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Bush Seeks to Help End Warfare in Oil-Rich Caspian

Washington, April 9 (Bloomberg) -- President George W. Bush told the leaders of Azerbaijan and Armenia the U.S. will do all it can to help them end their border conflict, two senior Bush administration officials said.

For the Bush administration, which has signaled a reluctance to engage in hands-on negotiations in the Middle East, the Koreas and elsewhere, today's talks capped a weeklong effort personally begun by Secretary of State Colin Powell to bring peace to the central Asian territory of Nagorno-Karabakh.

Azerbaijan, Armenia and the surrounding area contain the potential for as much as 200 billion barrels of oil that may be worth more than \$4 trillion, and natural gas reserves larger than those in all of North America. Chevron Corp. is leading a proposed \$2.5 billion Azerbaijan-to-Turkey pipeline project.

``The U.S. realizes today that more than ever, the region of the south Caucasus, the Caspian region, is of great importance to the strategic interests of the United States,`` said Elin Suleymanov, a spokesman for the Azerbaijan embassy in Washington.

In separate meetings with President Heydar Aliyev of Azerbaijan and Robert Kocharian of Armenia, Bush praised their efforts to resolve their differences, the two U.S. officials told a reporters' briefing.

The two sides have agreed to meet again in June in Switzerland to make further progress toward an accord, said the Bush officials, who participated in today's discussions. The peace process dominated the meetings, with oil and energy ancillary issues, the two aides said.

Thousand-Mile Pipeline

``There are a lot of energy resources in the region, but these meetings are going to be very short`` and will focus on peace talks, another aide, National Security Council spokeswoman Mary Ellen Countryman, said earlier today.

The proposed 1,000-mile pipeline would run from the Azerbaijani capital Baku through the Georgian capital Tbilisi to the Mediterranean port of Ceyhan in Turkey, a North Atlantic Treaty Organization ally of the U.S.

Several top Bush administration officials have ties to major petroleum companies, including those with interests in the Caspian region. That, along with creating a model for resolving other ethnic-based land disputes in the former Soviet Union, may be driving U.S. involvement in the Armenia-Azerbaijan dispute, participants and analysts said.

``I would think oil was, in part, behind it all,`` said Robert Ebel, director of energy and national security affairs at the Center for Strategic and International Studies, a Washington, D.C., think tank.

Business Concerns

``This is not a problem area of the world that we should shy away from,`` Willard Workman, vice president for international affairs at the U.S. Chamber of Commerce, said of the Nagorno-Karabakh conflict. ``We think that we ought to at least devote as much as an effort there as we did the Middle East.``

Oil industry ties permeate the administration. Bush followed his father into the Texas oil business years before following him into the White House. Vice President Dick Cheney previously served as chairman and chief executive of Halliburton Co., the world's largest oilfield services company.

Halliburton has operations in Azerbaijan and has bid for work on the pipeline to Turkey. The U.S. government has worked to convince U.S. companies to support the pipeline, wanting a transportation route from the Caspian oil fields that bypasses both Russia and Iran.

Tanker's Namesake

Other top Bush officials and advisers with oil industry connections include national security adviser Condoleezza Rice, who was on Chevron's board of directors from 1991 until January of this year, and has a company oil tanker named after her.

The law firm of former Secretary of State James Baker, a Bush family adviser, represented several oil companies with interests in Azerbaijan, among them Exxon-Mobil Corp. Brent Scowcroft, a Rice adviser who was national security adviser in the administration of Bush's father, has industry connections that include sitting on the boards of Pennzoil-Quaker State Co. and Enron Global Power & Pipelines, a unit of Enron Corp. Deputy

Secretary of State Richard Armitage is a former co-chairman of the U.S.-Azerbaijan Chamber of Commerce.

The fighting in Nagorno-Karabakh, between the Caucasus and the Karabakh mountain ranges, stems from efforts by an ethnic Armenian majority to secede from Muslim-majority Azerbaijan in 1988. The initial warfare cost thousands of lives and left 1 million homeless. The sides reached a general cease-fire seven years ago, and now about 200 people die each year in continued skirmishes.

Economic Incentive

U.S. officials wouldn't describe the talks in detail, although Suleymanov said a settlement likely will involve conditions in which Nagorno-Karabakh remains part of Azerbaijan with political autonomy for the ethnic Armenian majority.

Both countries have scaled back the level of fighting and appear ready for a settlement, in particular because they recognize the economic benefits it would bring, said Ariel Cohen, a specialist on Russia and the Caucasus at the Heritage Foundation, a Washington research group.

Azerbaijan also faces a general cut-off in U.S. foreign aid. Aliyev is about 80 years old and wants the legacy of peace agreement, while the Bush administration sees a potential early foreign policy success, Cohen said.

``This is an area that probably some progress can be achieved and I think we can score some points,' ' Cohen said.

Powell's talks between Aliyev and Kocharian were held last week at U.S. government-owned property in Key West, Florida, once used by President Harry Truman.

``We're very impressed and very grateful that the U.S. administration has made this one of its priorities,' ' Suleymanov said. ``That's important, that's encouraging.' '

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The Russian Roots of the Texan Mafia
Stephan Richter, Publisher and Editor-in-Chief

During the 1990s, Russian energy companies were notorious for cooking their books, defrauding their shareholders – and using political connections to cover shadowy deals. So, readers of Russian newspapers were not at all surprised over recent stories about an energy giant that was misbehaving in this manner. What was unusual was that the company in question was Enron – as quintessentially American as the Texan heartland where it is based.

After the Soviet Union's collapse, the country's centralized oil sector was among the first to be privatized. In that process, a number of new, private oil companies sprung up. They all boasted vast reserves – and a huge potential of export revenues.

Avoiding split-ups

Meanwhile, Russia's natural gas industry avoided a split-up. It was neatly folded into Gazprom, one of the largest natural resource companies in the world.

Both Mr. Bush and Mr. Putin have one unfortunate thing in common – their rise to the presidency, at least in part, was financed by non-transparent energy giants.

Not surprisingly, the fantastic prospects of the Russian energy sector became one of the leading global investment stories of the 1990s. Foreign investors rushed headlong into Russia. Eventually, they triggered the ascent of the Russian stock market, based on such energy blue-chips as Gazprom, Lukoil, Surgutneft and Tatneft.

And in those heady days of the go-go 1990s, many American officials grew hoarse criticizing Russia's dubious financial management practices and demanding better disclosure and shareholder protection. Almost inevitably, most foreign investors ended up losing their money.

Strange similarities

Now let's switch the scenes completely. At least in hindsight, it's uncanny how much events at Houston-based Enron ended up resembling the story of Russia's crooked energy giants.

In essence, Russian energy companies lacked transparency and hid transactions and revenues in a Byzantine accounting system. As we are now becoming aware, despite its much glitzier and perfectly polished exterior, on the inside, the shenanigans of Enron senior management echo the 1990s in Russia.

Only, in the ultimate analysis, Enron's feat must be considered that much more stunning. After all, it did not happen in a fluid situation of underdeveloped supervisory agencies - and in a country lacking the appropriate depth in financial management skills.

The Enron fiasco occurred under the presumably watchful and experienced eye of the SEC and an army of other highly-skilled professional watchdogs in the United States.

The Enron fiasco occurred right under the presumably watchful and experienced eye of the Securities and Exchange Commission, independent auditors, market analysts, credit rating agencies and an army of other highly-skilled professional watchdogs in the United States.

Despite all these deep layers of professionalism, Enron was able to engage in the same kinds of activities sported, if not pioneered, by its Russian counterparts.

Just like Russian oil giants, Enron was able to hide losses and mislead investors. Of course, one crucial difference was that Russian companies usually tried to hide profits - in order to keep them from investors and tax authorities. Enron, by contrast, deliberately overstated its profits for a number of years to push up the value of its shares.

Dummy corporations

When trouble started at Enron, its senior managers appear to have sold off their shares, leaving shareholders - including the employee pension fund - holding the bag. Enron CFO Andrew Fastow, whose departure prompted the company's meltdown, set up a number of private partnerships on the side, which did business with Enron while he managed them.

His actions have plenty of precedents in Russia. Take the case of Gazprom's long-time management team which was investigated earlier this year. It turned out that the company had routinely guaranteed loans and also made investments into businesses set up by close relatives of Gazprom senior executives.

Political ties

In Russia, such practices are often legal - or at least not expressly forbidden. What's surprising is that in the United States, accountants and rating agencies managed to maintain silence, or ignorance, about Enron's practices for so long.

In the United States, Enron's political connections have not saved the company. Investigations are under way - and a myriad of lawsuits have been filed.

And legions of U.S. stock analysts were only too happy to tout Enron. They must have been solidly asleep all along. It should have been a warning to U.S. mutual fund owners that, in some cases, the analysts pushing Enron's stocks were the same guys who had promoted Russian energy companies just before the Russian stock market bubble burst in August 1998.

But the potentially most corrosive aspect of the Enron scandal lies in the political realm. Russian energy companies have been able to fool investors largely because they were protected by powerful political connections.

(Viktor Chernomyrdin, the long-serving Prime Minister in Boris Yelstin's government, had previously been the head of Gazprom. He is rumored to have become Russia's first billionaire as a result of that connection.)

Political protection for the worst offenders

Hence, it proved very difficult to sue any of the Russian investors in

court. Even if investors win a decision, it's pretty much impossible to enforce it. Indeed, Russian regulators are too weak to go after them.

In hindsight, it's uncanny how events at Houston-based Enron resemble the story of Russia's energy giants.

Enron seemed to have banked on a similar formula for success. Its Chairman and CEO, Kenneth Lay, has close personal and business ties to the Bush family. As one of the largest and earliest contributors to George W. Bush's presidential campaign, he "earned" the title of a "pioneer" - as one of those contributors whose contribution to the President's campaign war chest exceeded \$100,000.

While Mr. Lay himself was considered a candidate for Energy Secretary, other former Enron executives figure prominently in the Bush administration. At the Pentagon, Thomas E. White serves as the Secretary of the Army. Previously, he was Vice Chairman of Enron Energy Services.

Jail time for offenders?

There are differences, of course. No Russian oligarch has ever been punished for defrauding investors - or taking minority shareholders and tax authorities for a ride. On the contrary, most energy companies in Russia rushed to support Vladimir Putin once he became Russian prime minister in August 1999.

They also helped finance his subsequent presidential campaign. Since then, two of the largest energy concerns, Gazprom and Lukoil, helped throttle the two remaining media groups that dared criticize the government.

Russian energy companies lacked transparency and hid transactions and revenues in a Byzantine accounting system - as did Enron.

While Mr. Putin had promised voters to eliminate the oligarchs as a class, in reality they have become more powerful and wealthier than ever under his rule. At least, Mr. Putin sent his top assistant to clean up the murky business affairs at Gazprom.

But in the United States, Enron's political connections have not saved the company from bankruptcy. Investigations are under way, Congress is looking closely into the matter - and a myriad of lawsuits have been filed by duped shareholders.

But despite this pivotal difference between the United States and Russia, there is one disconcerting parallel. For whatever reason, the rise to political power is all too often financed by companies that can only be characterized as having questionable accounting practices.

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