Russian President Vladimir PUTIN, Prime Minister Mikhail KASYANOV, and other top officials during his visit starting Wednesday. "The aim of the visit is to continue dialogue with the Russian leadership which the Fund's management has been doing regularly ever since Russia joined," Poul THOMSEN, IMF resident representative in Russia, told Reuters. "He [KOEHLER] will cover a broad range of issues from the current macro-economic situation, including the impact of the recent decline in oil prices, to prospects for Russian structural reforms and the priorities for reforms," he added. KOEHLER will also discuss policy options if, "there was a further major deterioration in the external environment," he said. Russia is heavily dependent on oil exports and a recent price slide rattled investors in Russian eurobonds and shares. However, the government has said it can manage its finances and meet debt repayments, even if the

price of oil falls above \$18.5 a barrel, compared with the current rate of \$21. The IMF noted that it is pleased with Russian reforms, implemented under PUTIN's ambitious program. Russia is planning growth this year of more than five percent after a record rise last year of 8.3 percent.

Business

Alfa-Nikoil To Invest In Mining

• *Alfa Group* and the *Nikoil* investment and banking group are going to invest \$20 million in the development of mining and smelting enterprises in the Primorye region of Russia, the *Vostok-media* agency reported referring to the *Dalpolimetal* mining and smelting works. In particular, the investment program provides for the construction of a new lead factory that will be able to produce 70,000 tons of high-grade lead and zinc oxide.

China Seeks Top Gas Co. For Pipeline

• China is courting three of the world's top gas companies, in the hopes of persuading them to build a 4,000-kilometer east-west pipeline. Chinese industry officials said *PetroChina* was hoping to bring on board *ExxonMobil*, *Royal Dutch/Shell Group* and Russia's *Gazprom* for the \$20 billion project, the largest in China's energy sector. The three giants have been vying for a stake in the pipeline, which will ship gas from the barren Xinjiang deserts in western China to the prosperous east coast, targeting a potential market of 12 to 20 billion cubic meters (bcm) a year, Reuters reported. One Chinese official said, "The ideal scenario would be a foreign consortium led by *Shell*, in which *ExxonMobil* has a smaller stake and *Gazprom* the smallest share." China is aiming to reduce dependence on polluting oil and coal and lift gas use to eight percent of the country's energy mix in 10 years from the current two percent. But officials said commercially minded *PetroChina* needed the foreign firms—all major gas players on a worldscale—to make the plan an economic success. "The strength majors have in management, technology and capital can help reduce the investment risks," said a *PetroChina* official. Officials said *PetroChina* was also keen to keep close links with *Gazprom*, the world's biggest gas producer, because China saw Russia as a more viable source of gas in terms of economics and security than Central Asia. China is eyeing supplies of some 20 bcm a year from the giant Kovykta field

in Siberia joining the West-East pipeline.

EUROPEAN REPUBLICS

Ruutel Sworn In As President

- Arnold RUUTEL, a former Communist who played a major role in Estonia's drive for independence, was sworn into the office of President on Monday. He replaces Lennart MERI, who was president from 1992 but constitutionally barred from a third term. After taking the oath of office, RUUTEL pledged to continue with Estonian goals to join the European Union (EU) and NATO. He also hopes to address the mistrust of government and to minimize the gap between the rich and poor, the Associated Press reported. Most Estonian live on monthly wages of \$230 or less. The president isn't involved in the day-to-day running of the country - a duty of the prime minister. He commands the military, helps form governments and is a key foreign envoy. Prime Minister Mart LAAR, who has called on the Communist Party to be declared a criminal organization because of its historical record, said he could work with RUUTEL. MERI urged all Estonians to support the new leader. RUUTEL has long renounced his Communist past. In a television interview, he said, "The word 'communist' and what I am all about have nothing in common." The new president is widely described as affable. He's quick to admit his shortcomings, which critics say include a lack of English crucial for wooing other world leaders and lobbying for Estonia's EU and NATO goals.

Lith. Gov't Approves 2002 Budget Outline

- The Lithuanian government approved Monday the outlines for the 2002 draft budget, which will have a financial deficit of 1.132 billion litas (\$283 million). The draft budget targets a fiscal deficit of 1.5 percent of gross domestic product (GDP), but the Cabinet must still meet Wednesday to finalize the state investment program before sending the budget to parliament. Finance Minister Dalia GRYBAUSKAITE told Reuters, "1.5 [percent of GDP deficit] is officially approved, but some ministers still want to check on the exact divisions between the lines of the investment program." According to the draft state budget, revenues for next year would total 8.725 billion litas, while expenditures would be

set at 9.857 billion litas. The budget is based on an economic growth forecast of 4.7 percent of GDP although GRYBAUSKAITE said the overall budget targets for next year would not be affected if growth differed from that estimate. "It might be 4.7, it might be 4.5. There is no direct link in Lithuania between GDP growth and the budgetary revenues... If growth is less... it will not have any impact on the budgetary revenues," she added. The Finance Ministry has said it expects GDP to grow between 4.5 and 5.1 percent this year. The government plans to increase defense spending by 1.84 billion litas in 2002 in hopes of joining NATO. The increase will take military spending next year to two percent of GDP versus 1.95 percent budgeted this year. Earlier this month the International Monetary Fund (IMF) agreed to a Lithuanian request to increase the fiscal deficit limit to 1.5 percent of GDP from 1.3 percent to increase investment spending by 90 million litas.

Rus-Moldova To Sign Gas Agreement In Dec.

- In talks between Russian Prime Minister Mikhail KASYANOV and Moldovan President Vladimir VORONIN, the sides agreed to conclude an inter-governmental agreement that will help Moldova to settle its outstanding gas debt to Russia by December 1st this year. KASYANOV, following talks in Kishinev, said that Russia will create favorable conditions for Moldova to pay for its current gas imports from Russia. Moldova will pay \$60 for one thousand cubic meters in cash. Twenty dollars from each 1,000 cubic meters will be paid by installment in the next three years. Thus, Moldova will be able to buy gas at \$80 for one thousand cubic meters just like other Commonwealth of Independent States (CIS) states. The Russian Prime Minister added that Russia will allow Moldova to pay its \$800 million gas debt gradually over the next 10 years. The *Moldovagaz* state company is expected to issue securities to this sum.

SOUTH CAUCASUS & CENTRAL ASIA

Hostilities in Abkhazia Aggravate

- On Monday night, a skirmish reportedly broke out between Abkhaz troops and "Georgian-Chechen" gunmen near the village Naa, 15 kilometers away from Sukhumi, according to Abkhaz Deputy Defense Minister Vyacheslav ANKVAB. Today at 5:10 am, some unidentified helicopters bombed Lata and

Chkhalta villages in the Kodori Gorge of Abkhazia. At 6 am, unidentified fighter jets dropped bombs outside the village of Sakeni and left in the direction of the Georgian-Russian border. Bombs were also dropped near Omarishari village, the press service of the Georgian Border Guard Department told the Prime News Agency. According to ANKVAB, at least five Abkhaz and Armenian nationals died and some were wounded as a result of bombing. The exact number of casualties, places, and circumstances where the casualties occurred are remain unverified.

Later today, Abkhaz President Vladislav ARDZINBA ordered a comprehensive military mobilization after some 400 to 500 gunmen violated the territory of Abkhazia. As Vice President of Abkhazia Valery ARSHBA told gazeta.ru, "Abkhazia saw a massive aggression from Georgia. Hundreds of Chechen, Georgian, and Arab terrorists intruded the republic. They try to capture our villages and they kill peaceful people. We will do anything to destroy the terrorists." According to gazeta.ru, the Abkhaz government believes that the Georgian-Chechen invasion was staged by the Georgian secret service.

Despite the mobilization of the Abkhaz Army, Georgia is not retaliating. Georgian Deputy Defense Minister Gela BEZHUASHVILI told Prime News Agency, Georgia "is not launching a war against Abkhazia." Georgia's Defense Ministry is not engaged in the military acts unfolding in Abkhazia, he added. He said that the Kodori Gorge villages were bombed by either Abkhaz or Russian forces. It will be "proved," he said. According to him, Abkhazia does have "some air strike force." However, the border guards intercepted fighter jets, which do not belong to the Abkhaz Army. "It's absurd to accuse the Georgian aviation of bombing the Kodori Gorge." If Russia's involvement in the bombing is proved, it will be internationally announced as the violation of Georgia's sovereign territory. BEZHUASHVILI added that Russia is not only determined to keep its military presence in Gudauta, but also increase military presence in Georgia in general. Deputy Chairman of the Georgian State Border Guard Department David GULUA told journalists that the fighter jets bombing the Kodori villages were Russian. BEZHUASHVILI called on the Russian Embassy in Georgia to

stop spreading disinformation accusing Georgia of bombing the Kodori.

However, **Intercon** sources report that nearly one week ago, Russia delivered 3 Su-25 attack aircraft to the Babushera Abkhaz air force base. Previously, the base had only 2 Mi-8 MTV high altitude troop helicopters, 3 Mi-2 observation helicopters along with 3 L-39 training jets for the Su-25 and one MiG-21, no in flying condition.

Commenting on the bombing, Russian Defense Minister Sergei IVANOV said that the Georgian government, "lost control over the situation, or manipulates the terrorists to meet its goals." Moreover, he said, "Moscow does not see the Georgian government's determination to cooperate in fighting against the terrorism." Leader of the Union of Right Forces and former Deputy Prime Minister of Russia Boris NEMTSOV stated today that a peaceful settlement to the Georgian-Abkhaz conflict is possible only if Georgia "on its knees" asks Russian President Vladimir PUTIN to keep Russian military troops in Abkhazia. He told gazeta.ru that "Russian peacekeepers in Abkhazia are the sole guarantors of peace." While President Eduard SHEVARDNADZE relies on a possible NATO membership, NEMTSOV stated, "Georgia will be torn apart." NEMTSOV is confident that the Georgian government, "covers the terrorists." Instead of negotiating with Russia, he said, Georgia is accusing Russia of interfering into Georgia's domestic affairs.

As gazeta.ru reported while Russia and Georgia diplomatically argue, Abkhazia is getting ready for war and the comprehensive mobilization is only a part of it. Today, the Abkhaz Parliament has passed an official address to the UN Secretary General accusing Georgia of disrupting the process of peaceful settlement of the Georgian-Abkhaz conflict and starting a large-scale military operation. According to the Abkhaz statement, although the Georgian government openly declares it is fighting against the terrorism, in reality it provides its territory for training the terrorists. Gazeta.ru concluded Georgia might end up on the list of countries which harbor terrorism and will be bombed by the US military in the aftermath of the September 11th attacks.

According to a Georgian Foreign Affairs Ministry statement, "The violation of the airspace of Georgia and the bomb attack on its territory is viewed by the Georgian government as an infringement on its sovereignty and an attempt by some forces to subvert the process of the peaceful settlement of the conflict in Abkhazia, Georgia. The Government of Georgia deems it necessary to remind the international community that the bomb attacks against Georgia have repeatedly taken place in the past as well, but regrettably, in spite of the protest expressed by Georgia, these facts were dismissed without appropriate reaction." It noted that these actions are being carried out during a heightened anti-Georgia propaganda campaign launched by Russian media. "There is no doubt that Georgia is facing a large-scale and well-planned provocation. If this provocation is not curbed immediately, it may well grow into the aggression aimed against the Georgian state...The Georgian Government expresses its resentment and protest at the above mentioned incident and appeals to the international community, United Nations, and OSCE to take all necessary measures to firmly condemn such provocative actions in order to prevent the further deterioration of the situation in Georgia."

UN Observer Helicopter Crashes In Kodori

- An Mi-8 UN observation helicopter flying from Sukhumi to monitor the Kodori Gorge at the request of the Georgian government exploded and crashed into Sugar Head Mountain 20 minutes into its flight on Monday. Alexander GEORGE, an officer for the UNOMIG (UN Observer Mission In Georgia), said, "We can confirm that a helicopter was shot down by a missile." However, a Russian observer said he heard no missile and therefore one theory being pursued is that the helicopter had fatal engine problems. The UN team was heading to hold settlement talks after monitoring the Gorge. The Abkhaz authorities warned the observers not fly below a specific altitude. The helicopter flew below 500 meters and outside the authorized air corridor over territory controlled by Abkhazia. All nine pas-

sengers, including five observers, are confirmed to be dead. The observers were from Switzerland, Poland, Germany, Russia and Hungary. The helicopter was on a regular twice-weekly observation flight to the Kodori Gorge. The UN had only recently resumed monitoring of Kodori Gorge, following a hostage crisis last year. The Russian statement said the helicopter was shot down by a "bandit group" and said it had warned Georgia repeatedly about the group, using the incident to reiterate its claim that Georgia lets Chechen rebels take refuge on its territory. Abkhaz authorities have made the same claim, the Associated Press reported. "The policy of appeasement and tolerance conducted by the Georgian authorities toward the terrorists once again ended in tragedy," the Russian Foreign Ministry said. Georgian Defense officials responded that the helicopter was flying outside of the territory controlled by Georgia on the Abkhazian demarcation line above the position of a Russian peacekeeping base near Amtkel. Both sides continue to blame the other for the incident.

Georgia Extradites 13 Russians

- The Georgian general prosecutor's office has extradited to Russia 13 Russian citizens, who illegally crossed the Russian-Georgian border to Georgia's territory on June 6th, Itar-Tass reported. The decision to extradite the 13 people was taken after the prosecutor's office received from Russia additional documents necessary for the procedure. Officials from the Russian general prosecutor's office delivered the documents to Tbilisi last week. The armed group of 13 people crossed the border from Russia's Kabardino-Balkaria and reached a mountainous area in Georgia, where Georgian border guards blocked and disarmed the group. A Tbilisi court sanctioned a three-month detention for the people, and then the term was prolonged for one month more. The Georgian Security Ministry investigated the case.

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