

# Central Asia-Caucasus Analyst

BI-WEEKLY BRIEFING

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28 JANUARY 2009

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*Central Asia- Caucasus Institute  
Silk Road Studies Program*



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# THE CENTRAL ASIA-CAUCASUS ANALYST

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**KEY ISSUE:** A short 75-word statement of your conclusions about the issue or news event on which the article focuses.

**BACKGROUND:** 300-450 words of analysis about what has led up to the event or issue and why this issue is critical to the region. Include background information about the views and experiences of the local population.

**IMPLICATIONS:** 300-450 words of analysis of the ramifications of this event or issue, including where applicable, implications for the local people's future.

**CONCLUSIONS:** 100-200 words that strongly state your conclusions about the impact of the event or issue.

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Those interested in joining *The Analyst's* pool of authors to contribute articles, field reports, or contacts of potential writers, please send your CV to: <scornell@jhu.edu> and suggest some topics on which you would like to write.

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## FINANCIAL CRISIS HITS UZBEKISTAN

Umida Hashimova

*Over the past 10 years, Uzbekistan has benefited significantly from the boom in the Kazakh and Russian economies, especially in the building industry, through remittances from its labor migrants. The global financial crisis has now moved to the real estate and construction sectors. As a result, construction activities are decreasing considerably in both Russia and Kazakhstan. Labor migrants from Uzbekistan as well as from other Central Asia countries are now losing their jobs. Some of the migrants have started returning home, as the demand for labor has dropped dramatically while the number of workers has not. It is inevitable that remittances sent to Uzbekistan will decrease. While no one can foresee the exact depth and breadth of the event, preliminary forecasts can be drawn at this stage.*

**BACKGROUND:** No exact data exists on the number of labor migrants from Uzbekistan. Figures vary between 250,000-300,000 according to official statistics and 1-1.5 million according to other sources. The primary destination countries are Russia, where an estimated 70 percent go, and Kazakhstan, with perhaps 10-15%. Labor migrants from Uzbekistan are mainly employed in the construction sector due to the high demand for labor as a result of the construction boom in these countries. According to Rosstat, 40 percent of guest workers in Russia are in the construction sector, with the share of migrants from Uzbekistan constituting a fifth of all migrants, the fastest growing as well as the largest contingent from the Central Asian countries.

For the last ten years, the economic well-being of the Uzbek population has been increasingly stable. Statistical data shows a considerable GDP increase, as well as increases in average income, spending and saving. For example, car sales doubled between 2005 and 2007. This is partially due to the remittances of labor migrants, who send money or bring it personally after the end of a working season. According to the Central Bank of Uzbekistan, only over the 2002-2006 period the annual

inflow of official remittances to the country increased fivefold, reaching almost US\$1.4 billion or 8.2 percent of GDP in 2006. If one considers that unofficial remittances are often estimated to constitute up to 50-100 percent of the official remittance reports, the figure might double. As data from the Center for Economic Research (CER) for 2007 suggests, the overwhelming portion of money was transferred from Russia (78 percent). Kazakhstan (5 percent), the U.S. and Korea (3,3 percent) account for most of the remainder. Remittances sent to Uzbekistan directly or indirectly increase the national and currency income, and



improve the balance of payments.

By leaving the country in search of work, labor migrants vacate jobs in the internal labor market, which is important in a densely populated country like Uzbekistan, with an excess of workforce in the labor market. This helps keep the unemployment rate relatively low. According to research performed by the Uzbek State Committee on Demonopolization, for the last ten years the number of able-bodied adults in Uzbekistan increased by 2.65 million people, or by 26.5 percent. In other words, the number increased by 3 percent each year, i.e. 300,000-400,000 yearly. This creates a serious demographic pressure on the Uzbek labor market.



**IMPLICATIONS:** The fallout of the current situation in the building sector in both Russia and Kazakhstan is already being felt: official data from Southern Kazakhstan, a region with booming construction over the last 10 years, has reported a decrease in workers from Uzbekistan between January and June 2008, when 38,875 people officially entered, compared to 46,070 during the same period in 2007. How long the crisis in the real estate sector will last, and to what extent it will affect the economies of Russia and Kazakhstan, will determine the future of labor migrants and policies towards them in the receiving countries. Most Russian experts report that it is impossible to produce such forecasts at this stage, since the climax of the crisis will be reached in mid-2009. Experts claim that in theory, it will take 15-18 months for the economy to recover once the crisis hits the real estate sector. IMF forecasts of GDP growth in Russia confirms this: 3.5 percent in 2009, compared with 6.8 percent in 2008 and 8.1 percent in 2007. Moreover, more recent reports suggest the Russian economy may not grow at all this year. Considering that Kazakhstan and Russia have similar economic structures, especially regarding their dependence on the global financial system, similar forecasts can be applied.

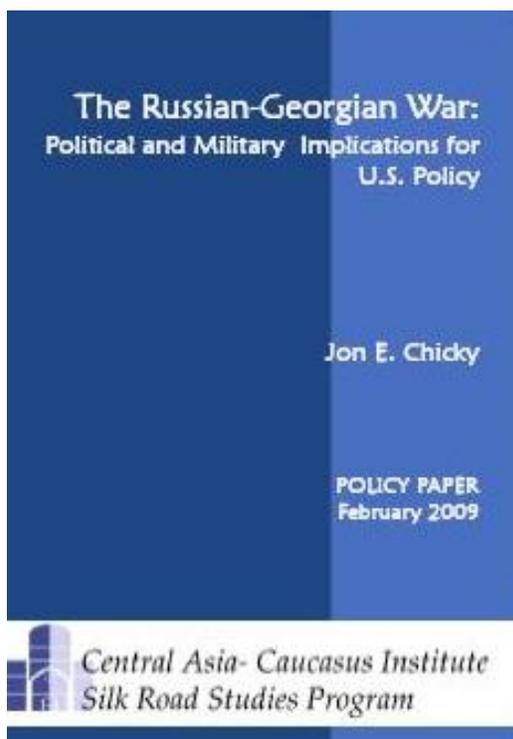
On December 4, Prime Minister Vladimir Putin proposed a cut in quotas for labor migrants by 50 percent. There is also a widespread attitude among the Russian public that unemployed migrants may resort to crime, especially robbery. It is thus likely that both Russian and Kazakh migration policy for 2009 will not be welcoming toward labor migrants at all. Therefore, some of the migrants will probably be forced to come back to Uzbekistan, while others will try to stay and struggle to find work in other sectors. Whichever path labor migrants decide to take, the economy of Uzbekistan will most probably start feeling the consequences of this situation from the beginning of 2009. In particular, once remittances decrease, GDP growth will slow down, and the income of the population and their spending will decline as well. Returning migrants will increase pressure on the domestic labor market, and unemployment will increase. National income, currency income, and the balance of payment will most probably drop.

It is worth mentioning the positive side of remittance decreases to the economy of Uzbekistan that was projected in the CER's research as well. First, this process might retard the growth of inflation, which has resulted in skyrocketing prices for all items. In 2006 alone, there was a 40 percent price increase in staples. Second, decreased remittances will slow down the revaluation of the national currency that has been affecting exports negatively.

**CONCLUSIONS:** Overall, labor migration has had many positive outcomes for Uzbekistan: remittances contributed to GDP growth, the country's balance of payments improved, national and currency income increased considerably and stabilized, the population's income and savings went up and unemployment-related tensions were eased on the domestic labor market. Also, the government budget was relieved from high social benefits payments. In other words, remittances have been a significant contributor to the economic growth of the country. Now that remittances are falling, perhaps dramatically, in combination with

other economic factors related to the global crisis, such as falling commodity prices and reduced foreign direct investment, there will be an inevitable economic and possibly social impact. According to forecasts, 2009 is likely to be the most difficult year as the real estate sector crisis reaches the highest point in Russia combined with less favorable migration policies, and Uzbekistan can expect the return of at least half its labor migrants. To mitigate these negative implications, the authorities in Tashkent have started undertaking some steps aimed at supporting public work inside Uzbekistan and promote export. Still, the ability of the Uzbek government to foresee the challenges and respond to them in a timely manner will determine the extent of their impact on the economic and social stability in the country.

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New Policy Paper:

***The Russian-Georgian War: Political and Military Implications for U.S. Policy***

**By Jon E. Chicky**

This Policy Paper provides an analysis of the implications of the war in Georgia for the incoming U.S. Administration. It is written By Colonel Jon E. Chicky, presently of the U.S. War College, formerly Director for Eurasia and Black Sea Policy at the Department of Defense.

The Paper can be downloaded free at [www.silkroadstudies.org](http://www.silkroadstudies.org).

## KAZAKHSTAN LOOKS AT THE TRANS-CASPIAN FOR TENGIZ GAS TO EUROPE

Robert M. Cutler

*As Russia and China seek to augment their influence over the development of Kazakhstan's energy production, Astana looks for other routes to overcome the restraints. The reinvigoration since 2007 of prospects for a Trans-Caspian Gas Pipeline (TCGP) with Turkmenistan's participation creates the possibility for Kazakhstan, which already cooperates with Azerbaijan on trans-Caspian oil shipments, to participate also with gas exports. Delays in the development of the offshore Kashagan field make associated gas from the onshore Tengiz oilfield the first candidate for such exports.*

**BACKGROUND:** The development of the natural gas production industry in northwest Kazakhstan has historically depended upon the capacity of the Russian gas processing industry, much as the development of the oil production industry there has depended upon the capacity of Russian oil pipelines. The Karachaganak gas deposit, for example, where today fully half of Kazakhstan's gas is produced, has ever since Soviet times depended upon the capacity of the trans-border Orenburg processing complex in Russia, which has been its only outlet. Throughout the 1990s, Russia was able to use its monopsonistic position so as to limit possibilities

for developing Karachaganak's gas production.

Various projects were elaborated over the past decade and a half for the westward transit of at least part of Karachaganak's production towards the Caspian Sea basin for trans-Caspian export. However, whenever such projects would become sufficiently well defined to appear technically and

economically feasible, Russia would reinvigorate negotiations with Kazakhstan for raising the prices and/or the quantities it would accept from Karachaganak, so as to render other routes uneconomical by comparison, only to alter the terms on offer yet again once the momentum of



the alternative project had dissipated.

At the beginning of the present decade, Russia contracted to upgrade Kazakhstan's gas pipeline infrastructure in the west and north of the country, linking this to the prospect of that gas flowing through those pipelines to be exported to Russia. An oil pipeline from Karachaganak was eventually constructed to Atyrau so that its liquids could be conducted into the pipeline of the Caspian Pipeline Consortium (CPC) to Novorossiisk on Russia's Black Sea coast. In mid-2007, the two countries reached agreement for further investment in Karachaganak with the intention of more than doubling current production levels from 7,5 to 16 billion cubic meters (bcm) per year, all still going to Orenburg with the exception of a separate and much smaller Uralsk Gas Pipeline for local customers.

The Kashagan deposit is an enormous undersea oilfield in Kazakhstan's Caspian offshore sector that is surmounted by a huge dome of natural gas, which is in turn held in place under unimaginable pressure by an overlying salt dome. At the time of Kashagan's proving, it was considered that its associated gas might be piped under the Caspian Sea to Azerbaijan so as to enter the South Caucasus Pipeline (Baku-Tbilisi-Erzurum) and eventually, through Turkey, reach Europe. Technical complications and the international consortium's complacency are responsible for delays in its development, long a bone of contention between the consortium operators and the government but now resolved. Once projected to have already begun operation, the Kashagan project is now set to come online in 2013.

**IMPLICATIONS:** Due to delays with Kashagan, and with Karachaganak still dedicated to Orenburg for the foreseeable future, associated gas from the onshore Tengiz oil deposit is now the best candidate

to supply Kazakhstani gas in a revamped TCGP project. Industry practice has been to flare Tengiz gas into the atmosphere, but now this must cease by 2011. The government in Astana considers the practice to be environmentally unsound (there is legislation against it) and, moreover, wishes to recover the gas for domestic use and revenue enhancement through export. Since the agreement of the multilateral "Road Map" in Astana in November 2006 by the Second Energy Interministerial Conference of the Littoral States of the Black and Caspian Seas (a process set into motion under the EU-sponsored 2004 "Baku Initiative" but which acquired true momentum following the January 2006 suspension by Russia of natural gas exports to Ukraine), Kazakhstan has been working together with Azerbaijan and the EU to address concretely the realistic prospects for Kazakhstan's gas to reach Europe and the available



techniques for this.

The unresolved legal status of the Caspian Sea is a stumbling block insofar as Kazakhstan feels obliged to take Russia's interests into account in formulating its own energy export policy. Talks among the five Caspian littoral countries over the status of the Sea in international law have been dragging along for well over a decade, although a number of important bilateral agreements have been reached on different issues. The most notable of

these concerns the allocation of national sectors of the seabed, and it is such an agreement between Moscow and Astana that permitted resource development to move ahead notably in the northern Caspian offshore between Kazakhstan and Russia.

Russia insists, as a way of blocking the TCGP, that the agreement of all five littoral states is necessary for any trans-Caspian pipeline to be built. One way to finesse this problem could be to offer to include in the pipeline gas from fields assigned to Russia (but now developed jointly with Kazakhstan) during the demarcation of the "modified median line" delimiting the border between Russian and Kazakhstani sectors of the seabed. However, this is unlikely to work insofar as it would require not just an economic but rather a political decision on Russia's part. Consequently, the EU has also been looking at exploring other means for conducting Central Asian gas from the eastern to the western coast of the Caspian Sea. The three methods available are liquefaction, compression, and gas-to-liquids. They would all be more expensive than constructing the TCGP, and the break-even price of the gas to the end consumer would be higher than the TCGP in every case, complicating the prospects of each in a different way.

The undersea portion of the TCGP from Kazakhstan would run from the country's Caspian Sea coast at Aqtau, whither gas from Tengiz would be brought overland, to Baku, connecting there to the South Caucasus Pipeline (Baku-Tbilisi-Erzurum) and eventually on to Europe. At the same time, a spur from this main line to the port at Turkmenbashi would connect Turkmenistan's gas fields to the TCGP. At present, the pipeline is projected to have an initial capacity of 20 bcm per year, possibly increasing to 30 bcm per year. Its total length would be almost 1,600 kilometers, of which only 300 would actually be underwater.

Since the death of Turkmenistan's former president Saparmurat Niyazov at the end of 2006, Ashgabat is no longer an obstacle in principle to such plans. Following a visit by Turkmenistan's new president Gurbanguly Berdimuhammedov to Berlin and

Vienna less than three months ago, the major German energy firm RWE, together with Austria's OMV, has now formed a joint venture to move the TCGP project ahead. Berdimuhammedov had already visited Brussels for high-level EU discussions in late 2007, and by mid-2008 an agreement had been reached that 10 bcm of gas from Turkmenistan would reach Europe in 2009. This would be accomplished through interconnecting Turkmenistan's rigs with Azerbaijani gas rigs in the Caspian offshore, which are in turn connected to the South Caucasus Pipeline.

The other major project for cooperation on gas exports between Kazakhstan and Turkmenistan is the Caspian coastal pipeline, to which Russia is the third party. This is sometimes erroneously called the "pre-Caspian" pipeline by mistranslation from homonymous Russian. (The Russian prefix "pri-" is not equivalent to the English "pre-" and means adjacent or attached to; the "pre-Caspian basin," a geologic formation in northwestern Kazakhstan and southern Russia, is, strictly speaking, unrelated to the track of the trilateral pipeline project.) Under the terms of a trilateral December 2007 agreement, the Caspian coastal pipeline is planned to carry 20 bcm yearly beginning in 2012.

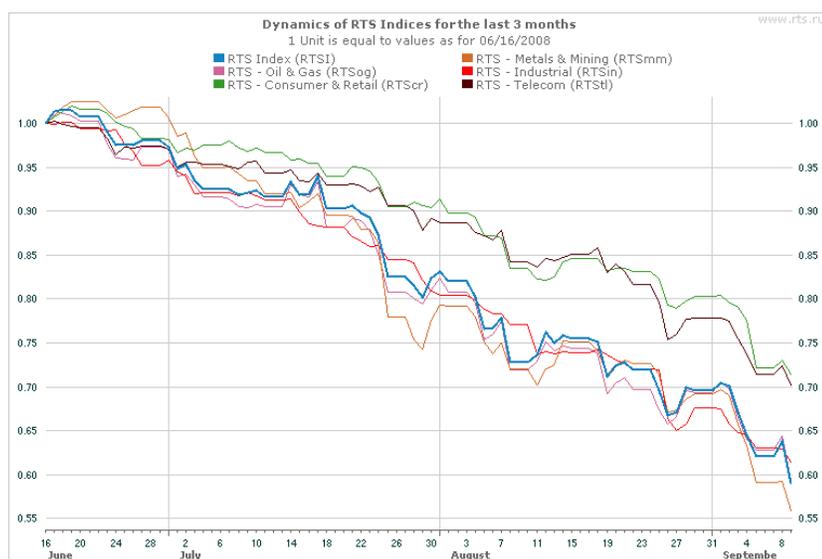
**CONCLUSIONS:** Despite great publicity at the time about the project for a "gas OPEC" headed by Russia, not even a formal intergovernmental institution was created. Indeed, each of the three participating governments is obligated, under terms of the agreement, to fund and execute the refurbishing and reconstruction of the pipeline on its own territory. In Turkmenistan and Kazakhstan, there have been delays. Not only is the TCGP of greater benefit to both of them since it would provide an additional outlet for the gas produced, but it is also more economical for them because it would be funded and constructed by the European companies concerned.

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## RUSSIAN ECONOMIC POLICY IN THE CIS DURING A TIME OF TROUBLES

Stephen Blank

*Despite the global economic crisis, Moscow is seeking to move further towards integrating the entire CIS around it as a financial and economic center. One of President Medvedev's five cardinal points in foreign policy is the advancement of Russia's sphere of influence, specifically privileged relations with CIS governments. Since then, including most recently at a cabinet session, he has reiterated the absolute priority of the CIS and especially its economic integration with Russia. This policy line is also consistent with everything he has done since becoming President of Russia in May. The global economic crisis does not appear to have deterred Moscow from this quest.*



Russian Stock Market Downturn, 2<sup>nd</sup> half 2008

**BACKGROUND:** Russia has repeatedly called on these governments to harmonize their actions to confront the crisis. At the October 10 CIS and EURASEC summit, the attendees signed a draft strategy for the CIS' economic development through 2020. This document will supposedly ensure the development of integration processes in the economic field throughout the next decade. Russia also organized a meeting of Finance Ministers "to synchronize watches" to deal with the crisis, casting itself as the main impetus for

integration. CIS agencies responsible for the electric power industry also reached agreement on coordinating their activity in a broad range of activities in the analysis and monitoring of the current situation and synchronizing the CIS and Iranian electricity grids.

Russian spokesmen also used this opportunity to quash talk of the CIS' uselessness or demise, saying that it and EURASEC have a vital and fruitful role to play in the future. Indeed, political analyst Mars Sariyev stated that "Russia strives to secure itself within the scope of economic integration" due to the war in Georgia. He further observed that a gradual alienation of Central Asian states through a failure to achieve such integration would lead to Russia's total isolation and subsequently even to the dismemberment of Russia.

Obviously, Uzbekistan did not agree with such conclusions, and to Russia's evident displeasure, Tashkent withdrew from EURASEC soon after. Nevertheless, Moscow has forged ahead with new integration proposals and agreements with CIS members, e.g. a customs union with Kazakhstan and

Belarus. Medvedev also told his cabinet to prepare for new mechanisms and institutions to promote the cause of integration during the current economic crisis to facilitate recovery, e.g. special funds collected to assist members. But beyond that, he has clearly marked out as the priority of his administration the consolidation of an enduring sphere of Russian influence throughout the CIS.

In line with Medvedev's frequently voiced desire to reduce the U.S. sway in world politics and economics – and with it the leading role of the dollar – he has repeatedly talked of the need for reform of the international financial order. Moreover, he has attempted to implement this grand design, discussing with China the idea of organizing payment for energy in the national currency of both states. More relevant here is the fact that Russia is attempting to impose such a closed ruble exchange in the CIS, at least in regard to energy payments. So far, it has only been successful with Belarus, which had to surrender its currency independence and recognize the ruble as a special regional reserve currency in return for a US\$2 billion loan to weather the current crisis.

Although it had also discussed an IMF loan – which obviously will not come if the national currency disappears – Belarus has evidently found that it had no choice but to surrender part of its sovereignty to Moscow. But Moscow clearly cracked the whip,

applying sanctions on Belarusian milk, cheeses and poultry, alleging they “had not met” the standards of Russia's Veterinary-physio-sanitary services. Thus Moscow served notice that Belarus had to adapt its production to Russian standards or else forego vital assistance. Russian officials also justified this program of action by saying it simplified operations by eliminating the European mediator for currency transactions from one currency to Euros and dollars back to the other state's currency.

Belarus is not alone. Tajikistan's President Rahmon openly says that his country “pins its hopes on Russia” for salvation. The price of such hope is likely to equal what Belarus has paid.

**IMPLICATIONS:** Russia thus plans to expand the use of the ruble in interstate activities throughout the CIS, starting with oil and gas payments in rubles. Since most countries are consumers of Russian energy, this would materially boost the ruble as a regional reserve currency. In this fashion, Russia is duplicating Nazi Germany's policies towards its Central and East European neighbors in 1933-39. Under the leadership of Hjalmar Schacht, President of the Reichsbank from 1933-39 and Minister of Economics from 1934-37, Germany organized a similar program, forcing its Eastern and southern neighbors to pay for goods exported from Germany in Reichsmarks. This naturally forced

them to export primarily to Germany to get that currency as Germany was their key market.

Not surprisingly, within a few years they had all become financial and economic satellites of Germany.

It is obvious from the Belarusian example that Russia is attempting to impose the same kind of policy and results upon



its CIS neighbors, and to convert the CIS into a closed trade and overall economic bloc that it dominates, thereby enhancing the ruble as a regional reserve currency and undermining the effective sovereignty and independence of the other, smaller states.

Certainly, Russian analysts and leaders have long believed that there is an economic logic that will lead the CIS back to subordination to Russia and they have tried with only partial success to implement policies following that logic. One official told the Italian newspaper *L'Espresso* that "to help our neighbors, however, would give Russia the opportunity to show them that it is we, and not the United States, that are able to guarantee stability in our region". This same official also made it clear that a key policy priority is to bring Ukraine back under Moscow's auspices. Thus, "Kiev has nothing to gain from screaming at us; it is well aware that Gazprom – which sells it gas more cheaply – is enough to determine the future of its economy." The point here for Central Asian and South Caucasian states is that if Belarus and Ukraine are forced to surrender their economic and currency independence to Moscow, they will not be far behind. Moscow clearly and fully intends to use the current global financial and economic crisis to impose even more controls upon its neighbors, and to further diminish their real economic independence and sovereignty under the guise of integration.

The activities leading to the creation of such a closed bloc do not get a lot of press, and could easily pass unnoticed abroad. Yet their cumulative impact is enormous, and potentially lethal for the governments of CIS states. There is no doubt that due to their well known governance problems, many of these states from Belarus to Tajikistan are considerably more vulnerable to the crisis phenomena currently shaking the global economy. Therefore they may come to feel that they have no alternative but to yield to Russia's pressure to save

their immediate situation and preserve the current ruling factions in power. One suspects that Islam Karimov, President of Uzbekistan, and a trained Soviet-era economist might have guessed what Moscow is up to, and that this is the background to Tashkent's decision to pull out of EURASEC.

Russia's policies are disturbing for other reasons as well. Russia is by no means a Nazi state, but the fact that we see intimations of Fascist-like behavior in groups like Nashi, the steady curtailment of democratic freedoms, the murder of reporters and refusal to publicize their trials, as in the Politkovskaya murder and trial, and the emulation of Nazi economic policies all carry a disturbing message. And of course, the incessant efforts to reduce its neighbors' sovereignty to a purely ceremonial status are equally negative auguries. In this connection, Medvedev's policies also remain consistent.

**CONCLUSIONS:** Despite the advent of a global economic-financial crisis, Russia has consistently opted for policies of empire, closed autarchic blocs and grandiose efforts to undermine American policy without having any idea of what to put in its place other than systematic national state exaltation. The idea of a closed ruble bloc exemplifies the consistent pattern by which Russia under Putin and Medvedev has always opted for empire over reform. Undoubtedly, the current economic crisis will have profound global political implications. Russia obviously intends to use this crisis to impose a new economic order upon the CIS that can only mean its subordination to Russia's dictates. But as has been the case in previous examples of such overt attempts at an imperial policy, the results can only be greater instability and unrest.

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# RUSSIAN ARMS TO ARMENIA COULD CHANGE AZERBAIJAN'S FOREIGN POLICY ORIENTATION

*Fariz Ismailzade*

*The recent thaw in Russian-Azerbaijani relations seems to be coming to a sudden end, as Azerbaijani media outlets circulate news of Russian arms deliveries to Armenia in the amount of US\$800 million. The news sparked huge protests both among the Azerbaijani general public and politicians. More importantly, it created a sense of treason among the political leadership of Azerbaijan, which had been promised support from Russia in the aftermath of the Georgian-Russian war. Such disappointment could result in grave geopolitical shifts in the region and changes in Azerbaijan's foreign policy course towards NATO.*

**BACKGROUND:** On January 6, Azerbaijani media outlets reported that Russian defense officials transferred weapons and other military hardware worth US\$ 800 million to Armenia in 2008. The evidence consisted of a document containing the signature of a Russian defense official and a detailed list of the transferred weapons. As becomes clear from the document, the weapons used to belong to a Russian military bases in Georgia, which was later withdrawn in accordance with OSCE requirements and relocated to Armenia. At that time, Russian political and military officials responded to Azerbaijani concerns about the relocation by stating that the weapons and other military equipment in the military base would remain the property of the Russian Federation, and would not be transferred to Armenia. "Russia promised Azerbaijan that the weapons would not be given to Armenia," says political analyst Rasim Musabekov.

The current news had the effect of a thunderstorm from a blue sky. Azerbaijani officials immediately reacted to the news by harshly condemning the Russian actions and citing its negative consequences for peace and stability in the region. Various members of Parliament, along with renowned



PHOTOLURE

public figures and policy analysts, have written op-eds and spoken on TV about this incident. For instance, Anar Mammadkhanov, a Member of Parliament and close loyalist of President Ilham Aliyev, referred to the sale as "unexplainable Kremlin boorishness."

The Azerbaijani Ministries of Foreign Affairs and Defense have launched an investigation of the issue, which concluded that an illegal transfer of weapons from Russia to Armenia has indeed taken place. The reaction was very harsh. The Ministry of Foreign Affairs summoned the Russian ambassador to Azerbaijan and expressed deep frustration with the incident. The press release of the Ministry of

Foreign Affairs said, “The transferred weapons strengthen the military capacity of Armenia, which occupies 20 percent of Azerbaijan’s territory. By doing this, Russia violated its own promises and the UN General Assembly resolutions.”

It should be noted that it is not the first instance of Russian “donations” of weapons and military equipment to Armenia, its strategic ally and military outpost in the South Caucasus, which is the only member of the Collective Security Treaty Organization in the South Caucasus. Back in 1997, a scandal erupted when the head of the Defense Committee of the Russian Duma, Lev Rokhlin, discovered and announced that Russia had illegally transferred weapons to Armenia in the amount of US\$1 billion. After Azerbaijan’s fierce protests, the Russian Defense Ministry launched an investigation, but has to date failed to punish the officers responsible. Rokhlin himself was subsequently killed in a mysterious accident and the issue was largely forgotten.

After the recent incident, Azerbaijanis again recalled the incident of the late 1990s. “Only God knows how many other transfers Russia has made to Armenia, both legally and illegally,” says Ilgar Mammadov, a Baku-based political analyst, in his blog. It is not clear where all these weapons are stored. If they are stored in Armenia, it is questionable how this corresponds to the limitations imposed by the Treaty on Conventional Armed Forces in Europe. It seems that Armenia has previously been exceeding the quotas of this treaty. One way to circumvent this problem could be to transfer the weapons to Nagorno-Karabakh, which continues to remain an soon after unmonitored zone by international organizations. If this would be the case, the conflict zone becomes even more militarized, significantly reducing chances for a peaceful resolution.

Most government officials are convinced that despite all the peace rhetoric, Russia continues to arm Armenia and remain interested in maintaining the Nagorno-Karabakh conflict unresolved. The incident is especially damaging since it was reported only one month after President Aliyev signed the

Moscow Declaration on Nagorno-Karabakh together with Russian President Medvedev and Armenian President Serzh Sargsyan. Although Russian Foreign Minister Sergey Lavrov phoned his Azerbaijani counterpart Elmar Mammadyarov to convince him that no such transfer has taken place, the Azerbaijan side is convinced otherwise.

**IMPLICATIONS:** It is clear that the weapons transfer incident will play an extremely damaging role in Russia-Azerbaijan relations. These relations have been improving in the past several years, with President Ilham Aliyev reaching out to Moscow and downplaying his NATO aspirations in favor of accommodating Russian interests and building pragmatic relations with the Kremlin. Economic cooperation and trade between Russia and Azerbaijan reached its highest levels in 2008. President Medvedev visited Baku and expressed an interest in buying all Azerbaijan’s gas. President Aliyev visited Moscow on a number of occasions and expressed an interest in building deeper and more constructive relations with Moscow.

On the one hand, this was done to improve the chances for a peaceful resolution of the Nagorno-Karabakh conflict (Moscow is one of the co-chairs of the Minsk group and an influential partner of Armenia). On the other hand, Aliyev sincerely wanted to help Russia improve its image on the international arena. For instance, during the Georgian-Russian conflict, Aliyev refrained from accusing Russia of aggression. He subsequently signed the Moscow Declaration – not a breakthrough in the peace negotiations as sometimes suggested, but nevertheless a boost for the Kremlin’s image as a peace broker in the South Caucasus following its invasion of Georgia. All of these gestures were aimed at winning Moscow’s favor.

After this incident, frustration among the political leadership in Baku is obvious. It is perhaps a wake-up call for the Azerbaijani public and officials, who increasingly believe that Moscow will always be guided by zero-sum games and interested in maintaining the conflicts in the former Soviet space unresolved, and that Moscow will continue to

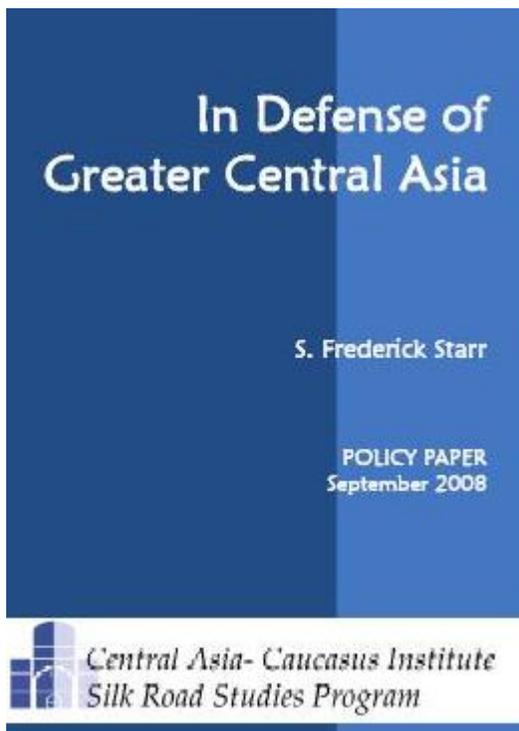
support Armenia despite the fact that it stands to gain much more by acting as a neutral player in the Nagorno-Karabakh conflict.

After the Russian-Georgian war last August, there had been some hope in Baku that Moscow might alter its blatant support for Armenia and become more cooperative in seeking to resolve the Nagorno-Karabakh conflict. In return, Azerbaijan would desist from following Georgia's path to NATO membership, and Azerbaijan would deliver its gas to Russia rather than to the Nabucco pipeline project. Importantly, voices calling for that have now vanished. Indeed, the voices in Baku promoting broader security arrangements with NATO and the EU, and viewing Euro-Atlantic integration as the only way to ensure stability in the South Caucasus are gaining ground. That in turn takes place just as the U.S. has signed documents on strategic partnership with both Georgia and Ukraine.

**CONCLUSIONS:** In the aftermath of the war in Georgia, Azerbaijani officials were evidently greatly

frustrated with the weak reaction of the West and Turkey's submissive attitude to Moscow. ([See 3 September CACI Analyst](#)) Briefly, Baku flirted with the idea of making a deal with Russia on both gas supplies and the Karabakh conflict. Yet the discovery of huge Russian arms deliveries to Armenia not only force Azerbaijan to purchase more weapons and thus further militarize the region – it deals serious damage to Russian-Azerbaijani relations at a personal level. Russia's actions are now interpreted as irrational, emotional and unpredictable behavior. Baku's flirt with Moscow seems resolutely over, which could rejuvenate its ties with the West – if the West is interested in investing in ties to Baku.

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New Policy Paper:

*In Defense of Greater Central Asia*

By S. Frederick Starr

The idea of an open Greater Central Asia that is an economic and transport center rather than a periphery, and a self-determined subject of international affairs rather than a pliable object, stands in contrast to the territorial colonialism of yore and to the energy-driven colonialism which threatens the region today.

The Paper can be downloaded free at [www.silkroadstudies.org](http://www.silkroadstudies.org). Hardcopy requests should be addressed to Katarina Lesandric at [caci2@jhu.edu](mailto:caci2@jhu.edu).

## FIELD REPORTS

### MEDVEDEV VISITS TASHKENT: A THAW IN RUSSIAN-UZBEK RELATIONS?

*Erkin Akhmadov*

On 22 January 2009, Russian President Dmitri Medvedev started his first official visit to Uzbekistan. The timing of the visit seems well chosen as relations between the two states have recently cooled with Uzbekistan leaving the Russia-led Eurasian Economic Community and not attending a meeting of the Collective Security Treaty Organization. Meanwhile, a number of economic, political and military issues still keep Russia and Uzbekistan tied together. The visit is described as successful by both Uzbek and Russian media sources as it managed to defrost relations and bring clarity to several issues of immediate concern for both states.

On the first day Islam Karimov invited Dmitri Medvedev to his native city of Samarkand, offering a sightseeing tour and commencing closed talks. On the visit's second day, meetings were held in the capital – Tashkent, where several Russian delegates joined the discussion. Among them were the vice-premier of the Russian-Uzbek intergovernmental commission Sergey Ivanov, the Minister of Foreign Affairs Sergey Lavrov, Gazprom CEO Aleksey Miller, Lukoil CEO Vagit Alekperov and many others. Judging from the delegation's members, negotiation over gas imports were a key theme during the visit.

One day before Medvedev's arrival, Alekperov was welcomed by the President of Uzbekistan, and it was announced that Lukoil plans to invest US\$ 5 billion Uzbekistan's energy sector. Another significant achievement of the meeting was the agreement to construct a new trunk gas pipeline that

would expand the capacities of the presently operating Central Asia – Center pipeline.

The outcomes of the gas negotiations were more than successful for both sides: from 2009 Uzbek gas will be sold to Russia at world market prices and the volume of imports may be increased by up to 31 billion cubic meters. Thus, Uzbekistan is about to commit all its gas exports to Russia. The increase of exports to Russia will be realized through reducing gas exports to neighboring Kyrgyzstan and Tajikistan which are not able to buy Uzbek gas due to increased prices. Moreover, increased exports of gas will likely be accompanied by domestic shortages. Thus, it seems that Uzbek authorities are willing to reduce supply not only to the immediate neighbors, but also to the own population to improve relations with Russia and satisfy its demands for gas imports.

Military and security issues were also high on the agenda. Uzbekistan plans to restore its cooperation with the US. However, these intentions would not affect its cooperation with Russia as Uzbekistan is not willing to leave the Collective Security Treaty Organization. The most pressing issue in this regard is the situation in Afghanistan, and at the press conference held by the end of the visit, Dmitri Medvedev stated that Russia is ready to cooperate with the West over Afghanistan. This statement seems to imply that Russia does not mind Uzbekistan's realignment, while it is clear that this stance applies only to resolving the situation in Afghanistan.

Last but not least, the issue that could potentially damage relations between the two states concerns Russia's position on water issues. Uzbekistan, being a lower riparian state in the region, is concerned over the intentions of upper riparian Kyrgyzstan and Tajikistan to build dams for producing hydro energy that could create substantial water shortages in the country. While Central Asian states are not able to reach consensus on the issue, Uzbekistan hoped to secure Russian support for its position. However, in the end of last year, Uzbekistan was informed of Russia's readiness to finance the construction of the Kambarata hydroplant in Kyrgyzstan. This news was followed by an agreement between Kazakhstan, Kyrgyzstan and Tajikistan on water, gas and fuel oil without Uzbekistan. Uzbekistan has therefore had serious doubts about Russia's stance on these issues. It seems, however, that as a result of the visit Russia supports Uzbekistan in this matter. Thus, at the press-conference, Medvedev noted that consensus between neighboring states, guarantees of ecologic safety and following certain international norms

and bilateral agreements is essential for construction projects along trans-boundary rivers. Knowing Uzbekistan's sensitivity to this issue, obviously unsubstantiated Russian statements would be inappropriate and it thus seems that the President of Uzbekistan actually managed to secure Russian support.

By the end of the visit, a few documents were signed: a program of cooperation for the ministries of foreign affairs for the year 2009, an agreement on the conditions and services of diplomatic representations, and a joint communiqué of the leaders. However, the visit brought many undocumented results. This could perhaps best be described by the statement that Islam Karimov made commenting on outcomes of Medvedev's visit: "Today many things became clearer to me. Many things were revealed, and now I can take decisions with confidence knowing in advance Russia's stance on some key issues for preserving stability in our region".

## ENERGY UPDATE – TAJIKISTAN: AN EYE FOR AN EYE?

*Sergey Medrea*

The first week of the New Year brought a rapid increase in energy prices and the ensuing fears of still severer and stricter power cuts throughout Tajikistan. Both electricity and natural gas prices hiked once the New Year's celebrations came to an end, announcing that from now on even fewer people will afford and have these basic things in their households; there is however a second, and perhaps more threatening message accompanying these price hikes: the rising debt of Tajikistan, that must be paid at some point in the future. Unlike the disastrous winter of 2007, this time the major cities and urban centers of Tajikistan have regular electricity supply, with only a few hours of blackouts per day. However, the many villages and

suburban areas that make up most of the predominantly rural Tajikistan continue to experience power cuts for up to 15 hours per day.

On Thursday, January 1, Turkmenistan suspended the electricity supply to Tajikistan on the grounds that Tajikistan did not arrive at a new transit agreement with Uzbekistan. Dushanbe and Ashgabat reached a five year agreement in 2007, with Turkmenistan agreeing to export 1,2 bn kWh of electricity to Tajikistan during the winter season. This agreement was further amended on October 2008, when Turkmenistan consented to export as much as 1,3 bn kWh during the winter months of December 2008 and January 2009 to energy-hungry

Tajikistan. Talks with Uzbekistan have always been more complicated; last year, negotiations on the issue of transit of Turkmen electricity via Uzbek territory to Tajikistan lasted for several months, accompanied by numerous disagreements and finally settled only when the two Presidents, Emomali Rahmon and Islam Karimov, intervened. With the halt of Turkmen electricity and projections that Uzbekistan will ask for 10 percent of the transit cost of electricity crossing its lines, the state-owned energy company, Barki Tojik, decided to raise the price of electricity paid by the local population by 25 percent, explaining it as an attempt to make the energy sector more attractive to foreign investment.

The very same day, January 1, Uzbekistan also increased the cost for natural gas that it exports to Tajikistan by 54 percent, bringing it to US\$ 240 per thousand cubic meters (tcm), from US\$ 145 tcm for the previous year. For common households, the cost is announced as US\$ 305 for every tcm used, whereas previously it was about US\$ 200. Though a few big resource sites for the extraction and production of natural gas exist in Tajikistan, the extraction is complicated, since resources are located deep and are thus very expensive to extract. The government plans to become self sufficient in gas and projects that as early as 2011 the country will not depend on any outside source, a date which is rather plausible. Companies like "Gazprom" and "Tethys petroleum" are already present at several sites, but extraction will require time and big investments.

Three out of four units in the Sangtuda-1 hydro station became operational by late November 2008, a project financed by Russia. Meanwhile, work on the Sangtuda-2 station, financed by Iran, is moving at a slow pace, a fact that has met complaints by the Tajik President. Another big project with the potential to alleviate the energy deficit in the country is the Rogun station that could cost up to US\$ 3,2 billion, but has the potential to make Tajikistan not only energy self-sufficient, but also one of the major regional exporters of electricity.

The last development around the Rogun hydro Station was that the World Bank was in charge of creating an international consortium that would allow a number of countries to invest. With the global financial crisis causing a liquidity squeeze and economic downfall in the world economies, international lending or investment for such big projects as Rogun will be very hard to obtain. Thus, the completion of the station is unlikely in the near future. Tajikistan produces around 40 million kWh of electricity per day, roughly half of which goes to TALCO, an aluminum smelter. The financial crisis in this case might have a positive effect, since the demand for aluminum will fall, and more internally produced electricity could be given to common households. As for now, people just have to cope with the regular electricity cuts that are accompanied by the absence of central heating and now lofty prices for natural gas.

December and January have for several years now become months of complicated negotiations with Uzbekistan on matters of electricity and gas. The Tajik delegation has already resumed talks on Turkmen electricity via Uzbekistan. Officially, Uzbekistan often expresses unwillingness to sell gas and electricity to its poor neighbors Tajikistan and Kyrgyzstan, both of whom have high debts for these commodities already, debts which seem to be on the rise. However, this "squeeze" tactic of non-negotiation is a two-edged sword, because when the spring comes, Uzbekistan will rely on the water flowing through Tajik and Kyrgyz territory to Uzbekistan's myriad cotton fields. Tajikistan, due to the lack of energy, has already introduced emergency procedures, i.e. relying on the Nurek and Kairakum hydroelectric stations to produce electricity, by releasing water out of the reservoirs. This will ultimately cause problems for the whole region in terms of water scarcity during the agricultural spring season, since much water has already been released to produce much-needed electricity.

## IMPASSE IN GEORGIA AS INTERNATIONAL MISSIONS MAY WITHDRAW

Joanna Žeber

There are currently three international missions observing developments on the ground in Georgia. Two of these three, the OSCE Mission to Georgia and the UN Observer Mission in Georgia (UNOMIG), have recently found themselves in an impasse with regard to the extension of their mandates. As a result, the EU Monitoring Mission in Georgia (EUMM) may soon be the only international mission working on the ground.

The OSCE Mission to Georgia, which was established in 1992 to support conflict reduction between the Georgian government and the *de facto* South Ossetian authorities, has launched a closing process. Its mandate expired on January 1, 2009, after the organization failed to secure an extension as the result of a deadlock in negotiations between the 56 OSCE member states in December 2008. Due to Russia's veto, all activities of the OSCE Mission to Georgia are to cease. The lack of an agreement on the Mission to Georgia mandate has also led to deficits in the 2009 budget for the entire OSCE. Currently, the OSCE finances its activities on the basis of the 2008 budget.

The UN Mission in Georgia (UNOMIG), which was created to facilitate the 1993 and subsequent 1994 ceasefire agreements between the Georgian government and the *de facto* Abkhaz authorities, may share the fate of the OSCE Mission. The current mandate of UNOMIG is set to expire on February 15, 2009. In October 2008, it was extended for only four months instead of the usual six months. The next possible extension will be discussed at a session of the UN Security Council in February 2009. There are serious doubts whether the UN Security Council will manage to issue a resolution maintaining the mandate.

The current stalemate concerning the OSCE Mission and UNOMIG is a result of the change of

the *status quo* after the war in Georgia in August 2008. Seen from Moscow, the existing mandates of the two missions are incompatible with the new realities on the ground. In Moscow's view, the war ended the conflicts between Tbilisi and Abkhazia and between Tbilisi and South Ossetia, and has resulted in the independence (to date only recognized by Russia and Nicaragua) of the two separatist entities. Russia argues that it is not legitimate to preserve the mandates of these two missions, both of which were established in the early 1990s to support conflict resolution. Moscow wants two separate and independent OSCE missions with respective headquarters in Tbilisi and in South Ossetia's capital Tskhinvali. A similar proposal is expected to be submitted with regard to UNOMIG.

For the other OSCE and UN Security Council member states, establishing separate missions would amount to recognizing the independence of Abkhazia and South Ossetia. Neither the US nor the EU supports the current *de facto* independence of the breakaway territories. From their point of view, the August war has highlighted the need to maintain the missions, whose current mandates they want to extend without major changes.

The Georgian government wants the OSCE and UNOMIG to maintain their missions in order to affirm the territorial integrity of the country as a whole, despite criticisms voiced by President Saakashvili about the alleged ineffectiveness of these two missions.

The unrecognized *de facto* administration of South Ossetia wants the OSCE mission to be restructured so that the mission based in Tskhinvali functions separately from the mission to Georgia. Meanwhile, the unrecognized *de facto* administration of Abkhazia seems to be more in favor of the

extension of the mandate of the UNOMIG as they seek to secure independence from Russia.

The future of the OSCE Mission to Georgia remains undecided, but most analysts expect it to close down this year. Although there has been no official order to withdraw the mission, and negotiations among OSCE member states continue, the OSCE is planning to close down its mission completely by the end of May 2009.

UNOMIG's future will be decided during the next session of the UN Security Council. Despite its parallels with the OSCE mission, there are some differences which may enable UNOMIG's mandate to be extended beyond its current term, which ends on February 15. First, UNOMIG seems to enjoy a better reputation than the OSCE mission, which was often criticized for conformist moderating of its reporting to the headquarters. Second, the *de facto* Abkhaz authorities appear to be pressing Russia for extending UNOMIG's present mandate.

The third international mission in Georgia, the European Union Monitoring Mission (EUMM), has no reason to fear that its mandate will be revoked in the near future. It was deployed on October 1, 2008, under the European Security and Defense Policy in order to monitor implementation of the peace agreements of August 12 and September 8 of the same year. The EUMM mandate is twelve months, with the possibility of further extension.

Although the EUMM does not currently face a challenge to its mandate, its potential effectiveness is in doubt given the lack of a mandate to enter the territories of South Ossetia and Abkhazia. (In contrast, both the OSCE and UNOMIG worked on both sides of the administrative borders in their respective areas of operation.) The lack of a common European Union foreign policy may also weaken the EUMM in the future. A first (mid-term) review of the EUMM will take place in the beginning of April 2009.

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## GAUGING INTEGRATION OF ELECTRICITY MARKETS IN CENTRAL ASIA

*Diana Bayzakova*

The integrated electricity market of Central Asia which hinges on high-voltage transmission lines – also known as the Central Asian Power System – is currently running afoul of its principal goal. Kyrgyzstan and Tajikistan are actively seeking ways to address the problem of their dependence on Uzbekistan, which for its own part is seeking to increase electricity exports outside Central Asia.

Allusions to the region's electricity surplus stem from the fact that Central Asian states are well endowed with energy resources, such as hydro power and natural gas, which are essential for power generation. For instance, the hydropower capacity of Kyrgyzstan makes it possible to trade in electricity with Kazakhstan. It is claimed that participation in competitive bidding for the supply of electricity for Kazakh consumers increased the

electricity price that Kyrgyzstan was to receive (the price had previously been negotiated through bilateral agreements between Kazakhstan and Kyrgyzstan) by 21 percent, providing an extra US\$ 10 million for the state budget. Tajikistan in turn has about 1,5-2 kWh of excess capacity in the summer and it is claimed that the Nurek hydroelectric power plant discharges idle water in the summer time which may instead generate an additional 700 megawatts of export capacity.

Some opine that Russia, China, Afghanistan, Pakistan, Iran are potential markets for electricity generated in Central Asia. However, against a backdrop of potentially lucrative markets in Russia which considers Central Asian electricity as a cheaper alternative to their own generated capacity, the region itself is confronted with the challenge of

meeting its own domestic demand, particularly during winter peaks. For upstream economies – Tajikistan and Kyrgyzstan – whose energy sectors are hugely dependent on hydro energy, ensuring security of supply when the reservoir level is usually low is no small undertaking, as the recent experience illustrates. Indeed, the notion of secured energy supplies for Kyrgyzstan and Tajikistan regained currency in the beginning of 2008, when they were unable to meet domestic demand as a result of an extremely cold winter. Unusually cold weather conditions (particularly in January-February 2008) brought horrendous consequences for Tajikistan, whose economy had to cope with nearly USD 250 million in losses.

Tajikistan's energy sector is undergoing substantial transition. The ultimate ratification of the Kyoto Protocol by the Tajik Parliament is expected to put the construction of the Roghun hydroelectric power station – the most controversial project in Tajikistan which received wide publicity as well as opposition from Uzbekistan – on a solid economic footing. It is claimed that compensation for each kWh of electricity generated will have a redeeming effect on the scale of investments necessary for its implementation, and that it would also prove the viability of building other new capacities through the Clean Development Mechanism and thereby contribute to Tajikistan's energy independence.

According to Zuhra Musoyeva, the chief expert of the Tajik Ministry of Economic Development and Trade, the state budget for 2009 envisaged the allocation of nearly US\$ 160 million for the construction of the Roghun power plant, implying that the government is clearly set to implement the project intended to not only improve Tajikistan's energy independence but also turn it into a major electricity exporter to Central Asian and Middle Eastern energy markets.

In terms of thermal energy supplies, Tethys Petroleum Limited, the Canadian gas firm, has recently signed an agreement with the government to appraise gas deposits in Tajikistan, as the report by privately-owned Tajik weekly newspaper *Tojikiston* states. The head of Tethys Petroleum Limited, David Robson, contends that the company

is able to make a vast contribution to meeting country's demand for natural gas within 2-3 years.

Meanwhile, according to a recent report by the state-owned Kyrgyz Television 1, the energy sector of Kyrgyzstan is also undergoing expansion. The Ministry of Industry, Energy and Fuel Resources of Kyrgyzstan and the South Korean EBPIK Ltd have signed an agreement aimed at the reconstruction of the Uch-Korgon hydroelectric power station and construction of the Datka, Kurshab substations and a power transmission line in the south of the country. Investments in the range of US\$ 200 million to be made by EBPIK Ltd in return for the licensed development of a coal deposit are expected to virtually end Kyrgyzstan's dependence on foreign electricity imports.

The Islamic Development Bank has approved funding for building a 500 kV transmission line to Afghanistan. The consequences are twofold. First, it suggests that the share of electricity generated in Uzbekistan and exported to Afghanistan will be increased. Second, shifting more supplies to Afghanistan implies that Uzbekistan will have less electricity to sell to its neighborhood.

For Uzbekistan on the other hand, the sustainability of an integrated electricity market with diversified export routes would pave the way for projects on a regional scale. Uzbekistan was seeking to privatise a minority of the shares in its "strategic" energy assets during 2005-2007 – the two biggest gas-fired power stations which account for a substantial amount of the capacity generated in Central Asia were up for auction. According to RBC daily, Russian Inter RAO UES was one of those interested in the Syrdarya thermoelectric power plant due to opportunities for electricity exports to neighbouring Tajikistan and Kyrgyzstan.

The energy policies of Central Asian states are polarized and evidently undermine the sustainability of common electricity markets and energy integration in Central Asia. Every effort aimed at integrating the energy markets of these states has so far been fruitless.

## NEWS DIGEST

### ESTONIA EMBRACES AZERI ENERGY RESOURCES

**15 January**

Estonia joined a chorus of voices embracing European plans to diversify its energy sector through ties with Azerbaijan, ministers said. "Europe's energy demand grows from year to year," said Estonian Economic and Communications Minister Juhan Parts.

"Azerbaijani gas may and must be represented on the (European) market." His comments came during the first visit to Baku by Estonian President Toomas Hendrik Ilves, who led a delegation of high-ranking officials to the Azeri capital this week. European customers are scrambling for alternative resources to relieve a market dependent on Russian energy. Ilves said the current gas crisis between Ukraine and Russia, which left Europe in the cold, prompted renewed efforts toward that goal, Russian news agency ITAR-TASS reported. "The current crisis (surrounding supplies of Russian natural gas to Europe via Ukraine) shows that dependence on one kind of energy resources, including natural gas, may be dangerous for Europe," said the Estonian president. Speaking on the planned Nabucco gas pipeline from Caspian and Middle Eastern suppliers to Europe, Ilves said that while his country is a member of the European community, its domestic energy policy is not biased. "Estonia, as a member of the EU, is guided by the energy security principle and does not argue against one or another route of energy supplies," he said. (UPI)

### TURKMEN PRESIDENT SACKS CABINET MEMBERS, OIL COMPANY DIRECTOR

**16 January**

Turkmen President Gurbanguly Berdymukhammedov has fired one-third of the country's government, as well as the head of the

state oil company, RFE/RL's Turkmen Service reports. Berdymukhammedov was shown on TV late on January 15 accusing top officials of "committing unforgivable mistakes and miscalculations." He then fired the ministers of energy, communications, sports and tourism, and the heads of the Turkmenneft state oil company and the state geological agency. The dismissals were the biggest changes made in the government by Berdymukhammedov since he came to power in December 2006. (RFE/RL)

### MURDERED CHECHEN GIRL'S LAWYER SHOT DEAD IN MOSCOW

**19 January**

A prominent lawyer representing the family of a Chechen girl killed by a Russian Army officer has been shot dead in Moscow. Prosecutors say the body of Stanislav Markelov was found on a central street in the Russian capital just moments after he spoke to reporters about the case. Law enforcement officials were quoted as saying an assailant carrying a gun with a silencer shot Markelov in the back of the head at point-blank range as he walked along Moscow's central Prechistenka Street. A woman walking with Markelov was also shot after she tried to intervene. She later died in hospital. She was identified as Anastasia Baburova, a freelance journalist working with Russia's opposition "Novaya gazeta" newspaper. No suspects have been apprehended. Prosecutors said a murder investigation had been launched. Svetlana Gannushkina of Russia's Memorial human rights center told RFE/RL's Russian Service that Markelov's murder bore the signs of a hired killing. "This could not have been accidental, and there was certainly no criminal motive behind it," Gannushkina said. "Unfortunately, we cannot conduct our own investigation. We can only demand that the law enforcement bodies do it.

But our capabilities, our mechanisms, so to speak, of making such demands are unfortunately very, very weak. All we can do is express our indignation and try to find out who threatened Stanislav, when, why, and how." (RFE/RL)

### **ARMENIAN, AZERBAIJANI LEADERS AGREE TO MEET IN DAVOS**

**21 January**

The Armenian and Azerbaijani presidents have agreed to meet on the sidelines of the World Economic Forum in Davos, Switzerland, on January 28 to discuss ways of resolving the Nagorno-Karabakh conflict. The meeting was confirmed after the U.S., Russian, and French co-chairs of the Organization for Security and Cooperation in Europe's Minsk Group met Armenian President Serzh Sarkisian in Yerevan on January 20, RFE/RL's Armenian Service reported. Azerbaijani President Ilham Aliyev agreed in Baku on January 19 to the meeting. The U.S. Minsk co-chair, Deputy Assistant Secretary of State Matthew Bryza, said that mediators hope to broker an Armenian-Azerbaijani framework peace deal by the summer. He said an agreement depends on whether the presidents can make "concrete steps" and whether Armenian and Azerbaijani societies can understand "what is being proposed [to resolve the issue]." Bryza added that "if they do understand it they will support it." (RFE/RL)

### **POLICE IN NORWAY PUT CHECHEN FAMILY UNDER PROTECTION**

**22 January**

Visa Kungayev, the father of the girl murdered by Russian Colonel Yury Budanov in 2000, told RFE/RL's North Caucasus Service that the Norwegian police have placed his family under special protection. Kungayev says he was summoned to a local police precinct on January 20 to discuss the assassination the day before of Stanislav Markelov, the Kungayev family's lawyer. Kungayev also discussed with police his family's safety and security in Norway. Kungayev said that he has no doubt that "Budanov and his gang" were behind Markelov's murder in broad daylight on the street in central Moscow. Budanov was released on parole early

last week from a 10-year prison sentence. (RFE/RL)

### **COMPANY AUTHORIZED TO SUPPLY GAS TO TSKHINVALI**

**22 January**

Itera-Georgia, one of five gas distributor companies in Georgia, has received a permission from the Georgian government to supply gas to breakaway South Ossetia. The Georgian Energy Ministry said on January 22 that it had issued permission "upon the request from European Union and OSCE." "Itera-Georgia is now holding negotiations with [Russia's] Gazprom on import of gas volumes, which is required for the region," the ministry said in the statement. A special governmental permission is needed for conducting commercial activities in breakaway Abkhazia and South Ossetia in the line with the law on the occupied territories, passed by the Georgian Parliament in October, 2008. Gas supply to breakaway South Ossetia was disrupted on August 8 after the damage of the Agara-Tskhinvali pipeline following the launch of military hostilities in the region. The pipeline was damaged on the Georgian side of the South Ossetian administrative border, close to the village of Dirbi. The Georgian state-owned Gas Transportation Corporation started pipeline repair works on January 15 and the pipe was already fixed by January 16. (Civil Georgia)

### **MEDVEDEV, KARIMOV TO DISCUSS SECURITY IN CENTRAL ASIA, AFGHAN SETTLEMENT- KREMLIN SOURCE**

**22 January**

Russian President Dmitry Medvedev and Uzbek President Islam Karimov are expected to discuss security and stability in Central Asia and ways to broaden bilateral cooperation in neutralizing the most serious present-day challenges - international terrorism, organized crime and the drug threat - during Medvedev's state visit to Uzbekistan on January 22 and 23. Special emphasis will be paid to the world financial crisis and on Russian-Uzbek cooperation as part of the world community's efforts to facilitate the inner Afghan settlement and that country's economic revival, a Kremlin source told Interfax, while speaking about the international agenda of the

visit. The president will discuss the activities of the Shanghai Cooperation Organization to prepare a SCO summit, set for the summer of 2009. "There will be a committed discussion of cooperation in the Commonwealth of Independent States, in the Collective Security Treaty Organization and in other international organizations," he said. The visit is to begin with a trip to Samarkand, Karimov's native city, where the two leaders will have an informal meeting. Talks will be held in Tashkent on the next day with the participation of Russian and Uzbek delegations, comprising ministers, lawmakers and major businessmen. "Serious attention will be given to the prospects of expanding bilateral trade and economic cooperation, primarily in the fuel and energy sector, aircraft construction, transport and mining," the Kremlin source said. Russian-Uzbek trade was about \$3.09 billion in January to November 2008, up 5.6%, year-on-year. Exports reached \$1.85 billion up 18.8% and imports were \$1.237 billion. Russian companies Gazprom (RTS: GAZP), Lukoil (RTS: LKOH), Stroitransgaz, Zarubezhneftegaz, Technopromexport, Zarubezhneft, Volga Dnepr Group, the West Urals Machine Building Concern and others are working in Turkmenistan. "The Uzbekistan summit is expected to further develop active contacts and the trustful summit dialogue, based on the principles of strategic partnership and allied relations," the Kremlin source said. (Interfax-AVN)

#### **FORMER TAJIK GAS OFFICIAL URGED REDUCTION IN DEPENDENCY ON UZBEK GAS**

**23 January**

The former head of the gas monopoly TajikGaz says that, before he was fired last week, he had proposed that Tajikistan increase natural gas exploration and build alternative pipelines to avoid paying high prices for Uzbek gas. Fathiddin Muhsiddinov told RFE/RL's Tajik Service that pipelines could be built from Turkmenistan to Tajikistan via Afghanistan. Tajikistan has to pay \$240 per 1,000 cubic meters of natural gas to Uzbekistan, from whom it gets the majority of its gas. But Uzbekistan often doesn't deliver gas that it agrees to, causing severe heating problems for

Tajikistan. Ivan Gogolev, spokesman for Russia's Gazprom Zarubezhneftegaz, confirmed to RFE/RL that his company received four licenses to develop gas fields in Tajikistan and that exploration will start soon. (RFE/RL)

#### **SAAKASHVILI: PUTIN IS GEORGIA'S ENEMY**

**23 January**

President Saakashvili said in his televised question and answer session with public on January 23, that Georgia has no enemy like Russia's Prime Minister, Vladimir Putin, for centuries. Georgia has not had enemy like Putin after Shah Abbas," he said, referring to Abbas I, the Shah of Persia notorious in Georgia for his invasion of Georgia's eastern region of Kakheti in the early 17th century. "Our goal is to save the Georgian statehood, if our statehood survives the territorial integrity will be restored and our enemy knows it very well. Our enemy has not achieved its goal to destroy our statehood," Saakashvili said and added that "the enemy" has not yet stopped its efforts to undermine the Georgian state. (Civil Georgia)

#### **SOURCES SAY IRAN RUNNING OUT OF URANIUM**

**24 January**

Iran could run out of yellowcake uranium within the next few months, forcing it to seek the nuclear fuel source elsewhere, sources say. Unidentified diplomatic sources said with Iran running low on the uranium ore byproduct, countries such as Britain and the United States are taking steps to prevent the Middle East nation from obtaining more from major uranium producers, The Times of London reported Saturday. Diplomats in Kazakhstan, Uzbekistan and Brazil have already received letters from Britain's Foreign and Commonwealth Office requesting that uranium-producing countries not to sell any to Iran. Iran's depleting cache of yellowcake uranium was purchased from South Africa in the 1970s, The Times reported. Uranium is a key component in the manufacturing of nuclear weapons, as well as for civilian electrical power production. The Times said Iran has been

struggling to produce enough uranium ore from its own mines to support its nuclear program. (UPI)

### **ARMENIAN PRESIDENT PARDONS 16 PEOPLE CONVICTED FOR MARCH 1, 2008 UNREST IN YEREVAN**

**24 January**

Armenian President Serzh Sargsyan has issued a decree pardoning 16 people convicted of involvement in mass unrest that took place in Yerevan on March 1, 2008. "Sixteen convicts serving sentences ranging from two to three years have been pardoned" in line with Sargsyan's decree of January 24, the

presidential press service told Interfax on Saturday. The people were found guilty of participating in mass unrest, illegally carrying, acquiring, using, transporting, or selling weapons and ammunition, and resisting police on March 1, 2008, it said. Sargsyan pardoned these people, "taking into account the convicts' pleas addressed to the president, the absence of past criminal records, family circumstances, and health status," he said. The president had earlier pardoned 12 other people found guilty of the same crimes. Following presidential elections on February 19, 2008, Armenian opposition activists led by former President Levon Ter-Petrosian, who again aspired to the presidency, refused to recognize the official

results of the elections and organized mass protests. On March 1, 2008, these protests grew into clashes with police, which left ten people dead and more than 250 injured. (Interfax)

### **KAZAKH REFINERY ONLINE BY 2012**

**26 January**

Oil refineries in the Kazakh province of Mangistau could be completed as early as 2012, officials said following a tour of the region. Construction on the oil refinery in the western portions of the province is slated to begin in 2009. Upon completion, it could produce some 7.3 million barrels per year, the Interfax news agency in Kazakhstan reported Monday. The estimates followed a visit to the region by Kazakh Prime Minister Karim Masimov. The three oil refineries

in Kazakhstan currently produce a total of 110 million barrels of oil per year. Domestic consumption is about 88 million barrels per year. Kazakhstan is looking to escape the economic turmoil hitting major markets by moving to diversify its future energy export potential. (UPI)

### **TAJIK LEADERS DISCUSS AFGHAN TIES**

**26 January**

The United Nations has increased efforts to improve cooperation between Afghanistan and neighboring Tajikistan to strengthen security and economic ties. Kai Eide, U.N. secretary-general special representative to Afghanistan, recently met with top authorities in Tajikistan, including President Emomali Rahmon and Foreign Minister Hamrokhon Zarifi, to discuss ways Tajikistan and Afghanistan could collaborate, the United Nations reported. Eide said the meeting, which included topics on combating the flow of narcotics out of Afghanistan and strengthening cooperation on agriculture and energy, among other efforts to bolster stability in the region, marked a positive step forward in ongoing efforts to improve Afghanistan's relations with its neighbors. "It is important to explore opportunities for win-win cooperation between Afghanistan and its neighbors," Eide said in a statement. "I see real opportunities and hope very much that these opportunities can be built upon." (UPI)

### **KYRGYZ OPPOSITIONAL FIGURE GETS TOP GOVERNMENT JOB**

**26 January**

Kyrgyz President Kurmanbek Bakiev has named an opposition politician as first deputy prime minister, as part of a reshuffle analysts have linked to the 2010 presidential election. Omurbek Babanov, 38, ran for the Central Asian state's parliament in 2007 as a member of the moderate opposition Social Democratic Party. He has since quit politics to concentrate on business, but retained party membership. Last week, Bakiev dismissed several government officials but has not explained his motives. Analysts say he could be trying to boost his team before the presidential election. "New approaches and measures are

needed to tackle issues related to our country's development," Bakiev's press service quoted him as saying. "We are betting on young people with new ways of thinking who can swiftly take adequate measures." Also on January 26, Bakiev named Kadyrbek Sarbaev, former ambassador to China, as foreign minister. Kyrgyzstan, home to a U.S. and a Russian military base, has been volatile since 2005 when Bakiev came to power after mass street protests ousted his long-serving predecessor. Public criticism of Bakiev has been on the rise as the impoverished ex-Soviet state struggles with a deepening economic crisis and energy shortages. (Reuters)

### **BURJANADZE HINTS ON PRESIDENTIAL AMBITIONS**

**26 January**

Nino Burjanadze, a former Parliamentary Chairperson, who now leads the opposition Democratic Movement-United Georgia party, said it was natural if a person who had twice been an acting president to have an ambition of running for president. When asked whether she would run if the early presidential elections are held, Burjanadze responded: "Let's at first achieve early polls and then talk about it." She, however, then continued: "Of course when a party, whose leader has twice been an acting president and served two terms as the parliamentary chairperson - this party, as well as its leader - has an ambition to gain victory in any elections." Burjanadze served as acting president first after the resignation of Eduard Shevardnadze in November, 2003 and then after President Saakashvili's resignation in November, 2007. Speaking live on the public TV's weekly program, Political Week, on January 25, Burjanadze also said that coordinated efforts of the opposition parties and the society's consolidation around the demand of holding early presidential election was needed to make the authorities call the early polls. (Civil Georgia)

### **ANALYSTS COUNTER IRAN'S PIPELINE CLAIMS**

**27 January**

Ecological concerns raised by Iran regarding planned infrastructure developments in the

Caspian are purely political, analysts say. Iranian Deputy Oil Minister Hossein Noqrekar Shirazi told state media Monday Iran is opposed to the construction of the planned 434-mile gas artery across the Caspian seabed because of the potential for environmental damage. Rasim Musabeyov, an independent political scientist based in Baku, Azerbaijan, said those comments were veiled criticisms that reflect Iran's intent to thwart developments in the Caspian region supported by Western nations, Azeri news agency Today.Az reported Tuesday. Musabeyov said any development on the estimated \$5 billion Trans-Caspian pipeline system to traverse the Caspian Sea "undermines the system of monopolies established by Iran and Russia on the European markets." The Trans-Caspian system would run from Kazakh ports across the Caspian to Baku. Its estimated capacity approaches 1.1 trillion cubic feet of natural gas per year. The Trans-Caspian system may be necessary if Caspian suppliers commit to the planned Western-backed Nabucco gas artery to Europe, which is intended to ease regional dependency on Russian natural resources. (UPI)

### **RUSSIAN DEFENSE MINISTRY DEMANDS THAT GEORGIA RELEASE RUSSIAN SERGEANT**

**27 January**

The Russian Defense Ministry demands that Georgia urgently release Junior Sergeant Alexander Glukhov who was captured in South Ossetia, Acting Russian Defense Ministry spokesman Col. Alexander Drobyshevsky told Interfax on Tuesday. "The preliminary investigation has shown that Alexander Glukhov was captured by the Georgian forces in the Akhlagori district, South Ossetia, and taken to Tbilisi," he said. Alexander Glukhov served in South Ossetia and was to be dismissed from military service in spring, he said. The Georgian media reports that Glukhov allegedly left the military unit on his own free will and crossed into Georgia as an "information provocation," he said. "Glukhov could say anything when subjected to psychological pressure or threats," he said. Drobyshevsky was commenting on the statement made by Glukhov that was shown on

Georgian TV: "I ask the Georgian president to grant me political asylum, I cannot support the sufferings inflicted upon Russian soldiers. I hope asylum will be granted to me." Glukhov went AWOL the other day and surrendered to Georgian police because he could not tolerate the hardships of military service and asked the Georgian president to grant him asylum. Meanwhile the Georgian Foreign Ministry said Glukhov was not detained and proposed to organize his meeting with Russian diplomats. "He is free both in his location and in his choice either to stay in Georgia or to leave for Russia," Georgian Foreign Ministry spokesman Shota Utiashvili told Interfax on Tuesday. Glukhov was not detained by the Georgian forces, he can stay in Georgia for treatment and rehabilitation or he can return to his unit, Utiashvili said. All Russian Defense Ministry assertions that Glukhov was allegedly captured by the Georgian special services were disinformation," he said. (Interfax-AVN)

#### **TALIBAN CALLS GUANTANAMO CLOSURE "POSITIVE STEP"**

**28 January**

The Taliban have told U.S. President Barack Obama that his plan to close Guantanamo Bay prison camp was a "positive step" but peace was only possible if he withdraws U.S. forces from Afghanistan and Iraq. The Taliban, toppled in the 2001 U.S.-led invasion of Afghanistan, also told the new president that sending more troops to Afghanistan "and the use of force against the independent peoples of the world, has lost its effectiveness." A day after being sworn in last week, Obama ordered the closure of the prison at Guantanamo Bay in Cuba, where prisoners have been detained for years without charge, some subjected to interrogation that human rights groups say amounted to torture. Obama has ordered a full review of U.S. strategy in Afghanistan, where he has pledged to boost troop levels and take the initiative against the growing Taliban insurgency. Osama bin Laden is believed

to be hiding in the remote, mountainous border region of Pakistan near Afghanistan. "Obama's move to close Guantanamo detention center is a positive step for peace and stability in the region and the world...", the Taliban said in a message posted on Islamist websites, monitored by the U.S.-based terrorism monitor, the SITE Intelligence Group. The message said Obama had to reverse the policies of former President George W. Bush in Afghanistan and the Islamic world. "If Obama is right and, according to his words, wants to open a new page based on peaceful interaction built on mutual respect with the Islamic world, the first thing he has to do is to stop and annul all these procedures, which were created according to Bush's criminal policy," it said. "He must completely withdraw all his forces from the two occupied Islamic countries [Afghanistan and Iraq], and to stop defending Israel against Islamic interests in the Middle East and the entire world," the Taliban message said. (Reuters)

#### **GEORGIA AGREES TO RESTRICT TROOPS ON ABKHAZ, SOUTH OSSETIA BORDERS**

**28 January**

The Georgian Defense Ministry and the EU Monitoring Mission (EUMM) have signed a memorandum that restricts Georgian troop movements along the borders with its breakaway regions of Abkhazia and South Ossetia. EUMM sources say it is hoped that Russia will do the same in the near future. Tbilisi-based political analyst Archil Gegeshidze told RFE/RL's Georgian Service that the EUUM is trying to strengthen security measures in Georgia's border region to be able to address any Russian military concentration on the other side of the border. Russia recognized Abkhazia and South Ossetia as independent states in August after the Russian-Georgian military conflict. Moscow has kept its troops in the two Georgian regions since then. (RFE/RL)