

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **FSB Still Fights To Catch Spies**

• Federal Security Service (FSB) chief Nikolai PATRUSHEV said Tuesday that the service still makes catching spies its top priority. He told reporters that the FSB had caught red-handed 10 foreigners, including one special agent, spying for various intelligence services. Since January, the FSB has also been leading the "counter-terrorist" operation in Chechnya, carrying out 43 security operations, including two large-scale ones, PATRUSHEV said. In the past year, 1,689 rebel fighters and foreign mercenaries had been killed, including six leading field commanders and nine second-tier commanders. Nevertheless, "countering foreign intelligence special services remains one of the main tasks for Russian security services," Interfax news agency quoted PATRUSHEV as saying. Foreign agents were targeting information on Russia's integration into world bodies, domestic and foreign policy choices, military policy, as well as scientific and technical innovations, he said. Legal cases brought by the FSB this year helped cut leaks of state secrets abroad, PATRUSHEV said. The activities of some 50 foreign spies had been discovered and ended. Espionage networks from Turkey, Pakistan, Iraq, Saudi Arabia, and other states had been deprived of their sources, he added. Unusually, PATRUSHEV did not mention U.S. spying activity.

Despite warming relations, Russia still believes that the U.S. and other Western intelligence services are spying and seeking Russia's military secrets. In contrast to PATRUSHEV, General Valery FALUNIN, who is in charge of the military counterintelligence in the Moscow region focused on relations with the U.S. in an interview with Moskovsky Komsomolets. He said, "If leaders of other countries shake hands

with [Russian President] Vladimir Vladimirovich PUTIN, that doesn't mean that intelligence services have laid down their weapons. They are working, and working quite actively." When asked by the newspaper who are his service's top adversaries, FALUNIN responded, "The traditional set: the secret services of the United States and other NATO member states, plus neighboring countries." This year began with tit-for-tat expulsions between the U.S. and Russia following the arrest of FBI agent Robert HANSSEN for selling secrets to Moscow in February. The U.S. ordered 50 Russian diplomats to leave the country by July. Moscow responded in kind. In March, Moscow expelled three Bulgarian diplomats in retaliation for a request that Russia withdraw three of its diplomats suspected of spying. In April, the FSB sentenced Valery OJAMAE to seven years for spying for Britain and Estonia. On August 14<sup>th</sup>, a Moscow court jailed for more than four years former diplomat Valentin MOISEYEV for handing South Korea secrets about Russia's relations with Stalinist North Korea.

#### **Second Contingent Moves Into Afghanistan**

• Afghan Islamic Press (AIP) said, quoting informed sources, reported that a contingent of 100 Russian troops moved into Afghanistan through Tajikistan on Monday. The news agency said the Russian troops, the second contingent to move into Afghanistan in recent days, are expected to be deployed in Baghlan Province, in northern Afghanistan. The first Russian contingent of 100 troops, sent to Afghanistan ear-

lier this month, has been deployed in Khwaja Bahauddin area in Takhar Province. It is not immediately clear whether the Russian troops are moving to Afghanistan as part of a multinational peacekeeping force or under an independent arrangement with the Northern Alliance, which has emerged as the dominant faction in post-Taliban Afghanistan and has close ties with Russia, Kyodo News reported.

### Economy

<p><b>Ruble = 30.33/\$1.00 (NY rate)</b>  <b>Ruble = 30.33/\$1.00 (CB rate)</b>  <b>Ruble = 27.27/1 euro (CB rate)</b></p>
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### **IMF Predicts Healthy Economy For Russia**

- The International Monetary Fund (IMF) on Tuesday said in its latest review of global economic prospects that although Russia's economy might decline slightly in 2002, it will remain at a reasonably brisk pace. The IMF said, "In Russia, the climate for foreign investment appears to have improved, investment spending—particularly on energy-related projects—has been even stronger than earlier expected, and consumer spending has also been strong." It forecast that Russia's economy would expand by a "reasonably healthy" 3.6 percent next year, down from growth of 5.8 percent in 2001 and 8.3 percent in 2000. That was a downward revision from a November estimate that Russia's economy would grow 4.2 percent in 2002. It added that, "While Russia remains vulnerable to lower oil prices, the impact is expected to be manageable unless the decline proves to be significantly deeper and more prolonged than currently anticipated."

### Business

#### **Iran To Pump South Pars Gas**

- Today, Iran said that by the end of the year it will begin to pump gas from the offshore South Pars gas field. State-run *Pars Oil and Gas Company* Director Assadollah SALEHI-FOROUZ said, "We hope to pump gas from the Persian Gulf to Assaluyeh [refinery] by the end of December. We should have South Pars gas flowing into the national pipeline network by February." SALEHI-FOROUZ denied press reports that exploitation of phases two and three of the project had started last Saturday. The two phases are managed by a consortium led by France's *TotalFinaElf*, which includes Malaysia's

*Petronas*, and Russia's *Gazprom*. Production was expected to have begun in October but this was pushed back due to problems involving labor and technical and administrative issues, he noted. The \$2 billion project is expected to inject some 57 million cubic meters per day into Iran's natural pipeline system by the end of next year. "It will also deliver some 77,000 barrels per day of gas condensates and 400 tons per year of sulfur as by-products," SALEHI-FOROUZ said. Iran has the world's second largest natural gas reserves, after Russia, with some 26.3 trillion cubic meters of reserves. It has ambitious plans for South Pars, with reserves of more than 13 trillion cubic meters. Upon completion, the South Pars field will produce 339.8 million cubic meters per day of dry gas, 6.3 million tons per year of ethane, six million tons of Liquefied Petroleum Gas (LPG) and 20 million tons per year of condensates, Reuters reported.

#### **Sakhalin Group Reports Output Rise**

- The *Shell*-led consortium developing oil off Russia's Sakhalin island reported a 22 percent rise in output in 2001. Production at Sakhalin-2 rose to 2.0 million tons this year, from 1.67 million tons in 2000. The consortium, whose production is currently limited to the ice-free months of the cold Russian east, started producing oil this year on May 23<sup>rd</sup> and closed the season on December 8<sup>th</sup>. Oil is produced from Russia's first oil offshore platform, Molikpaq in the Sea of Okhotsk, and is exported to Korea, China, Japan and the U.S. Sakhalin Energy CEO Steve MCVEIGH said, "The first phase of our project has shown we can deliver to markets in Asia. We will build on this success in our next phase of development, which will give customers in Asia the opportunity to access Russian gas supplies for the first time."

The second phase of the project is estimated at a cost to the consortium up to \$9.0 billion. The group, the biggest of Russia's profit sharing projects with foreign investors, reiterated ambitious plans to build the world's largest liquefied natural gas (LNG) plant. First commercial deliveries of LNG to Asian consumers are planned for November 2006. The consortium, which also includes Japan's *Mitsui* and *Mitsubishi*, also plans to link its fields in Sakhalin's north to the LNG plant on the south of the island by oil and gas pipelines.

## EUROPEAN REPUBLICS

### Williams-Yukos Row Continues

- Although U.S. *Williams* has expressed a willingness to resume talks with Russian oil company *Yukos* over supplies to Lithuanian *Mazeikiu Nafta*, *Williams* has already contracted oil supplies for January from suppliers other than *Yukos*. *Williams* said in a statement it will not, "compromise the interests of *Mazeikiu Nafta*," to secure the equity for crude deal with Russia's second largest oil producer. In June, *Williams* and *Yukos* signed an agreement that would give the Russian firm a 26.75 percent stake in the Lithuanian concern in exchange for a 10-year supply of at least 4.8 million tons of crude per year (96,000 barrels per day). However, last week *Williams* halted the talks because of what it described as "deadlocked negotiations." After meeting with Lithuanian Premier Algirdas BRAZAUSKAS on Tuesday, *Yukos* vice president Mikhail BRUDNO told reporters, "We can say clearly that we are interested in completing the deal on the terms that were stipulated in our June principle agreement." He declined to specify the content of the disagreements between *Yukos* and *Williams*, saying they were, "of legal character," but "resolvable." He added a change of negotiators from both parties could help advance the talks. In a separate statement, *Williams* rebuffed the request, saying its negotiation team, "is not the problem to finalizing an agreement with *Yukos*." BRUDNO said *Yukos*, currently the largest crude supplier to the Lithuanian refinery, was willing to continue crude supplies to *Mazeikiu* in the first quarter of next year. "*Mazeikiu Nafta* has already contracted its January crude volumes and does not have any possibility to purchase additional crude from *Yukos* that month," Darius SILAS, spokesman for *Williams*' local office, told Reuters, but he declined to comment who the crude suppliers were.

### Estonian Coalition Near Collapse?

- Estonian Prime Minister Mart LAAR told Reuters in an interview that the ruling coalition is at risk of breaking down. He said, "The coalition is definitely in danger, that is the most modest term I could use to describe the current situation." The Prime Minister declined to discuss details of the row but it seemed most likely to have been brought on by the Reform Party's decision to negotiate and form alliances with

the opposition Center Party in a number of local governments. Local media have said that LAAR's Pro Patria Union and ruling partner the Moderate Party had threatened to expel Reform for secretly entering talks with the opposition. Reform's decision earlier this month to leave its long-time partners to form a coalition with the Centrists in the capital Tallinn was the final straw, media said. The coalition came to power after the March 1999 general election. LAAR's Pro Patria has 18 seats in the 101-seat parliament; the Moderates have 17; and the Reform Party has 18. This gives the coalition a total of 53 seats. The main opposition Center Party is the largest group with 28 seats; together with Reform it would have 46 seats. But despite their cooperation at local level it is unclear whether Reform would want to enter any kind of government with the Center Party, which has strongly opposed the current coalition. LAAR plans to hold talks in January to discuss the fate of the government. He noted that even if the coalition falls apart, Estonia's foreign policy goals to join the European Union (EU) and NATO would not likely change.

### Latvian Candidate Withdraws From CB Race

- On Monday, former economy minister Ingrida UDRE withdrew her candidacy to replace outgoing Central Bank chief Einars REPSE. The decision by UDRE, economy minister for three months in 1999 and who was being backed by parliament's opposition, leaves current Central Bank deputy head Ilmars RIMSEVICS as the only other candidate. Parliament is expected to vote on December 20<sup>th</sup> on a successor to REPSE, who introduced the lat national currency in 1993, Reuters reported. UDRE, head of parliament's small opposition New Faction, said she withdrew because she wanted to avoid political intrigue over REPSE's successor. "I am forced to withdraw my candidacy for this post since I do not believe that the current political process can secure approval of such a candidate that best meets the qualifications required for the Central Bank's head," the spokeswoman quoted UDRE's letter to parliament's presidium as saying. RIMSEVICS, backed by two ruling coalition parties, has been seen by the markets as the leading candidate to replace REPSE. The outgoing Central Bank chief formally submitted his resignation on November 30<sup>th</sup>. RIMSEVICS is currently leading the Bank in an interim capacity and has said he would keep key

policies, including the lat's peg to the SDR basket of leading world currencies, intact if he takes over permanently.

### SOUTH CAUCASUS & CENTRAL ASIA

#### Revival To Join New Rights' Boycott

- Parliamentary faction Revival stated it might join the New Rights faction in its boycott of the parliament plenary sessions, Prime News Agency reported. Revival will join New Rights, if parliamentary Speaker Nino BURDZHANADZE does not provide any explanation over the appointment of her husband, Badri BITSADZE, to the position of the deputy prosecutor general. New Rights are concerned that BITSADZE's appointment will lead to the consolidation of power within one family clan. BURDZHANADZE stated that she is ready to start consultations with the New Rights and other parliamentary factions over the issue any time. However, she noted, it is worthwhile to wait for the results of the Anti-Corruption Coordination Council's commission, which is investigating BITSADZE's appointment.

#### Kocharyan Meets Putin And Kasyanov

- On Tuesday night, Armenian President Robert KOCHARYAN met with Russian Prime Minister Mikhail KASYANOV, Mediamax News Agency reported. KOCHARYAN and KASYANOV discussed the current state of Armenian-Russian trade and economic cooperation, including Armenia's external debt to Russia. They also discussed a draft agreement on processing Russia's raw diamonds at Armenian lapidary enterprises. Armenian President told journalists later that he is pleased with the results of his meetings with KASYANOV and President Vladimir PUTIN.

#### Armenia-Japan To Boost Econ. Cooperation

- Armenian President Robert KOCHARYAN met with Japanese Prime Minister Junichiro KOIZUMI in Tokyo today. KOCHARYAN is the first Armenian President to visit Japan. The two leaders agreed

to boost the dialogue between their foreign ministries and strengthen exchanges in the countries' economic sectors. KOIZUMI and KOCHARYAN also agreed to strengthen international cooperation against terrorism in the wake of the September 11<sup>th</sup> attacks. The agreements were set forth in a joint statement signed by the two leaders after their 35-minute talks. In the meeting, KOCHARYAN urged Koizumi to continue Japan's assistance to the country even if Tokyo plans to cut its official development assistance as part of its fiscal reforms, Kyodo News reported. He also told KOIZUMI that he wants more Japanese companies to make direct investments in Armenia with hopes that it will boost bilateral relations as a whole.

KOIZUMI told KOCHARYAN that Japan is aware of Armenia's reform efforts toward a market economy and democracy, and that Tokyo plans to offer as much cooperation as possible, the official said. In the joint statement, the two leaders agreed on the need to reform the U.N. Security Council, and KOCHARYAN reiterated his country's support for Japan's bid to join the council as a permanent member. The statement also said the two countries should promote bilateral exchanges in areas such as science and technology, culture, education and tourism. The document also called for bilateral cooperation over global issues including disarmament, arms control and the nonproliferation of weapons of mass destruction.

#### Rus-Tajik To Supply Electricity To Afghan?

- The visiting deputy head of Russia's *Unified Energy Systems (UES)*, Sergei DUBININ, met with Tajik President Emomali RAKHMONOV in Dushanbe on Friday to discuss the feasibility of supplying even small amounts of electricity from Tajikistan's Nurek hydroelectric plant to Afghanistan, Interfax reported. Tajikistan stopped supplying power to Afghanistan in 1993 after the Taliban seized control of the northern regions of the country, RFE\RL Newsline reported.

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