

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Putin Says GRU Will Expand

• Russian President Vladimir PUTIN, a former KGB agent stationed in Germany, on Monday visited Russian military intelligence headquarters (GRU). Russian news agencies reported that PUTIN predicted the agency will grow, "many times," in the future. RFE\RL Newsline reported that PUTIN said the GRU had already played a major role in the war in Chechnya. The GRU has been accused of meddling in many of the former Soviet republics, particularly in Georgia's separatist area of Abkhazia. The GRU is one of the remaining Soviet secret services that has avoided reform since 1991.

Russian Muslims Angered At U.S. Airstrikes

• Nafigulla ASHIR, a co-chairman of the Russian Mufti Council, which groups Islamic clerics from across Russia, expressed his anger against the U.S. air campaign against Afghanistan. He said, "It's a criminal war. I think Americans will suffer a failure there, as in Vietnam. It's futile to wage war against Allah," the Associated Press reported. ASHIR warned the Kremlin that continued Russian support for the anti-terror campaign could cause divisions in Russia. The U.S. and Russian officials have repeatedly insisted that the campaign is aimed at terrorists, not Muslims. ASHIR said it would be justified for any of Russia's 20 million Muslims to take up arms and help the Taliban militia, which the U.S. has targeted for sheltering terrorist suspect Osama BIN LADEN. ASHIR said some Russian Muslims may have already joined up. President Vladimir PUTIN's backing of U.S.-led coalition against terrorism has won it closer political and economic relations with the West, but some have warned it comes at the cost of Russian predominately Muslim regions. Muslims constitute

13 percent of the country's population. "The events that are happening will predetermine Russia's future as either the future of a unified country or the future that befell Yugoslavia and the USSR," ASHIR said. Russia's chief mufti, Talgat TADZHUDDIN, on Monday blasted U.S. plans to continue bombings throughout the Muslim holy month of Ramadan. "By failing to respect religious sentiments of others Americans are provoking a new series of terror attacks against themselves," he told the Interfax news agency.

Fighting Continues In Chechnya

• Despite planned peace talks between Chechen President Aslan MASKHADOV's senior aide and Russian President Vladimir PUTIN's Southern Russia envoy, fighting continued this weekend between Russian forces and Chechen rebels. Reuters reported that Russian military helicopters bombed Chechen positions today in the North Caucasus region's southern mountains and the villages of Vedeno, Itum-Kale and Shatoi. ITAR-TASS said the army had wiped out 19 rebels and captured another 32 in the past 24 hours. Over the weekend, rebel attacks on checkpoints and bombing attacks on Russian vehicles killed two Russian officers. Interfax news agency reported an overnight raid on the local offices of the justice ministry in the center of the capital Grozny, in which one official had been wounded. It quoted the offices' head, General Bek BASKH-ANOV, as saying some 15 guerrillas had assaulted his headquarters in an hour-long gun battle. He

said the building was seriously damaged and office computers wrecked. BASKHANOV complained he had to mount a rescue operation with colleagues living nearby as pro-Moscow Chechen police were apparently too scared to venture outside their checkpoints in the middle of the night. He said, "We did not get any help even from the guards at the mayor's office and other [pro-Moscow] institutions situated within 100-200 meters [yards]." Peace talks are to be held in mid November, but the agenda has not been agreed upon by both sides. The Kremlin's envoy, Viktor KAZANTSEV, says it wants the meeting to focus on the rebels laying down arms.

Economy

<p>Ruble = 29.72/\$1.00 (NY rate) Ruble = 29.68/\$1.00 (CB rate) Ruble = 26.62/1 euro (CB rate)</p>

Russia Increases Oil Exports

- Russian oil exports rose again in October, providing further evidence of Moscow's refusal to cooperate with the Organization of Petroleum Exporting Countries (OPEC) cartel in supporting world prices with production curbs, officials and analysts said. The Russian Energy Ministry said oil output rose to 287.9 million tons or 6.94 million barrels per day (bpd) in the first 10 months versus 267.7 million tons (6.43 million bpd) in January-October 2000, Reuters reported. Exports rose in January-October this year to 125.9 million tons (3.04 million bpd) from 117.3 million (2.82 million bpd) in the same period last year, a rise of 220,000 bpd. Data in early October for the first nine months of the year put exports at 3.02 million bpd, up 190,000 bpd. Volumes are expected to stay at record levels for the rest of this year and even in 2002 as Russia tries to garner every possible cent from oil, despite the fact that in the long run a decline in prices hurts the country's budget. Russia plans to follow the example OPEC non-member Mexico, which has said it will act independently of the cartel, an official at the Energy Ministry said. Ivan MAZALOV, an oil analysts from Troika Dialog brokerage said, "There are no restrictions on [Russian] oil exports and I don't expect them to come in the future. Russia has definitively decided that it will not help with the cuts." Russian officials, including the Energy Minister Igor YUSUFOV, said in October that Russia was ready to cooperate with OPEC, but declined

to say if the country would cut or freeze exports if cartel members eventually decided to trim supply. The only thing holding Russia back from supplying even more is that it is already pumping at full capacity. Its main markets are Europe, which it also supplies with gas and fuel oil. MAZALOV added that more Russian oil will flow from Russia and the surrounding countries in the coming year. "The new boost will come out at the beginning of 2002, when *Transneft* promises to open a Baltic Pipeline System (BPS)," he explained. The new route is designed to ship Western Siberian crude to a new oil terminal in Primorsk on the Gulf of Finland. *Transneft* said last week it expected to ship up to 12 million tons of oil through BPS in 2002. MAZALOV also pointed out the new Caspian Pipeline Consortium (CPC), shipping Kazakh crude to a new terminal in Novorossiisk, would increase shipments to 20 million tons in 2002 from just one million this year.

Business

Vimpelcom Closes Deal With Alfa

- Russia's second largest cellular operator *Vimpelcom* on Monday closed a deal with the *Alfa* banking and industrial group for \$103 million in key investment for regional expansion, Reuters reported. A second installment of about \$117 million will be invested directly in *Vimpelcom*'s regional arm later. In addition to shares newly issued for the deal, *Alfa* also partially bought out *Vimpelcom*'s founder, Dmitry ZIMIN, who still owns 10.4 percent of *Vimpelcom* stock. *Alfa* now owns 25 percent plus two shares in *Vimpelcom*, the company said. *Vimpelcom* and its strategic partner *Telenor* have an option to invest a further \$117 million in *Vimpelcom-R*. *Telenor* also bought shares from ZIMIN to maintain its stake. The investment by *Alfa* made *Vimpelcom* a contender to exploit Russia's largely untapped regional cellular markets.

EUROPEAN REPUBLICS

Ukraine's Economic Growth Slows

- Ukraine's economy is predicted to continue to expand in 2002, but at a slower pace than this year, Reuters reported. Its growth will be credited to rising consumer confidence. Experts pointed out that Ukraine's economy is heavily dependent on exports and a continued global slow down is likely to cut its

speed of expansion. Ruslan PIONTKIVSKY, senior economist at the Center for Policy Studies, an independent think tank said, "We expect the economy to continue its growth next year but the environment will be much riskier due to an economic slowdown in the world. Exports will fall in the fourth quarter of the year and the downward trend will continue throughout 2002. On the other hand, we also see one bright feature for next year—rising domestic consumption." He added the center expects gross domestic product (GDP) to grow eight percent in 2001 in line with government plans. Growth will slow to 4.5 percent in 2002, somewhat less than the government's forecast of six percent. Official figures showed GDP grew by 9.3 percent in the first nine months of the year.

WB, IMF Near Resuming Loans To Moldova

- World Bank executive director for Moldova Pieter STEK said that the World Bank is within months of resuming loans to Moldova and believes that the International Monetary Fund (IMF) is also close to reaching a resumption agreement. He noted, "In the last week you have come pretty close to the agreement with the IMF. We follow this closely. Many of our conditions are similar to those of the IMF," Reuters reported. Lending to Moldova was cut off after the Communists under President Vladimir VORONIN swept into power in February. VORONIN has stressed that the resumption of foreign funding is vital for Moldova to avoid economic and political turmoil. The IMF and World Bank want Chisinau to pass a realistic 2002 state budget, launch reforms in the energy and agricultural sectors and privatize major state companies. Last month, parliament approved a tight 2002 draft budget in two out of the three required readings. The third reading of the bill, which targets a deficit equal to 1.5 percent of gross domestic product (GDP), is due later this month. Support from the global lenders is also crucial for Moldova to start talks on restructuring its crippling \$1 billion foreign debt, on which the country could default next year if no compromise is reached. STEK said the government had to work harder to fight corruption and improve transparency in order to attract vital foreign loans and private investment. "We hear too many stories of corruption, harassment, arbitrary policies... This tension needs to be removed, otherwise good investors will be frightened away from your country," he said.

SOUTH CAUCASUS & CENTRAL ASIA

Parliamentary Speaker Election Postponed

- The Georgian parliament, in its first meeting since November 1st when parliament speaker Zurab ZHVANIA resigned, met briefly today. The parliament, which had been expected to elect a new speaker, postponed the vote until Thursday. The most likely candidates for the speaker post are Nino BURDZHANADZE, chairman of the parliamentary committee for foreign relations; Gigi TSERETELI, deputy speaker; Elgudzha MERDZMARIASHVILI, a scientist and leader of the pro-presidential faction Tanadgoma; and Vazha LORDKIPANIDZE, former ambassador to Russia and former state minister, ITAR-TASS reported. Former justice minister of Georgia Mikhail SAAKASHVILI announced his support for Nino BURDZHANADZE, PNA reported. SAAKASHVILI declared that Nino's victory is needed to cope with the current parliamentary crisis and to dismiss the rumor that President Eduard SHEVARDNADZE will control the parliament. "In reality, the president of the country does not control the management of the state and will not be able to exert pressure on the parliament," SAAKASHVILI stated. According to the former tax minister Mikhail MACHAVARIANI, the appointment of BURDZHANADZE will allow the formation of a broad coalition in the parliament which will be probably led by ZHVANIA. The New Right and Revival Union have not specified which candidate they intend to support, Civil Georgia reported. It is also unclear which candidate Georgian President Eduard SHEVARDNADZE is supporting. **Intercon** sources believe that SHEVARDNADZE opposes BURDZHANADZE because of her support of a resolution to investigate SHEVARDNADZE and his government in May 2000 for the failure to fulfill the 1999 budget. It is likely that SHEVARDNADZE will back LORDKIPANIDZE. Former parliamentary speaker Zurab ZHVANIA stated that his resignation from the speaker's position was a form of protest against the policies of President SHEVARDNADZE. In an interview with the Prime News Agency ZHVANIA stated that he is not planning to join the opposition. ZHVANIA said that as a deputy, he will support legislation which will benefit Georgia. Commenting on his relations with SHEVARDNADZE, ZHVANIA said he couldn't describe the relationship as "harmonic."

Crisis Threatens Georgia's Economy

• The political crisis in Georgia, as a result of President Eduard SHEVARDNADZE sacking the government, is threatening to halt its slow economic growth. Analysts believe the crisis has provided foreigners with a new reason why they should not invest in Georgia. SHEVARDNADZE conceded the crisis has hurt Georgia's image. He said, "It was a very serious blow to Georgia's international authority and prestige." Niko ORVELASHVILI, the head of think tank the Georgian Economic Development Institute, told Reuters, "The economic and investment background in Georgia before these events was not attractive. No one was thinking about new business projects and no one was planning to make new investments. Unpredictability and a lack of clarity are the main threats for investors. So, if this lack of clarity lasts we can lose what we have." Georgia is just beginning to emerge from the economic slowdown. The economy expanded a slight 1.9 percent last year and gross domestic product (GDP) is expected to rise six percent in 2001. Industrial output is also up, having grown 12.1 percent in the first nine months of the year. Western lending agencies say the economic improvement is yet to be felt by much of the country. The World Bank said today that Georgia faced serious economic problems such as poverty, an energy crisis, corruption, and poor performance in budget revenues. The World Bank said it hoped the political upheavals would lay the ground for more hopeful developments. "The World Bank evaluated the recent events as an opportunity for Georgia to establish a cohesive and more effective government, which, with the parliamentary support, is able to tackle these problems," according to a Bank statement. The lari has fallen against the dollar to an all time low of 2.10 lari per dollar.

Abashidze-Luzhkov Meet In Moscow

• Chairman of the Adjarian Supreme Council Aslan ABASHIDZE and Moscow Mayor Yuri LUZHKOV met in the Russian capital today to discuss the main directions of the cooperation between Russia and Adjara, Prime News Agency reported. According to LUZHKOV, the three aspects of Russian-Adjarian cooperation were discussed, which includes tourism and the hospitality industry, the export of agricultural goods to Moscow, and expansion of cultural ties.

Meanwhile, Panteleimon GIORGADZE, leader of the Georgian Communist party, predicted the total failure to ABASHIDZE in his new capacity of a mediator in the Georgian-Abkhaz conflict. "Aslan ABASHIDZE will try as much as he can, but he won't be able to contribute in any significant way," he said.

Is The Gudauta Base Really Closed?

• Georgia's Foreign Ministry is "highly unsatisfied" with Russian officials who did not provide any official documentation to their Georgian counterparts on the closure of the Russian military base in Gudauta, PNA reported. According to the Ministry spokesman Kakha SIKHARULIDZE, Russia should comply with the international standards and properly inform the Georgian side on the base closure. For the past ten days, Georgia's Foreign Ministry has twice asked the Russian officials to provide the necessary documents. The Russian side has failed to do so, SIKHARULIDZE stated. This is why, we have "all the reasons to doubt" that the base has been really closed as it is claimed in the Russian media, SIKHARULIDZE stated. Georgia had initially requested that international observers monitor the Russian withdrawal. Without monitors, Georgian officials believe that equipment as been improperly transferred to the rebel government. This request went unheeded. Under the 1999 OSCE Summit in Istanbul Agreement, the Russian military base in Gudauta was to be closed by July 1, 2001. SIKHARULIDZE also stated that Georgia's Foreign Ministry has called again on Russian Deputy Prime Minister Ilya KHLEBANOV to resume Georgian-Russian military negotiations. The first request sent to KHLEBANOV in late August was not responded, SIKHARULIDZE said.

Georgian Electricity Accident

• Electricity was down almost throughout Georgia on Sunday evening because of a malfunction in the national energy system, ITAR-TASS reported. An emergency in the Inguri hydro-power plant, the largest hydro-power plant of Georgia in the western Tsalendzhikhi district, stopped the energy supply to almost every district of Georgia. Without electricity the metro, radio and television stations were stopped. Reserve power systems supplied energy to hospitals, plants, and other vital sites. Reasons for the emergency stopping are being

analyzed. **Intercon** sources report that power to the electricity generators was cut. Electricity was resumed within hours. There are no official reports about reasons for the emergency. Speculation of sabotage appears to be inaccurate.

U.S. Assesses CA Military Bases

- U.S. assessment teams are studying whether bases in Tajikistan, Kazakhstan, Kyrgyzstan, and Azerbaijan are capable for the U.S. military to use in its campaign against the Taliban in Afghanistan, the Financial Times reported. In the region, so far only Uzbekistan has offered its bases for U.S. humanitarian missions. U.S. Defense officials say that if the U.S. could use bases in Tajikistan it would reduce mission time to about an hour. U.S. planes launched from Tajikistan could be within range of their targets within 45 minutes. Rear Admiral John STUFFLEBEEM, deputy director of operations of the Joint Chiefs of Staff, said, "Closer access to Afghanistan is good for a lot of reasons: relief from requirements for a lot of [refueling], shorter times for response, faster abilities to turn aircraft around to do resupply missions etc." One official noted that the U.S. could fly as much as three times more sorties, if planes took off from Tajikistan. The immediate focus is one three bases in Tajikistan. These runways, which appear to be in good shape, have been used continuously since Soviet times. U.S. Defense Secretary Donald RUMSFELD, on a weekend trip that included Russia and Central Asia, met with Tajik President Emomali RAHMONOV on Saturday, but did not announce any deal for the bases. The New York Times quoted a source as saying that a U.S.-led team, with representatives from the UK, Turkey, Canada, and the Netherlands would also inspect bases in Kazakhstan and Kyrgyzstan.

Iran Against Prolonged U.S. Presence In CA

- Iranian Foreign Minister Kamal KHARRAZI reiterated Tehran's opposition to U.S. air strikes on Afghanistan on Saturday. He warned Washington against any prolonged presence in the Central

Asian, region Reuters reported. "A prolonged United States presence in Central Asia is unacceptable to the countries of the region, including Iran, China, and Russia," KHARRAZI told a joint news conference after talks with visiting Greek Foreign Minister George PAPANDEOU. PAPANDEOU was the latest in a stream of senior Western politicians trying to build a consensus with Iran in response to the September 11th attacks. He noted, "We discussed the issue of Afghanistan and a broad, representative government to include all ethnic groups under United Nations supervision." Iran has condemned the September attacks but said the strikes against Afghanistan were unacceptable. KHARRAZI has said, "Terrorism has to be dealt with at the roots. Air strikes which target civilians are not a suitable means to counter terror."

Karachaganak Oil Back On Line

- The Kazakhstan oilfield of Karachaganak came back on line on Saturday after a six week shutdown. Elements of the tax dispute that first closed it remain unresolved. The *Karachaganak Integrated Organization (KIO)* said in a statement that the Kazakhstan and Russian governments had signed a "memorandum of understanding" aimed at resolving the issue, Reuters reported. "As a result, KIO is pleased to announce that it has renegotiated contracts with its cross border customers [Russian refineries] and supply recommenced on Saturday morning." The Karachaganak oilfield is a potential giant production site. Its condensate already accounts for 20 percent of world output for one of its operating partners, Britain's *BG Plc*. *ChevronTexaco* predicted that the field could be shut until next year. One of the unresolved tax issues is part of a broader bilateral trade discussions between the two countries over whether the VAT levied in Kazakhstan can be offset in Russia. Analysts said the companies may have to cut their price to persuade customers to take on the continued tax risks. Karachaganak produced 18 million barrels of oil equivalent a day last year. *BG* and Italy's *ENI* hold 32.5 percent each in the venture. *ChevronTexaco* holds 20 percent, and

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