

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

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RUSSIAN FEDERATION

Politics

Putin Criticizes Russia Navy

• Russian President Vladimir PUTIN demoted three top navy commanders and sacked eight admirals in a purge of Russia's Navy officials. This action is no doubt punishment for last year's Kursk disaster, which killed all 118-crewmembers. Senior military officials denied a direct link with the Kursk. Instead, they claim, "serious failures in the organization of the military training activities of the fleet," as the reason. Among the heads to roll were Northern Fleet commander Admiral Vyacheslav POPOV, its chief of staff Vice-Admiral Mikhail MOTSAK, and its submarine fleet commander Vice-Admiral Oleg BURTSEV, Reuters reported. The demotions came just hours after PUTIN received a preliminary report from Russia's top law officer on the Kursk disaster. Russian officials say an onboard torpedo explosion caused the Kursk to sink, but what triggered the blast remains a mystery. The President criticized the Navy for not being prepared, indicating that poor planning could in part be the reason for the disaster. PUTIN said the investigation into the disaster had already presented enough evidence, "to draw a rather definite conclusion on the quality of preparations for and organization of military exercises and the organization of search-and-rescue operations," a statement by the presidential press service said. But he noted that the theory favored by some in the Navy that a collision, possibly with a foreign submarine or World War II mine, was to blame looked increasingly unlikely. "It should be admitted that, despite the large amount of work done, no objective evidence proving this theory (of collision) has been received up to now," PUTIN said.

Are Russia's Weapons Secure?

• The BUSH administration has expressed concern that Russia's nuclear, biological or chemical could fall into the hands of terrorists. The administration has opposed a move in Congress to overhaul U.S. efforts aimed at stopping this from happening. Officials from the departments of defense, state, energy and commerce told a Senate hearing that the BUSH administration was working hard to keep weapons of mass destruction from leaving Russia or other former Soviet states. State Department official VAN DIEPEN told a hearing of a Governmental Affairs Committee subcommittee that deals with weapons proliferation issues, "The proliferation of nuclear, chemical and biological weapons and the missiles capable of delivering them is now a central security threat facing the United States, our allies and our friends." He added, "Where we once faced thousands of nuclear weapons under centralized command of a great rival power, September 11th and the biological attacks since have shown how much more diverse and less predictable the threat has become." The administration officials spoke strongly against legislation introduced by Senator Chuck HAGEL (Rep.-NE) that would create a single interagency committee to coordinate U.S. nonproliferation efforts relating to Russia and other former Soviet states. VAN DIEPEN said the bill, "is not needed, as the BUSH administration has already acted and taken the kinds of steps this legislation calls for." Defense Department official Marshall BILLINGSLEA said creating a new office in charge of the matter could complicate non-proliferation coordination efforts

now assigned to the White House National Security Council. Democratic senators expressed concern at the pace of progress and worried that the BUSH administration would move forward with funding cuts in this nonproliferation area.

Unity And Fatherland-All Russia Merge

- Unity and Fatherland-All Russia have merged to form a new political party called Unity and Fatherland or United Russia for short on Saturday at the Kremlin Palace. Russian President Vladimir PUTIN, who addressed the group's founding congress with nearly 3,000 delegates, welcomed the new party as an example of politicians, "supporting the unifying processes occurring in Russian society." The new party plans to be centrist and continue to support PUTIN. Delegates voted to elect the new party's leaders and adopt program and party rules.

The merger was first announced in April by Unity leader Sergei SHOIGU and Fatherland chief Yuri LUZHKOVA, who this weekend were elected co-chairman along with chief of Tatarstan Mintimer SHAIMIYEV. In July, the parties made another step toward unification when they created a two-party union. In October, the All Russia movement, that was part of a large bloc of centrist organizations headed by Fatherland at the 1999 parliamentary elections, also agreed to join the alliance, United Press International reported. The latest political consolidation is likely to worry PUTIN's critics, who fear he is discouraging political dissent. In July, PUTIN approved a new law that sharply limits the number of political parties. The President said the law would strengthen parties by creating a few major ones, instead of the small groups that have contested past elections. But critics say it will reduce voters' choice and make parties financially dependent on the government, the Associated Press reported. PUTIN told the party Russia needs, "normal, healthy political competition." He said, "Today Russia needs parties that...will consistently defend the rights and interests of the citizens. Only then will you truly be able to become the party of the majority," The Moscow Times reported.

Sayakh Linked To Georgian Kidnappings

- An Arab aide to KHATTAB, Abu SAYAKH was captured in a special operation in Chechnya on Friday. Ilya SHABALKIN, a spokesman for Russia's Federal Security Service (FSB) in Chechnya,

told *ORT* television that SAYAKH was being held by Russian forces but had been wounded during his arrest and was, "in a very serious condition." Chechen commanders deny that SAYAKH is linked with KHATTAB. Russian President Vladimir PUTIN, who announced the capture at the Commonwealth of Independent States (CIS) summit, said that SAYAKH "funded and organized terrorist acts in Russia and maintained contacts with his formations in Georgia." A Russian Defense Ministry source told ITAR-TASS that SAYAKH had spent some time in Georgia's Pankisi Valley. The source added, "SAYAKH is personally linked to the kidnappings of affluent Georgian citizens whom terrorists kept in the Pankisi Valley until ransoms were paid by their relatives. That money was spent to finance terrorist actions and explosions in the Chechen Republic." Georgian local police chief Menzer BERUKASHVILI told the Caucasus Press the same day that he knows by name all those engaged in such abductions and SAYAKH is not one of them.

Economy

<p>Ruble = 29.95/\$1.00 (NY rate) Ruble = 29.95/\$1.00 (CB rate) Ruble = 26.67/1 euro (CB rate)</p>

Duma Passes 2002 Budget

- The Russian State Duma, in a vote of 291 to 16 with one abstention, passed the 2002 budget in its third reading on Friday. The budget is the country's first to predict a surplus, and spends more on education than on the military for the first time in a century. The government was forced to defend positive looking economic forecasts despite low world prices for oil exports, Russia's largest source of revenue. The 2002 budget provides for revenues of 2.13 trillion rubles (\$71 billion) and spending of 1.95 trillion rubles, leaving the first ever budget surplus forecast at 1.63 percent of gross domestic product (GDP), Reuters reported. Finance Minister Alexei KUDRIN told reporters the government would not lower its prediction of GDP growth of 4.0 percent to 4.3 percent for next year despite the oil price skid. Prime Minister Mikhail KASYANOV told deputies GDP growth in 2001 would come in at 5.5 percent, beating the government's 4.0 percent forecast despite the global economic slowdown. The bill also creates a special reserve fund to cover a 2003 peak in foreign debt

payments, though some fear that could fall victim to the decline in oil revenues. Mikhail ZADORNOV, deputy budget committee chairman and a former finance minister, said the budget provided for a 300 billion ruble cushion against a sharp oil price fall. The largely formal fourth reading of the budget in the Duma is set for December 14th. It would then go to the Federation Council, before reaching President Vladimir PUTIN's desk to be signed into law.

EUROPEAN REPUBLICS

Trans-Dniester Offers To Resume Talks

- President of self-proclaimed Trans-Dniester republic of Moldova Sergei SMIRNOV said he will resume negotiations with Moldovan President Vladimir VORONIN. On Saturday, he said, "I will talk with the president of Moldova, be it VORONIN or someone else. By so doing I will fulfill the will of the Dniester parliament which has instructed me to conduct these negotiations," ITAR-TASS reported. On November 30th, the Trans-Dniester foreign minister issued a statement proposing to resume talks in a five-party format and to hold a meeting in Bratislava in the second half of December with the participation of the Moldovan delegation, and mediators from the Organization for Security and Cooperation in Europe (OSCE), Russia and Ukraine. The Trans-Dniester government considers the resumption of talks to be, "important and timely." Negotiations on the Trans-Dniester region were severed after Moldova introduced new customs stamps following its admission to the World Trade Organization (WTO). Moldova demanded that all Trans-Dniester cargoes go through Moldovan customs. The Trans-Dniester authorities considered this step as an "economic blockade," and SMIRNOV severed negotiations, refusing to go to Kishinev for a new meeting with VORONIN. In response, Tiraspol began to block Moldova-bound trains going through the Dniester republic.

Mazeikiu Nafta Output Through October

- Lithuanian oil concern *Mazeikiu Nafta* refined 5.459 million tons of crude in the first 10 months of the year, a 41.5 percent rise year-on-year. In the January to October period of 2000 the refinery, one third owned and operated by U.S. company *Wil-*

liams, refined 3.858 million tons of crude, according to the statistics department's monthly report. The department also said that in October alone *Mazeikiu* refined 599,800 tons of crude, a 14 percent rise versus the previous month. Its October refining was 2.6 times higher compared to the same period a year ago, when the refinery was shut for almost two weeks that month because of maintenance work, Reuters reported. *Mazeikiu* is a combined refinery, terminal and pipeline transportation system.

NRG To Sign Loan Agmt For Estonian Plants

- U.S. *NRG Energy* said Tuesday it expects to sign a 285 million euro (\$251.1 million) loan agreement in January to renovate two Estonian power plants, sealing the deal to buy a minority stake in the plants. *NRG* and Estonian state energy firm *Eesti Energia* signed an agreement in September with German *KBC Bank*, Japanese *Tokyo-Mitsubishi* and *SG Investment Banking*, an arm of France's *Societe Generale*, to arrange the loan. "We are still holding talks together with *Eesti Energia* with those banks, the things have taken a bit more time than we expected," *NRG's* representative in Estonia Hillar LAURI told Reuters. She noted that the sides need more time to agree on loan securities and on power plant insurance conditions due to the changed circumstances after the September 11th attacks. *Eesti Energia* signed a deal last August to sell a 49 percent stake in the oil shale-fired Narva power plants, which provides over 90 percent of the country's power, to *NRG Energy* for \$70.5 million. *NRG* has committed itself to transferring the money to buy its 49 percent stake in the power stations once the loan agreement is signed. In total 348 million euros will go to renovating the power stations and to reconstruct *Eesti Plevkivi's* oil shale mines, which provide fuel for the plants, and bring them up to acceptable environmental standards. The power stations will spend 63 million euros of their own funds on the project.

SOUTH CAUCASUS & CENTRAL ASIA

Shevardnadze Comments On Putin Meeting

- Georgian President Eduard SHEVARDNADZE stated at a press conference that the formation of a joint Russian-Georgian commission investigating the November 27th and 28th bombings of Georgia will begin today, Prime News Agency reported. Ac-

According to SHEVARDNADZE, the commission will consist of military general headquarters chiefs of staff and their deputies. SHEVARDNADZE stated that there is factual evidence of the Georgian airspace violation by Russian military aircrafts recorded by 12 international observers. According to the Georgian President, the commission will have to find out the cause of bombings as well as the names of people who issued the order to bomb. SHEVARDNADZE expressed hope that Russia "quite sincerely" intends to find out the truth.

At a meeting with SHEVARDNADZE on November 30th, the Russian President announced he will appoint his envoy to the zone of the Georgian-Abkhaz conflict. SHEVARDNADZE later told the journalists that the envoy will not be from the "old cadre." It will be a new appointee, "who has an objective picture of the Abkhaz conflict and who will be acceptable for the Russian and Georgian sides," SHEVARDNADZE noted. He also said that PUTIN supports the U.N. document on the division of power between Tbilisi and Sukhumi, which is being drafted now. According to PUTIN, the document will provide a good basis for the resumption of the Georgian-Abkhaz talks. The Russian President stated Moscow does not have and will not have any interest in Abkhazia unless it is a part of the united Georgia. U.N. envoy to the Georgian-Abkhaz conflict Diter BODEN approved PUTIN's decision and stated it, "proves the Russian President's interest to settle the Abkhaz conflict as soon as possible."

Meanwhile, Georgian President SHEVARDNADZE stated the new Russian-Georgian "framework" treaty, which is being prepared, might abolish the visa regime between Russia and Georgia, introduced a year ago, Prime News Agency reported. SHEVARDNADZE stated he always tries to "convince" Russia that the visa regime is not worthwhile and it will cause "too many inconveniences." SHEVARDNADZE said up to one and a half months might be needed to prepare the document for signing. At the meeting with PUTIN, SHEVARDNADZE dismissed

rumors that drug-producing enterprises are functioning in the Pankisi Valley. He stated that if these enterprises exist, the Georgian officials would take "decisive measures" against them.

Caspian Legal Status Agreement

• Azerbaijan and Kazakhstan at the Commonwealth of Independent States (CIS) summit signed an agreement on the Caspian Sea, hailed as a significant step toward establishing the legal status of the Caspian Sea. Azeri President Geidar ALIYEV said the agreement sets up agreed upon partitions of the Caspian Sea floor into national sectors. ALIYEV also met with Turkmen President Saparmurat NIYAZOV, while in Moscow. He quoted NIYAZOV as saying that Azerbaijan and Turkmenistan should attain agreement on partitioning of the Caspian Sea. "He [NIYAZOV] asked us to send a delegation to Ashgabat for talks on the Caspian status. I agreed to it," ALIYEV said. At this moment, Azerbaijan and Turkmenistan have certain disagreements on how to establish the borders of national sectors in the Caspian Sea. Ashgabat also claims sovereignty over a number of offshore oil and gas fields, which Azerbaijan has been developing with foreign oil companies, ITAR-TASS reported. Iran reiterated its call for a comprehensive legal regime on sharing Caspian resources. In response to the agreement signed by ALIYEV and Kazakh President Nursultan NAZARBAYEV, Iranian Foreign Ministry spokesman Hamid Reza ASEFI said any bilateral accord would only prolong the settlement of the Caspian Sea's legal status. He added that a working group of deputy foreign ministers of the five Caspian littoral states is holding talks to work out a comprehensive legal regime. ASEFI reiterated that Iran views treaties it signed with the former Soviet Union in 1921 and 1940 as the basis for formulating the legal regime, and it is ready to hold consultations in this respect, Xinhua reported. The Caspian states should avoid unilateral and provocative actions on matters concerning the legal regime, he stressed.

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