

# Central Asia-Caucasus Analyst

BI-WEEKLY BRIEFING

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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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**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.

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**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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## GERMANY AND TURKEY KEEP NABUCCO ON THE ROCKS

Stephen Blank

*The EU's priority pipeline, Nabucco has been an ill-starred project since its inception several years ago. The EU's March 20 decisions indicate that Nabucco may be alive, but in serious trouble. Germany's move from skepticism to outright hostility to the project is remarkable, as is Turkey's counterproductive machinations to extract additional benefits from it. If Nabucco is stalled, that would benefit only Gazprom and Moscow, but be a loss to Caspian producers, as well as the energy security of Europe more broadly. Most seriously perhaps, Nabucco's predicament illustrates Europe's inability to unite even when its own interests are at stake.*

**BACKGROUND:** This gas pipeline is the centerpiece in EU efforts to prevent Russia from achieving a monopoly position over supplies of gas to its members and envisions the export of gas from Kazakhstan, Turkmenistan, Iran, and Iraq, through the Caspian or overland to Turkey from whence it will then go to Europe. Nabucco was supposed to get underway in 2011 and when completed at an estimated cost of \$10 billion, pump 30 bcm (billion cubic meters) annually to Europe. Nonetheless it has been dogged by problems, divided counsels among EU members who have flocked to make bilateral deals with Russia, difficulties obtaining financing and the assent of key players and the EU's dithering and incoherent approach to the Central Asian providers, not to mention Russia's continuing alert responses to the threat Nabucco poses to it, have all frustrated European plans to date.

As the EU's most recent decisions on March 20 indicate, Nabucco may still be alive but it is clearly in trouble. Apart from the fact that if Nabucco fails to get off the ground neither Europe nor Central Asia has any viable alternative to Russian energy blackmail, such a failure would show conclusively that the EU still cannot

formulate, let alone implement a coherent policy towards Central Asia, or for that matter Russia.

The urgency of moving this project forward re-emerged as a result of the Russo-Ukrainian gas war of January 2009 that disrupted supplies of gas for almost three weeks at the height of winter. Nevertheless, German and Turkish objections almost killed the project in March 2009. After a high-level meeting in Budapest in January improved chances for Nabucco's funding, German Chancellor Angela Merkel wrote to EU Commission President Jose Manuel Barroso and Czech Prime Minister Mirek Topolánek, current President of the EU, opposing the assignment of priority status to Nabucco. Merkel instead has urged the EU to assign equal weight to the Gazprom-led Nord Stream and South Stream projects as well as Nabucco. Lately, however, she opposed EU plans to spend 250 million Euros from public funds to which Germany might have to contribute to support the project. Instead she advocated shifting this responsibility to private funds.

Merkel's stance appears to conform to German official and business sentiment which blamed Ukraine more than Russia for the January gas war,



and also wants to emphasize Nord Stream which will directly supply Germany with Russian gas and give Germany's business community large profits, but which also intensifies German dependence upon Russian gas. Thanks to Germany's opposition at the EU Commission's March meeting devoted to devising a comprehensive plan to of economic stimulus to attack the current economic crisis, the EU initially demoted the Nabucco gas pipeline from a list of projects to be financed by a 5 billion stimulus plan. However, Eastern European countries fought back, with Romania announcing that it would block the entire investment plan if it did not specifically refer to Nabucco.

On March 20, a compromise was reached, by which the EU Commission allocated 3.97 billion Euros to be spent on energy projects in 2009-10 with a 272 million Euro investment to begin Nabucco during this period. Nonetheless, the project remains in jeopardy as it is clear that Europe remains divided.

Turkey's stance also seriously obstructs the inception of this project. Already in May 2008, Turkish Foreign Minister Ali Babacan stated that Russia could join this project and then on that basis expand its cooperation with Turkey on

energy because full confidence existed between the two governments in energy relations. However, Russia recently reiterated its refusal to take part in the project. That has not deterred Turkey from equally recently announcing upgraded energy cooperation with Moscow. As a result, Turkey still cherishes visions of a large-scale Russo-Turkish energy partnership.

Turkey is continuing to stall on signing the inter-governmental agreement on Nabucco that is to take place at the EU summit on May 7. Without such an agreement, it is clear that local producers will not go forward and Azerbaijan's access to Western markets will be seriously compromised. Ankara demands a pre-emptive right to buy 15 percent of Azerbaijani gas that would go through the pipeline for less than European prices. Turkey could then store that gas or re-export it to third parties. Turkey also seeks higher taxes and transit fees for its section of the pipeline than do other consortium members. Evidently, Turkey also sees the Nabucco pipeline as its leverage to compel the EU to grant it membership, a move that looks like a serious miscalculation of its power even if Turkey is determined to be an energy hub. Other Turkish officials still seem to hanker after Gazprom participating in Nabucco in an effort to revive the Russo-Turkish Blue Stream project that will be displaced once the South Stream project takes hold and ships gas to Europe directly, thus



(AP)

bypassing Turkey. Although they are seeking to revive the vision of a grand energy partnership with Russia, Moscow's refusal to join Nabucco has crushed such hopes even as Turkey's stance still precludes cooperation with Azerbaijan or movement on Nabucco. As analysts have realized, Turkey, by delaying Azerbaijan's gas access to the West and the construction of Nabucco, it is retarding the development of Azerbaijani gas fields and Baku's accumulation of revenues due to that development. This also abets Gazprom, which has offered to buy Azerbaijan's entire export volume at European prices, and thus offers it better terms than does Turkey. Ultimately, if Nabucco does get off the ground, Turkey may find that it has outsmarted itself as the pipeline could go through the Black Sea to Romania or Bulgaria if Ankara continues to be obstructive.

**IMPLICATIONS:** These obstructions and divisions show that it is impossible to speak of a coherent and unified European energy policy, moreover Turkey does not appear to see that its visions of the future as an energy hub cannot be achieved through Russia. Undoubtedly, Russia will provide energy to Turkey as it now appears that nuclear energy reactors are part of the bilateral agenda. But Moscow is not going to allow Turkey to hold its main political and economic weapon hostage to Turkish visions of being an energy hub. Neither is the EU going to yield to Turkey's attempts to obstruct Nabucco in order to leverage its application for membership. Given considerable skepticism about Nabucco in Germany and other countries, Ankara's obstruction may lead to the collapse of the project, or its delay until it becomes unrealizable.

Should that happen, the big winner will be Gazprom (and Moscow), but the losers will be many. Turkey will lose both its dream of being an energy hub and EU member. Europe will lose its remaining freedom of maneuver vis-a-vis Moscow in regard to energy, a loss that will clearly carry

over into other realms like NATO enlargement and the structure of European security. Azerbaijan's ability to enter into Europe and supply Europe to the maximum feasible degree through Nabucco with gas will also be severely compromised and it will therefore become more susceptible to both Moscow's blandishments, e.g. the offer to buy its gas, and to Moscow's pressure tactics as Europe will hardly contest Russian domination of the South Caucasus.

**CONCLUSIONS:** Beyond Azerbaijan, Turkmenistan, Kazakhstan, and to a lesser degree Uzbekistan will also lose much of their remaining ability to operate freely in international gas markets. The recent examination of Turkmenistan's gas fields confirms that it has enough gas to supply Europe with the required amounts of gas through Nabucco if the pipeline can be built. Likewise Kazakhstan and Uzbekistan could only benefit from the increase in pipeline routes available to them, an outcome that would strengthen their independence vis-a-vis Russia, an outcome in line with overall Western objectives in Central Asia. But beyond that, the failure to secure financing and consensus among suppliers may doom the project or reduce it to the point of insignificance. More than being a blow to the independence and the enhancement of Caspian basin producers' ties to the world market, that denouement will amount to a conclusive demonstration of the fact that the European Union cannot devise a policy that makes sense either towards Russia and Russian energy, or to Central Asia, let alone maintain Europe's energy security. Thanks to the EU's earlier incompetence in these fields until now, it is unfortunately the case that those are the real stakes riding on the slender chance of Nabucco's becoming a reality.

**AUTHOR'S BIO:** Professor Stephen Blank, Strategic Studies Institute, US Army War College, March 2009. The views expressed here do not represent those of the US Army, Defense Department, or the Government.

## DOES THE ESPO SIGNAL A NEW SINO-RUSSIAN RAPPROCHEMENT?

Robert M. Cutler

*In mid-February, Russia and China signed an agreement providing for Chinese agencies to lend US\$25 billion to the Russian energy trusts Transneft and Rosneft in return for the construction of a branch from the East Siberia-Pacific Ocean (ESPO) oil pipeline from Skorovodino to the Chinese border and the guaranteed supply of significant amounts of oil over the long term. In the wake of the breakdown of American efforts to build its tactical cooperation with the Central Asian states over Afghanistan and the “global war on terror” into a broader strategic vision, the ESPO accord agreement signifies a reestablishment of the ability of China and Russia to cooperate together on geo-economic questions even within the context of their competition for influence in Central Asia.*

**BACKGROUND:** Russian plans for an East Siberian oil pipeline were long on hold due to indecision between building it to China and building it to a Far East port that could supply other consumers as well such as Japan. Although the idea for such a pipeline first popped up in the mid-1990s as the Yeltsin administration sought ways to enhance Russian-Soviet economic cooperation, it was only in April 2003 that Presidents Vladimir Putin and Hu Jintao signed an agreement for a pipeline to the Inner Manchurian petrochemical center Daqing. Mikhail Khodorkovsky, then the chief of Yukos, at the same time signed an agreement with Chinese energy trusts for a China-only route.

However, a half-year later, Khodorkovsky was in jail awaiting trial and Yukos was being dismantled. The Pacific route was no longer off the table, and Moscow wanted to use it for diplomatic leverage over Japan. The Russian political executive approved a Transneft-blocked route to the Pacific Coast port of Nakhodka at the end of 2004, but the Kurile Island dispute backed substantive progress. Finally in April 2005, the Russian government decided to integrate the two variants. The

pipeline would run from Taishet in eastern Siberia both to Daqing and to Nakhodka. The cash infusion also allows Rosneft to meet its debt obligations of over \$9 billion this year.

The new ESPO agreement implies a price for oil from Russia to China of US\$22 per barrel and an embedded interest rate charged by China to Russia of 6%. Both figures are exceptionally advantageous. The agreement just signed calls for Russia to build a 1.6 million barrel per day (bpd) pipeline to Skorovodino. In return for a \$15 billion loan to Rosneft and \$10 billion to Transneft, Russia will develop further fields, build the ESPO leg for Daqing from Skorovodino to the Chinese border, and supply to China at least 300,000 barrels per day. Beyond the border in the Chinese interior, Beijing will construct a domestic pipeline approximately 600 miles long to Daqing. From Skorovodino to Kozmino Bay, Russia will build a further 1 million bpd pipeline.

**IMPLICATIONS:** As late as last October, Russia hoped that Kazakhstan would also use the ESPO pipeline, even publicly suggesting that the country’s national energy transit trust KazTransOil might use ESPO. The head of the energy production trust KazMunaiGaz,



(ERINA)

however, demurred. It appears that any discussions that occurred were only of the most general nature without seriously adumbrating specific quantities or timetables. Kazakhstan's experience with Russia's delaying tactics in negotiations over the long-agreed-in-principle doubling of the capacity of the Tengiz-Novorossiisk pipeline (the Caspian Pipeline Consortium) certainly bred skepticism among the Kazakh energy decision making elite.

Nevertheless, the ESPO agreement with China is part and parcel of Russia's re-orientation, under way for some years now, of energy exports towards Asia and away from Europe. In the connection, it is worth noting that also in February, Russia inaugurated in Sakhalin its first liquefied natural gas (LNG) plant for East Asia. At projected full capacity, this plant, which is Russia's first venture into the global LNG market, would supply 5% of world demand. The first stage of development is

expected to be at about one-third of that capacity, of which two-thirds of exports will go to Japan with the remainder divided between North America and South Korea. This calculation reflects the expectation that the annual increase in Asia's gas demand will average 3% through at least 2030, with India and China together accounting for a significant fraction of the total.

Sino-Russian competition for influence in Central Asia has become manifest over the course of the present decade as Beijing has extended its reach into the region. Its influence in neighboring Kyrgyzstan was already established in the 1990s and has not diminished since then. It is perhaps in the energy field that China's sway has recently become most evident. An oil pipeline from eastern Kazakhstan into western China agreed in the late 1990s was after years of delays finally built and opened, and plans are on course for its extension westward to Aqtobe and beyond. A

gas pipeline from Turkmenistan was agreed last year and is now under construction, with ground having been broken in the transit countries Kazakhstan and Uzbekistan. Also the Shanghai Cooperation Organization has provided China with a regular forum for exploring and deepening contacts and cooperation with the Central Asian states that it is subsequently able to follow up on a bilateral basis. Thus for example on the basis of a 2005 Treaty on Friendly and Cooperative Partnership, China's relations with Uzbekistan have been deepening, particularly over the last two years, across a multitude of issues.

**CONCLUSIONS:** At the beginning of the current decade, Russia and China appeared to be in the process of establishing an entente over the evolving shape of Central Asia, even dividing it informally into competing spheres of influence. The June 2001 agreement that institutionalized the "Shanghai-5" grouping as the Shanghai Cooperation Organization (SCO) also provided for a joint anti-terrorism center in Bishkek, which was however later established in Tashkent. The Sino-Russian aspect of the cooperation was signaled separately in July 2001, when the two countries signed their first Treaty on Good-Neighborly Relations, Friendship, and Cooperation in fifty years. After 9/11, sudden new American attention to the region led to military basing agreements with Tashkent and Bishkek in October 2001. With boots on the ground in Afghanistan, Washington appeared by the end of 2002 to have blocked the impending closure of Sino-Russian hegemony over Central Asia.

By early 2009, however, the American profile is fading. Uzbekistan expelled American forces in 2005, and the U.S. is losing the Manas base in Kyrgyzstan, although Washington is considering reinvigorating military cooperation with Tashkent as a backstop to the latter eventuality. There may be still a place for

Western powers in Central Asia, and the Central Asian states recognize that this may be in their interest. For example, Kazakhstan is now as concerned about forced dependence upon China as it was earlier about forced dependence upon Russia. Both Kazakhstan and Turkmenistan have been moving towards a long-term expansion of energy exports in the western direction. However, neither the U.S. nor Europe seems to have a strategic view of the region, or at least the means to implement one, notwithstanding the EU's adoption of a Partnership Strategy with Central Asia nearly two years ago.

After the China National Petroleum Corporation's headline acquisition in 2005 of the Canadian company Petrokazakhstan in a bidding competition against the Russian trust Lukoil, there were noises made on both sides in favor of greater cooperation in energy affairs. The ESPO deal falls into this perspective, and its significance is essentially bilateral except for third countries such as Japan, which wanted to import the energy from Russia but could not match the Chinese offer. The Sino-Russian ESPO accord signals that even if the incipient Sino-Russian entente over Central Asia of a decade ago has been overtaken by events and fallen by the wayside, nevertheless the capacity for substantive and significant cooperation between Beijing and Moscow in the broader region has been reestablished. This notwithstanding, the Central Asian states on their own will continue to pick and choose between them insofar as they are able, seeking also to balance their international policies with other actors such as the EU and its members, the U.S., and Japan.

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# FINANCIAL CRISIS STIMULATES INSURANCE SECTOR IN UZBEKISTAN

Hushnudbek Yulchiev

*In these times of global financial crunch, analysts are striving to analyze which sectors of the economy will be prone to the adverse effects of the financial crisis. In this regard, economists in Uzbekistan are also estimating to what extent the sectors of the Uzbek economy will be negatively impacted by falling commodity prices, decreasing inflows of remittances, increasing unemployment etc., in order to ensure financial stability in the country. Initial analysis shows that Uzbekistan's insurance sector will not be affected by the financial crisis. Moreover, the unfavorable effects of the financial crunch hampering economic development in certain sectors will help stimulate further growth of the insurance sector.*

**BACKGROUND:** Past government reforms and development measures have rendered some very successful years for the insurance sector. The developments began after the demonopolization of the insurance sector, after which a number of private insurance companies started to grow. The state insurance company "Uzgosstrah" was restructured by the presidential decree "On the formation of a State Joint Stock Insurance Company "Uzagrosugurta" №125 from February 25th, 1997.

The next step was to create large and reliable state insurance companies. In connection to this, the end of the 1990s saw the creation of specialized insurance companies such as the National Export Import-Insurance Company "Uzbekinvest", specialized in insurance protection of export-import operations; SJSIC "Uzagrosugurta", specializing in insurance of agricultural risks; and the city insurance company SJSIC "Kafolat"; and IA "Madad", specializing in small and medium enterprises. The number of insurance companies operating in Uzbekistan in 2008 was 31, of which 29 worked in non-life insurance market and one operated in life insurance. There was also one re-insurance company.

Due to the decrees of the President of Uzbekistan "On measures to foster development of the service sector of the Republic of Uzbekistan in 2006-2010" from April 2006, and the resolution "On measures to further reform and develop the insurance services market" from April 2007, the insurance market witnessed dramatic growth. In figures, total insurance premiums were US\$40 million in 2006, US\$57 million in 2007 and US\$64,5 million in 2008.

Insurance in Uzbekistan is divided into four types: voluntary property insurance, voluntary liability insurance, voluntary personal insurance and mandatory insurance. As of 2008, 91.7% of the premiums of US\$54 million was collected on voluntary insurance products. This was a 20% increase over the previous year. It is worth noting that both personal and liability insurance developed actively in 2008. The growth rate of these insurance products made up 42.2% and 42.9% respectively. Premiums on property insurance rose by 14.7% and the share of property insurance in total collected premiums comprised 68.2%. In 2008, the share of mandatory insurance in the total volume of collected premiums rose by a factor of 1.6 and

made up 8.3%. Premiums collected on mandatory insurance products doubled to US\$5 million in 2008.

In 2008, the payouts volume doubled to US\$1.48 million compared to the previous year. The volume of payouts on voluntary insurance products rose by a factor of 1.5, while payouts in the volume on mandatory products fell by the same figure.

In 2008, the five market leaders collected 57.72% of all net premiums for the given period. Uzagrosugurta was the leader of the market with 28.86% of the market share, followed by Kafolat and Uzbekinvest with market shares of 9.75% and 9.57% respectively. Kapital sugurta was number 4 in the hierarchy with a 5.38% market share and number 5 was Asia Inshurans scoring 4.16%.

**IMPLICATIONS:** As one can observe, there is a large government involvement in Uzbekistan's insurance sector. This involvement has proved quite handy for the insurance sector to secure further growth while the financial crisis is still ongoing. One of the extended assistances to the sector is that organizations providing insurance services are exempt from taxes on revenue until 2010. Moreover, the government is currently reforming the mandatory insurance sector as well. Recent regulations on Mandatory Auto-Civil Liability Insurance (MACLI), and on mandatory insurance on employers' responsibility came into force this year. Mandatory insurance products already contributed to the growth through the collection of insurance premiums in the amount of US\$5 million, which is 2.1 times higher than in 2007. Furthermore, the financial crisis will positively contribute to the growth of mandatory insurance premium collections. It is certain that the financial crisis already affected

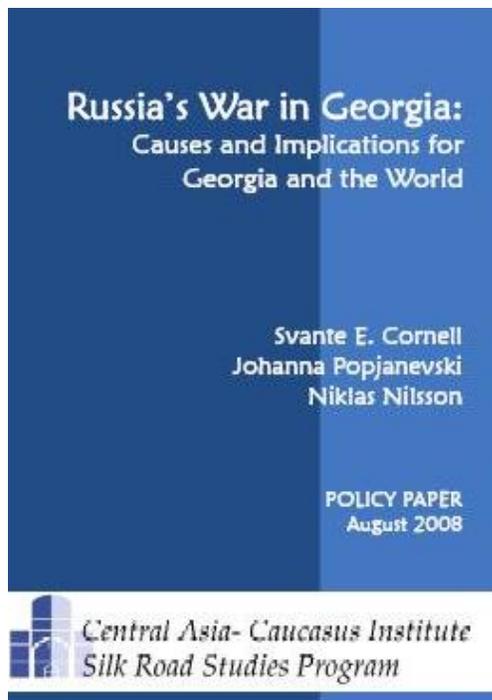
Russia and Kazakhstan, where 80%-85% of Uzbek migrant workers are employed. Consequently, returning migrant workers are forced to look for jobs in Uzbekistan. Currently, the only available and more or less suitable jobs are in the bazaars (markets) and in the public transportation sector. There are 2.5 million vehicles registered in Uzbekistan, and figures are expected to rise as more and more people will seek employment in the transport sector. As a result, the insurance sector of Uzbekistan will further benefit from the Mandatory Auto-Civil Liability Insurance.

A closer look into the sector reveals that the largest contribution to insurance premiums comes from voluntary property insurance, which constitutes about 75% of all premiums. The other forms of insurance are not as developed and the mandatory sector started to provide a larger contribution only as an effect of state intervention. The share contributed by voluntary property insurance to the sector will not diminish amid the financial crisis since, although it is called voluntary, the insurance levies are collected on a mandatory basis. Simple arithmetic can help investigate the case. About 3.7 million households make up the 27 million residents of Uzbekistan. Average property insurance levied in 2007 was US\$12, equaling a potential of US\$44.4 million, which is slightly higher than the US\$42.3 million accounted for in official data. Hence, from the calculations it becomes obvious that almost all property in Uzbekistan is insured - a shockingly high coverage of voluntary property insurance in comparison with other CIS countries. According to Dmitrie Nikolai Vyacheslavovich, president of AIG Insurance in Moscow, the share of property insurance in Russia has only reached about 10 to 20 percent of the total market.

**CONCLUSIONS:** As a result of the government's attention to the development of this sector, in recent years insurance has become one of the most robust sectors of the economy. Still, the contribution of the insurance sector to the GDP in Uzbekistan is at present only 0.26%, whereas in the EU countries the corresponding figure is 9%. This huge gap implies vast potential in the insurance sector. In the short run, it becomes obvious that the government's attention is yielding positive results. Additionally, Moody's recently

assigned stable outlook of B1 to the "Uzbekinvest" insurance company also provides extra support for these findings with regard to the growth stimulation of Uzbekistan's insurance companies during the financial crisis. Finally, we can conclude that in 2009, insurance companies will only benefit from both government interventions and global turmoil.

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New Policy Paper:

*Russia's War in Georgia*

By Svante E. Cornell, Johanna  
Popjanevski, and Niklas Nilsson

This Policy Paper provides a detailed chronology of the time leading up to the war in Georgia, as well as to the war itself, while providing an analysis of its implications for Georgia and beyond.

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

# THE GLOBAL ECONOMIC CRISIS: IMPLICATIONS FOR RUSSIAN POLICY IN THE NORTH CAUCASUS

Kevin Daniel Leahy

*The current global economic crisis has forced difficult choices on governments across the world. Against a backdrop of falling oil prices on the international market, the Russian government has already overseen the gradual devaluation of the rouble and is making preparations to recapitalize several large, private and state-owned banks. But what does this difficult economic situation herald for Chechnya, one of the poorest republic's in Russia, and how will Moscow's policies toward this locale (and neighbouring Ingushetia) be affected by the global economic crisis?*

**BACKGROUND:** Over the past eight years the ruling regime established in Chechnya by the Kremlin has been the recipient of truly fantastic sums of money from the federal budget. Vladimir Putin and other leading decision makers on Chechnya were resigned to this asymmetrical budgetary practice because they believed that this was the price to be paid for ensuring the political loyalty of their client regime in Grozny, thus ensuring the continued viability of their Chechenization strategy. In all probability we will never know precisely what proportion of these federal subsidies was spent on public projects in Chechnya and how much was misappropriated by corrupt officials in Grozny and Moscow. To an extent, Putin's subsidization of the proxy regime in Grozny has paid dividends. It certainly aided in cultivating the Kremlin's preferred public image of Chechnya as a locale endeavouring to put the devastation of war behind it and take its place as a regular subject of the Russian Federation. Federal subsidies have facilitated the process of amnestying former guerrillas – a key pillar in the strategy of Chechenization alluded to earlier. Thousands of rebel fighters have publicly renounced the separatist mantra

and enrolled in the republic's pro-Moscow security apparatus, one of the few sources of secure, well-paid employment in present-day Chechnya. Naturally, both Moscow and its client regime in Grozny have heralded the amnesty process as a great success.

But the success of this haphazard process is illusory: the essence of counter-insurgency warfare is the battle for hearts and minds; but the Kremlin's amnesty process, with its costly inbuilt financial incentives, is designed to appeal not to the political sensibilities of would-be candidates for amnesty, but rather to their mercantilist instincts, their desire to accrue capital and live in relative comfort. While many in this target constituency will have gladly forsaken the frugal, nomadic existence of the guerrilla fighter, we cannot be sure whether in their own hearts and minds they have given up entirely on the ideals that made outlaws of them in the first place.

In a recent article in *Europe-Asia Studies*, Emil Souleimanov and Ondrej Ditrych emphasised the eclectic nature of the resistance movement in the North Caucasus and pointed out how individual rebel fighters in some cases are instrumentalizing the professed ideology of the

resistance movement as a licence to satiate other, more vainglorious, motives they might harbour – the desire to avenge oneself on a personal enemy, for example. This analysis could equally apply to the pro-Moscow regime in Chechnya, for it would be foolish to assume that everyone associated with this regime is a steadfast supporter of President Ramzan Kadyrov.

**IMPLICATIONS:** It would seem that the propensity for throwing money at bothersome local problems in the North Caucasus has survived the presidency of Vladimir Putin. In late January President Dmitri Medvedev visited Ingushetia, currently the most unstable republic in the North Caucasus, promising federal aid to the tune of US\$1 billion (over six years) in order to stimulate the republic's torpid economy. Like Putin before him, Medvedev reasons that if economic conditions in Ingushetia improve, then the radical agenda espoused by local militants will seem less appealing to the local populace. Leaving aside the fact that this is by no means a sure line of reasoning – the link between subsidization and economic growth is tenuous – one might plausibly ask whether such a bold aid package is feasible given prevailing economic circumstances.

The global economic crisis has taken a considerable toll on the Russian economy. Russia's principal source of revenue over the past

several years – sales of oil on the international market – has been seriously compromised by the global economic climate; as a result, extrapolating from projected oil prices on the international market, Russia is expected to suffer a budgetary deficit of between three and four trillion roubles this year. Civil disturbances in Vladivostok in January were precipitated by the government's response to conditions engendered by the global financial malaise and may well foreshadow more serious disturbances in the future. Against this ominous socio-economic backdrop, President Medvedev has proposed to invest \$1 billion in a region on Russia's geographical periphery, which plays host to a mere two percent of Russia's total population. This is to say nothing of the equally massive sums of money that have been promised for stimulating the economy in Chechnya and other parts of the North Caucasus.

But these monies may well be needed elsewhere



(Itar-Tass)

in the federal budget if current economic trends continue; and should the economic situation begin to seriously affect ordinary people in the Russian heartland, Medvedev and Putin might be hard pressed to rationalize such a huge budgetary outlay on this rebellious region, whose inhabitants are racially maligned by a significant portion of Russian society. Russia's ultra-nationalist constituency will need no encouragement to put forth its own incendiary analyses of this asymmetrical budgetary arrangement. Irrespective of the potentially inauspicious public relations dimension associated with such a trade-off, it is possible that the Russian leadership, out of sheer economic necessity, will have no option but to renege on promises made to its client governments in locales like Chechnya and Ingushetia. The implications of such a scenario are particularly dire for the situation in Chechnya. If federal subsidies dry up over the next few years, how will Kadyrov compensate those he has persuaded to join his security services?

**CONCLUSIONS:** On February 4, in a talk he gave to Troika Dialog's Russia investment forum, Igor Shuvalov, one of President Medvedev's chief economic advisors, advised his audience of the need to revise Russia's budget for 2009. He specifically mentioned the need to pare down financial aid to Russia's regions. Regional leaders like Yunus-Bek Yevkurov in Ingushetia and Ramzan Kadyrov in Chechnya will have noted these remarks with apprehension. Yevkurov, if he has any

sense of the wider economic picture in Russia and the world, should take Medvedev's promise of US\$1 billion in financial aid with a pinch of salt. The likely consequences of this still-unfolding economic crisis also bode ill for Kadyrov, and put Moscow's overall policy toward Chechnya in serious jeopardy. Kadyrov will have serious difficulty enforcing discipline within his own ranks if he is unable to pay his soldiers' wages. As discussed earlier, those who have crossed the barricades to take Kadyrov's (or rather Russia's) schilling have done so for family and financial reasons and seldom out of a personal or political affinity for the young president. This constituency will hardly stand by Kadyrov if there is nothing to be gained by doing so, and will certainly not be appeased by abstract explanations about the perils of sub-prime lending and the necessity of currency devaluation. Assuming that a reduction in federal subsidies for Chechnya occasions a round (or several rounds) of lay-offs in Chechnya's security forces, the options for those made redundant are stark: join the insurgency, enter Chechnya's highly-criminalized shadow economy, or emigrate in search of work. It is not difficult to imagine how this disgruntled constituency might further destabilize the already precarious social situation in Chechnya.

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## FIELD REPORTS

### EUROPEAN COUNCIL ENDORSES 'EASTERN PARTNERSHIP'

*Karoly Benes*

On 20 March, the European Council endorsed the 'Eastern Partnership' (EaP) initiative in Brussels, and called for all necessary preparations to be made for the Eastern Partnership launching summit with the partner countries on 7 May 2009. The European Council also issued a Declaration on the Eastern Partnership, which is basically a short abstract of the Commission's Communication, issued last December. The simple fact that the Council accepted the Commission's proposals without major changes is a significant success for those EU countries backing the proposal, especially Poland, Sweden and the Czech EU presidency.

The European Council also decided about the financial background of the 'Eastern Partnership'. In spite of French reluctance to approve the originally planned 600 million Euros, fearing the EaP might undermine the financing of the Union for the Mediterranean, the European Council agreed to provide the 600 million for the Commission to increase its financial aid to the six former Soviet states targeted by the Eastern Partnership, namely Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

"Our dream has come true, we have been able to adopt the Eastern Partnership," said Czech Foreign Minister Karel Schwarzenberg after the Summit. Polish Foreign Minister Radoslaw Sikorski welcomed the decision, claiming the 600 million was the "absolute minimum" to help stabilize the Eastern neighbors of the EU.

Prior to the European Council, on 16 March, EU foreign ministers had decided to maintain the suspension of the travel ban against Belarus President Alexander Lukashenko, but it is still

doubtful whether Lukashenko will be invited to the May Summit in Prague, where the EU leaders and the Eastern partners will sign a Joint Declaration on EaP, as an official launch of the project. "That will depend on the behavior of Mr Lukashenko and the Belarus government in the coming weeks, but Belarus should be in the Eastern Partnership," Schwarzenberg said about the Belarusian participation.

Russian Foreign Minister Sergei Lavrov claimed on Saturday in Brussels, right after the Summit, that the EU was seeking its own sphere of influence. "We are accused of trying to have spheres of influence. What is the 'Eastern Partnership'? Is it a sphere of influence, including Belarus?" He also accused the Czech EU Presidency and the European Commission of blackmailing Belarus by adopting sanctions if Minsk recognizes the independence of the Georgian breakaway regions South Ossetia and Abkhazia. Lavrov said: "When my good friend Karel Schwarzenberg publicly says that if Belarus recognizes Abkhazia and South Ossetia it could forget about "Eastern Partnership", is it blackmail or is it democracy at work? After those kind of statements, we have questions. Is it about pulling countries (away) from the decisions that they are supposed to take freely?"

Swedish Foreign Minister Carl Bildt answered these allegations, stating that "the Eastern Partnership is not about spheres of influence. The difference is that these countries themselves opted to join." Bildt added that the EU's position on Georgia is not 'blackmail' but "is about upholding the principles of the EU and international law, which Russia should also be respecting".

Georgian Minister for Reintegration Temuri Yakobashvili also expressed his opinion to the EU Observer that “Mr. Lavrov just confirmed that whatever choices Eastern European countries make, be it NATO or EU, they are not acceptable to Russia. Moscow continues to see the Euro-Atlantic aspirations of these countries as an attempt to leave its sphere of influence. The fact that Russia sees the Eastern Partnership as a zero-sum game proves wrong those who believe that giving up NATO aspirations would solve the problems with Moscow. Appeasing Russia will not work.” His strong comments could hardly be surprising – the Russian invasion last August made reinforced ties to NATO and the EU all the more critical in the eyes of the Georgian government.

Minsk is unlikely to recognize South Ossetia and Abkhazia until the official ‘Eastern Partnership’ Summit in May, in Prague, hoping that it could use the increased Western engagement as a bargaining chip in the negotiations with Moscow to gain financial and economic benefits. However, it is not too likely Minsk could develop an overtly pro-Western foreign policy in the long run, due to its deep economic, cultural and political integration with Russia, and also because of the nature of its

anti-democratic political system, which is at odds with the European democratic standards.

Nevertheless, if Minsk recognizes the independence of the Georgian breakaway regions, it could definitely cause serious turmoil within the multilateral framework of the EaP initiative. Such a hostile step would hardly be acceptable for Tbilisi, which could hamper any activity connected to ‘Eastern Partnership’, out of displeasure with such a Belarusian decision. In light of the importance of Georgia and Azerbaijan as an alternative gas and oil import route from the Caspian Region, their active participation is paramount in the ‘Eastern Partnership’.

Whether cooperation between the EU and the six involved Eastern European countries will prove fruitful or whether internal political disagreement will ruin the effectiveness of the ambitious initiative is an open question, but at the moment it seems that the Hungarian presidency in 2011 will be busy organizing the second Eastern Partnership Summit, which is supposed to take place every second year at the level of the heads of states.

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## NAZARBAYEV CALLS FOR SINGLE GLOBAL CURRENCY

*Roman Muzalevsky*

Kazakh President Nursultan Nazarbaev is neither shy about his vision of turning Kazakhstan into one of the world’s 50 most competitive countries, nor reserved in his ambitions ranging from the integration of Central Asia to the recent call for a single global currency to deal with the financial crisis. As the leaders of the G-20 countries prepare for a financial summit on April 2 in London, Nazarbaev has been advancing his proposal to deal with the global recession, and with it, his domestic and international clout.

“We must switch to a new global currency system, which will be based on a single global monetary unit,”- Nazarbayev underlined on March 10 at the congress of the Eurasian Universities Association, adding that Kazakhstan presented to the world with view of the solution. Claiming that a dollar currency is an undemocratic and unregulated world currency, the president proposes the creation of a single global currency under the UN auspices. Previously on his trip to India, Nazarbaev stated that “the future measures should ensure that we have a completely just global currency, and not with only one issuer as is the case today.” According to

him, "the existing global financial monetary system does not meet current requirements and does not correspond to any criteria of a stable monetary system..."

The IMF reacted by saying the idea was "interesting, but poorly explored" as of now. Nobel Prize winner and economist Edmund Phelps partially supported the project, arguing that "there is no sense in having more than 90 currencies in the world," while disagreeing that a single global currency alone will solve the problem. Another Nobel Prize winner, and the architect of the Euro currency, Robert Mundell, however, explicitly sided with the initiative: "...I agree with President Nazarbayev on his statement and many of the things he said in his plan..." Kazakhstan's proposal for what Nazarbaev terms "acmetal" global currency might "look kind of funny" but in reality is a step in the right direction. The "acmetal" is a combination of two words: acme, the Greek word for "best," and "capital." Modern capitalism represents what Nazarbaev calls "defectalism." Hence the need for a new financial-monetary system of "acmetalizm", built on a more perfect capital.

Kazakhstan is not alone in proposing reforms of the financial order left over after a blow to the Bretton Woods system in 1971. German Chancellor Angela Merkel proposed the creation of a UN economic council that would work out anti-crisis solutions, while British Prime Minister Gordon Brown and U.S. Secretary of the Treasury Timothy Geithner called for a centrally coordinated financial system. Ewald Nowotny, the European Central Bank member, stressed that a "tri-polar" currency system is already developing among the US, Europe, and Asia to replace the U.S. dollar-based financial order. French President Nicolas Sarkozy, in his turn, stated that "the dollar cannot claim to be the only currency in the world," arguing that "in the capitalism of the 21st century, there is room for the state." Canadian Finance Minister Jim Flaherty,

however, was cautious about the need to reengineer the volatile financial system: "We don't need to recreate the world right now. What people expect of us, quite frankly, in our countries is to get our own houses in order." Russian President Dmitri Medvedev, stressing the dangers of depending on a single uncontrolled global currency, has lobbied for a number of regional reserve currencies, including the Russian ruble. Sergei Perminov with the Rye, Man & Gor Securities brokerage firm in Russia, however, is pessimistic on the issue: "This is all in the realm of fantasy. Alternatives to the dollar are still hard to find."

In his "Keys to Crisis Resolution" article, Nazarbaev actually agreed to the idea of a single central bank, albeit without the Russian ruble being the regional legal tender. Deputy Chairman of "Ak Zhol" party Burihan Nurmuhamedov considers Nazarbaev's proposals, including the one for a regional currency voiced at the Economic Forum on March 11, as a way to avert Russia's plans to create Ruble-based regional currency within the EEC while welcoming a single regional currency along non-Russian lines.

Many, however, have voiced objections to the proposals requiring international centralization of the financial system, putting forward national sovereignty considerations and conspiracy-like propositions. "The control of money and credit strikes at the very heart of national sovereignty," said A. Clausen, president of Bank of America.

The character of the many proposals is indeed controversial. Nazarbaev's idea of a global currency, while shared by distinguished policy-makers and experts, may backfire at the upcoming financial summit. The complexity of the international system, functioning of different economies, time constrains and difficulties of common policy coordination, will stand in the way of Nazarbaev's vision, providing less ambitious projects with more chances of being implemented, at least in the immediate future.

## FINANCIAL CRISIS AFFECTS UZBEK LABOR MARKET

*Erkin Akhmadov*

Over the last few years, early spring used to be the height of the labor migration season in Central Asia. This year is no different in Uzbekistan, although the financial crisis has undoubtedly affected the employment opportunities of many who used to earn their living abroad. As the labor migrants constitute the most vulnerable group of workers, their value on the labor market has increasingly dropped during the first few months of the crisis. While some local press sources suggest that the flow of labor migrants had significantly decreased, others report quite on the contrary that it is the same or even greater, because people prefer trying their chances outside of the state that can provide no employment for its citizens whatsoever. While the real implications for the region will likely be more obvious in the next few months, at the moment several developments can already be observed.

The destinations of Uzbek labor migrants are normally neighboring Kazakhstan and the Russian Federation. Official sources in Russia suggest there are currently about 8 million registered 'gastarbeiters'. A corresponding amount of workers are unregistered, i.e. lacking a legal basis. Based on Human Rights Watch data, out of 3,5 million Uzbeks working abroad, 80% work in Russia. Some Russian institutions speculate that in the next 2-3 months, about 4 million labor migrants will lose their jobs.

In Kazakhstan, the government decided to cope with large migrant flows from neighboring states by cutting the quotas of foreign workers. The Ministry of Labor and Social Security of the Kazakhstan prepares a moratorium on the entry of the so-called fourth category of the foreign labor force. This category usually includes unskilled agricultural seasonal workers, which constitute the majority of labor migrants from neighboring states. In general, Kazakhstan tends to decrease its quotas for foreign workers; for instance, in 2009 only 66,300

people were allowed to work. This is a reduction of 50% from last year.

Even though the biggest recipients of the Uzbek labor migrants try to decrease, if not completely block, the inflow of foreign workers, it seems that these measures will not have any substantial results. Most migrants from Uzbekistan still leave their families and homes hoping to find any job abroad, saying that it is useless to stay at home, where the situation is even worse. Even those who are abroad at the moment are in no hurry to head home due to the same considerations. Thus, a concern expressed in Russia is that the level of crime may increase due to the labor migrants that will lose their jobs and stay in the country with no means for existence.

Experts of the "Group of Fast Response (Uzbekistan)" claim that the level of remittances sent home by Uzbek migrants has decreased significantly lately. They associate the decrease with the world financial crisis as the survey was conducted between 20 January and 20 February 2009. The Group also mentions that the crisis will force many migrants to return home in the nearest future.

In light of such developments, it will be interesting to observe what the Uzbek authorities will do in order to cope with the consequences of the financial crisis. Local media keep reporting that the level of unemployment in Uzbekistan constantly decreases. Thus, the State Statistics Committee reports that the number of Uzbek citizens registered as searching for a job went from 27,400 down to 22,900 during 2008. Furthermore, the state Labor and Social Security Administration claims conducting job fairs to ensure employment of the population. One such event is planned for March 25, 2009 in Tashkent, offering 12,000 vacancies for 870 enterprises and organizations in the city.

Earlier in March, President Islam Karimov published the book "World Financial-Economic Crisis, Ways and Measures to Overcome it in the

Conditions of Uzbekistan”, where he explains the causes of the world crisis, its effects on the economy of Uzbekistan along with offering solutions for overcoming it. Thus, even though the forecasts of employment opportunities for Uzbeks are gloomy at

the moment, the people of Uzbekistan may only hope that the state has a strategy to protect the most vulnerable segments of its population.

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## RUSSIA LOSING HEARTS AND MINDS IN TAJIKISTAN

*Alexander Sodiqov*

On 24 February, Russian President Dmitry Medvedev met with Tajikistan’s Emomali Rahmon to rebuild relations that recently deteriorated to their worst level in a decade. Putting aside their disagreements over water and energy issues in Central Asia, the two leaders went fishing and hunting at Medvedev’s residence in Zavidovo. Although there was almost no public information about the outcomes of the meeting, analysts suggest that it has reinforced Moscow’s control over Dushanbe.

Despite consolidating its sphere of influence in Tajikistan, Moscow should be alarmed by a widespread frustration that has lately aroused among ordinary Tajiks. Tajik political analyst Abdullo Rahnomo, quoted in the Asia Plus newspaper on 25 February, suggested that Russia’s aggressive pursuit of short-term economic and security interests in the region, often at the expense of the local needs of the population, has generated significant disappointment and resentment among traditionally pro-Russian Tajik citizens. According to the scholar, Moscow is increasingly losing the hearts and minds in Tajikistan.

The major reason for disappointment among Tajiks has been Moscow’s exclusive focus on its security partnership with Dushanbe at the expense of economic cooperation. The impoverished nation long expected that in exchange for a political alliance, Russia would invest part of its economic wealth in Tajikistan. However, despite the signing of a US\$2 billion investment deal brokered by

former president Vladimir Putin in 2005, Tajikistan has not yet received considerable Russian investments. The global economic slowdown has had a strong impact on Tajikistan through declining remittances and falling prices for its key exports, cotton and aluminum. The shrinking of key sources of income has by tradition led millions of Tajiks to look towards Moscow for assistance. However, according to Andrei Grozin, leading Central Asia expert at Moscow’s CIS Institute, quoted by the Ozodi radio on 2 March, Russian leaders appear reluctant to rescue Tajikistan from the economic impasse it finds itself in.

Another reason for frustration has been what most people in Tajikistan see as Moscow’s “siding” with Uzbekistan on water and energy issues in Central Asia. Uzbekistan has long opposed Tajikistan’s hydroelectric power development projects, arguing that the damming up of the Amu Darya River would threaten the supply of water to Uzbek cotton fields. Until 2008, Moscow openly supported hydroelectric projects in Tajikistan, repeatedly promising to complete the giant Soviet-planned Rogun hydroelectric power station (HEPS). However, as the relations between Moscow and Tashkent improved, Russia has altered its stance on water management in Central Asia in favor of Uzbekistan’s position. On January 23, Russian president Dmitri Medvedev announced that Moscow would not invest in hydroelectric power projects in the region unless they take into account the interests of “other Central Asian countries”.

Moscow's departure from its previous position has stirred widespread anger in Tajikistan. Confronted with severe restrictions in electricity provision or complete blackouts for the last several winters, ordinary Tajiks saw Moscow's refusal to build the Rogun HPES as a betrayal of the "strategic partnership".

Anti-Russian feelings among ordinary Tajiks are also increasingly triggered by Moscow's inability or reluctance to address the problem of nationalist attacks on Tajik citizens in Russia. In recent years Russia experienced a dramatic increase in ethnic violence, primarily against Central Asian migrants. According to the Asia Plus news agency, more than 330 Tajik citizens died in Russia in 2008, at least 80 of them murdered in nationalist attacks. The murder in December 2008 of Salohiddin Azizov, a 20-year-old Tajik worker who had been stabbed and beheaded by an ultranationalist group in Moscow aroused widespread anger in Tajikistan. Following the incident, many Tajik newspapers blamed Russian authorities for tolerating and even encouraging ethnic hatred. Some papers carried pictures of president Medvedev and prime-minister Putin with a fascist swastika as a background.

Finally, there is growing resentment in Tajikistan against what many people see as an offensive image of Tajiks created by the Russian media. Beginning in 2007 Tajik officials, journalists and ordinary

citizens have increasingly complained about the widely accessible and highly popular Russian television channel NTV. One of the channel's most successful comedy shows, *Nasha Rossiya* (Our Russia), features two Tajik migrant workers, Ravshan and Jamshud, portraying them as very ignorant and uncivilized. "For Russians we are a nation of Ravshans and Jamshuds: no brains, no education and no self-esteem," wrote Rajab Mirzi, chief editor of the Dushanbe-based newspaper *Farazh*, on 11 December 2008. "It means that they can make fun of us and butcher our labor migrants... Why are we still saying that Russia is our partner?"

In sum, there is widespread disillusionment and resentment of Russia among ordinary Tajiks caused mainly by Moscow's short-sighted economic policies, its stance on water management issues in the region, an inability to stem the wave of ethnically motivated attacks on Tajik migrants, and an insulting media coverage. As a result, Tajik citizens increasingly call for the revision of a 'strategic partnership' with Russia and for closer ties with other powers including the United States, the European Union, China and Iran. Hence, if President Rahmon decides to depart from Tajikistan's long-favoured pro-Russian foreign policy approach, he will meet broad support at home.

## NEWS DIGEST

### **PUTIN WILL VISIT ARMENIA IN MAY 2009** **12 March**

Russian Prime Minister Vladimir Putin will visit Armenia on May, 2009, informed ArmInfo news agency with reference to reliable source, close to government circles. According to the source, Russian Premier Minister will visit the number of enterprises with the Russian capital along with official meeting with Armenian authorities and participation in a business-forum. In particular, is expected the visit of Armenal aluminum foil factory by Putin. As informed REGNUM earlier Russian Premier got an invitation to visit Armenia from Armenian Prime Minister Tigran Sargsyan during his recent working visit to Moscow. (Regnum)

### **AZERBAIJANI SPEAKER MEETS MEMBERS OF AD HOC COMMITTEE TO OBSERVE THE REFERENDUM ON THE CONSTITUTIONAL REFORMS**

**16 March**

Speaker of Azerbaijan Parliament (Milli Majlis) Ogtay Asadov met Monday with members of the Ad hoc Committee to observe the referendum on the constitutional reforms headed by representative of the Alliance of Liberals and Democrats for Europe Paul Wille. Asadov briefed them on ongoing reforms in the country to bring the Milli Majlis-adopted laws into line with European standards. According to him, the decision of the Milli Majlis to make amendments and supplements to the constitution aims to promote democratic values even more in the country. Asadov underlined that all necessary conditions were created in the country to conduct the referendum in a democratic and transparent atmosphere. The Speaker described the level of relations between Azerbaijan and the Council of Europe as "high." He also stressed the importance of the fact that the Committee will observe the upcoming referendum. Paul Wille, in turn, said the CoE attaches special importance to relations with Azerbaijan. He expressed hope the proposed amendments and supplements to the constitution would contribute to protecting the

rights of the country's citizens. They also exchanged views on other issues of mutual interest. (AzerTAc)

### **RUSSIA PLEDGES USD 149 MLN AID FOR ABKHAZIA, S.OSSETIA**

**17 March**

Russia will sign on March 17 agreements with Tskhinvali and Sokhumi on providing financial assistance to the two breakaway regions with a total amount of 5.16 billion rubles (about USD 149 million) in 2009. "Despite the cuts that have affected federal budget spending, the volume of financial assistance for the republics for 2009 has remained at the same level as initially planned," the Russian Finance Ministry said in a statement on March 16. It said that Abkhazia would receive 2.36 billion rubles and South Ossetia – 2.8 billion rubles. The financial aid will be used for salaries of public sector employees; allowances for children; pensions; medicines and food, according to the Russian Finance Ministry. In a separate aid package, the Finance Ministry said, Tskhinvali would receive additional 8.5 billion rubles as part of 10 billion ruble assistance for recovery needs from the August war results. 1.5 billion rubles has already been allocated to reconstruction needs as part of this package late last year, the Russian Finance Ministry said in the statement. Meanwhile, officials in breakaway South Ossetia complain that delay in aid funds has stalled reconstruction works in the region. "People spent the winter here and they were buoyed up by optimism that in March the active phase of the reconstruction will start, but there is nothing so far" Irina Gagloeva, a spokeswoman for the breakaway region's government, told Reuters. The financial crisis is having a serious effect on a lot of financing of projects... There are only two or three buildings that have been completely restored. About 10% has been partially restored. Everything else is in the same condition as it was after the Georgian aggression." The Russian daily Kommersant reported earlier in March that Russia's intention to directly control financial aid to Tskhinvali without

involvement of the breakaway region's authorities has become a source of disagreement between Moscow and Tskhinvali, which has also resulted into delays of aid funds. (Civil Georgia)

### **GEORGIAN AMBASSADOR CONSIDERS WITHDRAWAL FROM CIS BASED ON EMOTIONS**

**18 March**

The Ambassador of Georgia to the CIS, Zurab Honelidze, considers that withdrawal of Georgia from the CIS has been based on emotions, instead of real interests. The Ambassador said in the interview to the newspaper Vremya Novostey, the agency reports. According to Z. Honelidze, Georgia has hastened with leaving the CIS, being based on emotions, instead of on real interests. "Sooner or later the CIS will cease to exist. But, in my opinion, it was not the time for Georgia to leave the Commonwealth. Now Georgia does not have any other dialogue format with Russia after breakup of the diplomatic relations," he said. (Kazakhstan Today)

### **PRESIDENTIAL ELECTIONS IN KYRGYZSTAN TO TAKE PLACE IN AUTUMN**

**19 March**

The presidential elections of Kyrgyzstan will take place in the autumn of 2009. The chairman the Constitutional Court of Kyrgyzstan, Svetlana Sydykova, informed about the decision of the Constitutional Court today, the agency reports. According to the decision of the Constitutional Court, the next president will assume the post till October, 25th, 2009 and the Parliament of Kyrgyzstan will define the exact date of the elections. The decision has been accepted by the Constitutional Court on the basis of the Constitution of 2003. (Kazakhstan today)

### **AZERBAIJAN PRESIDENT HAILS SCRAPPING OF TWO-TERM LIMIT**

**20 March**

Azerbaijan Azerbaijani President Ilham Aliyev said Friday that amending the constitution to allow him to serve more than two terms would help promote democratic reforms in the oil-rich former Soviet republic. "I thank Azerbaijan's people for supporting the constitutional amendments," Aliyev told a crowd in Baku gathered for the Nowruz holiday, two days after the amendments were approved in a referendum. "The people supported the government

and gave us an opportunity to pursue democratic, political, economic and social reforms," he said. Opposition groups have promised a court challenge against the results of the referendum, which they say will pave the way for Aliyev to become president-for-life.

Aliyev, 47, won a second five-year term by a landslide last October, having taken over from his father Heydar, a former top-ranking Soviet official and KGB officer, in 2003. Supporters of the changes insisted they are aimed at making Azerbaijan more democratic by allowing voters to choose whoever they wish to be president. But government critics, who have long accused Aliyev and his late father of having ruthlessly held on to power, said the vote was aimed at consolidating the grip of the first family. (AFP)

### **DAGESTAN CLASH LEAVES SOME POLICE, MILITANTS DEAD**

**21 March**

Three days of intense fighting between police and insurgents in a wooded area of Dagestan ended Saturday with five officers and about a dozen militants left dead, Russian officials said. Clashes are frequent in Dagestan, but the fighting in an area near the border with Georgia and Azerbaijan was some of the most intense in recent months. Helicopter gunships fired on the militant positions. Regional Interior Ministry spokesman Mark Tolchinsky said 14 insurgents were killed, but the Interfax news agency cited the Federal Security Service as saying 12 died. Dagestan's militants are seen as having been inspired by separatists in neighboring Chechnya, where two wars have been fought with Russian forces in the past 15 years. The police action, which began Wednesday, came after officials in the regions complained to regional authorities about the presence of the gunmen. Underscoring the seriousness of the fighting, state-run TV also prominently showed a meeting Friday between Prime Minister Vladimir Putin and Dagestan's leader, Mukhu Aliev. In the Dagestani capital, Makhachkala, police fatally shot four men Friday who failed to stop their car at a checkpoint and began shooting at officers, city police spokesman Shamil Guseinov said. The fighting is the latest round of violence to plague the North Caucasus, pitting criminal gangs, Islamic militants or feuding clans against one another or against government and police forces. Islamic-inspired rebels sparked two wars in Chechnya over the past 15 years, but any large-scale insurgency ended years

ago. Still, Chechnya still sees occasional hit-and-run attacks on government troops and the violence has spilled over into neighboring regions such as Dagestan or Kabardino-Balkaria. A three-hour shoot-out Thursday north of the capital of Kabardino-Balkaria left four gunmen killed. (AP)

## **AFGHANISTAN, TAJIKISTAN, IRAN AGREE TO BOOST RELATIONS**

**21 March**

The governments of Afghanistan, Tajikistan and Iran agreed on Saturday to further boost cooperation among the three neighboring states. The agreement was reached during a meeting of Afghan Foreign Minister Rangin Dadfar Spanta with his Tajik and Iranian counterparts Hamra Khan Zarifi and Manuchehr Mutaki in Afghan northern city of Mazar-e-Sharif, a statement of the Afghan Foreign Ministry released here said. This is the third meeting of the foreign ministers of the three neighbors, which took place at the first day of the Afghan New Year on March 21. A joint communiqué, released at the end of the meeting, stressed for the establishment of a joint television channel, linking the trio neighbors by railway, the formation of a common investment body and setting up of vocational training centers. It also stressed for enhancing trade and economic cooperation, transport, energy, tourism, education as well as the war on terror and illicit drug trafficking. According to communiqué, a joint commission would be established to follow the decisions for the enhancement of relations among the three neighboring countries. (People's Daily Online)

## **TALIBAN AMBUSH LEAVES 10 POLICEMEN, DISTRICT CHIEF DEAD IN N AFGHANISTAN**

**21 March**

Ten policemen and a district chief were killed in an ambush by a group of Taliban insurgents Friday morning in Jawzjan province of northern Afghanistan, officials said. Afghan Interior ministry spokesman Zamarai Bashari has confirmed the incident and said the attack occurred at Khosh Tapa district, along the border of Turkmenistan. "Provincial police chief has been sent to the site for investigation," Bashari said. Meanwhile, provincial police chief Khalilullah Amin told Xinhua that Taliban militants ambushed the district chief on his way to a party at 11 a.m. (0630GMT) and the heavy fighting left 11 people dead, including the district chief and police chief of

Khosh Tapa. "Nine other policemen were killed and four more were injured in the clash," he said. Amin added that four Taliban rebels involved in the ambush have been arrested. Afghanistan has seen an escalating Taliban assassinations targeting government officials during the past week as Dad Mohammad Khan, a member of Afghanistan's Wolesi Jirga or Lower House of parliament was killed in a roadside bombing in Helmand province on Thursday. (People's Daily Online)

## **TWENTY DETAINED IN KAZAKHSTAN BANK PROBE**

**21 March**

A partner of the former head of Kazakhstan's BTA bank, Mukhtar Ablyazov, says Kazakh authorities have arrested 20 of Ablyazov's associates in the last 24 hours. Speaking to RFE/RL's Kazakh Service, the source, who asked not be identified, said that five businessmen were detained on March 19 and 15 the following day. Ablyazov was sacked from his position as the head of BTA, one of Kazakhstan's largest and most stable banks, after the government bought the majority of the bank's shares in February. He and several associates had to leave Kazakhstan after investigations were officially launched into their alleged financial misdeeds. (RFE/RL)

## **CENTRAL ASIA NOW NUCLEAR-WEAPON-FREE ZONE**

**23 March**

Central Asia became the fifth nuclear-weapon-free zone in the world Saturday, drawing praise from the head of the United Nations. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan all ratified the Treaty on a Nuclear-Weapon-Free Zone, which establishes a region-wide prohibition on research, testing or possession of nuclear weapons. U.N. Secretary-General Ban Ki-moon praised the ratification and entry into force of the nuclear non-proliferation treaty Saturday as a step forward for the region's compliance with the Comprehensive Nuclear-Test-Ban Treaty, the United Nations reported. Establishing the Central Asian nuclear-weapon-free zone is a dramatic shift from the region's history with nuclear weapons, including more than "400 atomic blasts at the Semipalatinsk testing ground" in Kazakhstan, according to a U.N. news release. "Central Asia joins the four other nuclear-weapon-free zones: Latin America and the Caribbean, the

South Pacific, Southeast Asia and Africa," the release said. (UPI)

### **TRT AVAZ CHANNEL LAUNCHED**

**23 March**

The joint Turkic channel TRT AVAZ started working Saturday. The ceremony of launching the channel was attended by Turkish President Abdullah Gul and high-level delegations from Turkic states. The Azerbaijan delegation included head of the Presidential Administration's department on socio-political affairs Ali Hasanov, head of Azerbaijan Television closed joint-stock company Arif Alyshanov, chairman of the Public Television and Radio Broadcasting Company Ismayil Omarov, MP Ganira Pashayeva and others. Programs will be broadcasted in Azerbaijani, Kazakh, Uzbek, Kyrgyz and Turkmen languages in 27 countries. The channel will televise documentaries, musical programs as well as films made by Turkic states. (AzerTAc)

### **TRIBE SEEKS RECOGNITION IN CENSUS**

**24 March**

As a nationwide census gets under way in Kyrgyzstan, one group in the south of the country is seeking to register as a hitherto unrecognised nation. Most observers regard the Kypchaks as just one of the many tribal divisions and subdivisions that make up the Kyrgyz nation, but Kamchybek Samatov, a retired teacher from the village of Bujum in Batken region, thinks otherwise. In the latest round in a two-decade struggle for formal recognition of a distinct ethnicity, Samatov and his supporters plan to give their identity – and their language too – as “Kypchak” when the census-takers come round. Other villagers in Bujum interviewed by reporter Ulukbu Amirova appeared less certain about whether they need separate status, or whether their southern dialect is really a different language. Census officials say they will write down exactly what people tell them, although that does not mean the responses will form the basis for recording the presence of a Kypchak nation. (Institute for War and Peace Reporting)

### **KAZAKHSTAN PUTS FUGITIVE BANKER ON WANTED LIST**

**24 March**

Kazakhstan's authorities accused a senior banker of money laundering and theft on Tuesday after he criticised the government for nationalising his bank and fled the Central Asian country. The deepening

financial crisis, which has led to a string of high-profile nationalisations in the Kazakh banking sector, has exposed tensions among Kazakhstan's ruling elite as the oil-rich Caspian nation faces its worst economic recession in a decade. Roman Solodchenko, who was deputy head of the biggest Kazakh bank BTA, fled Kazakhstan with his family last week and accused the government of "destroying" BTA by taking it over last month. The Prosecutor General's office said on Tuesday it had put Solodchenko, 43, on its wanted list on suspicion of theft and money laundering as part of a broader probe into BTA activities. "On March 21, due to his participation in theft being established, Solodchenko has also been declared wanted," the Prosecutor General's office said in a statement. Solodchenko could not be reached for comment. He has told local media he feared being turned into a scapegoat by the government as BTA, with total assets of \$31 billion, struggles to survive the crisis. The financial crisis has crippled Kazakhstan's once-booming economy. Growing public unease with the government's handling of the crisis has created fresh challenges to the rule of President Nursultan Nazarbayev, in power since 1989. By fleeing Kazakhstan, Solodchenko joined a handful of Kazakh politicians and industry players who have fallen out with the government and moved to Europe. Former BTA chairman Mukhtar Ablyazov left Kazakhstan this year and is also wanted as part of the same probe. He has described accusations against him as politically motivated. The government invested about \$2 billion in BTA as part of its takeover, saying the bank would have otherwise collapsed. The government says BTA might have to restructure some of its \$12 billion foreign debt, raising concern about the broader health of Kazakhstan's once buoyant banking sector. As the crisis takes its toll on the economy, officials expect gross domestic product to grow one percent this year after the economy expanded at an average rate of about 10 percent in 2000-2007. (Reuters)

### **COALITION FORCES IN AFGHANISTAN SHOULD FIGHT DRUG TRAFFICKING - RUSSIANDRUG SERVICE HEAD**

**24 March**

The issue of the continued deployment of coalition forces in Afghanistan should be contingent on their duties and competence in destroying drug crops and drug laboratories, Russian Federal Drug Control Service Chairman Viktor Ivanov said at the meeting of the heads of anti-drug agencies of the

Collective Security Treaty Organization (CSTO) countries in Moscow on Tuesday. "Raw opium production has increased more than forty times since the introduction of the U.S and NATO troops" in Afghanistan, said Ivanov. Over the past 7-8 years, Afghanistan has turned into a country where "93% of the world's opium poppy crops are located," he said. The growth of drugs trafficking and tension is connected to "the increasing concentration of foreign troops" in the country, he said. "We predict an aggravation of the drug situation in the northern provinces of Afghanistan due to the plans to integrate the Taliban in the Afghan authorities," said Ivanov. The efforts the international community has made to fight drug trafficking in Afghanistan "have been a fiasco," Ivanov said. "The half-measures taken by the international community will not yield results in 100 years, and the hardest hit will be Central Asia and Russia," Ivanov said. Ivanov also proposed to reconsider the procedures for giving donor assistance to the Afghan authorities. There is a need to create an international observer council to monitor the assistance provided by the international community to Afghanistan, he said. (Interfax)

## **BOMB KILLS 7 CIVILIANS IN EASTERN AFGHANISTAN**

**25 March**

A roadside bomb ripped through a van carrying civilians in eastern Afghanistan on Wednesday, killing seven people and wounding nine others, while three Australian soldiers were wounded in another blast in the south, officials said. The attacks are a reminder of the dangers facing Afghan and foreign troops as thousands of new U.S. troops roll into the country to try to reverse the Taliban gains of the last three years.

They also came a few days before President Barack Obama unveils his plan to tackle the deteriorating situation in Afghanistan and neighboring Pakistan, which is battling an Islamic insurgency of its own. The explosion that killed the civilians happened in Sabari district of the eastern Khost province while the van was on a road also used by foreign and Afghan troops, said Police Chief Abdul Qajum Bakizoy. He blamed Taliban militants for planting the bomb. The Taliban and other insurgent groups regularly use roadside bombs in their attacks against Afghan and foreign troops, but the majority of the victims in such attacks have been civilian. The

number of such incidents rose by 30 percent in 2008, according to NATO.

Sabari district is known for militant activity and clashes between U.S. coalition troops and insurgents.

In the southern Uruzgan province, a blast wounded three Australian soldiers and their interpreter, Australia's Defense Department said in a statement Wednesday. The Australians were attacked by the Taliban while patrolling alongside Afghan soldiers, the statement said. "The wounded soldiers and interpreter were given combat first aid by the patrol and moved by helicopter to the Dutch hospital at Tarin Kowt, when the tactical situation allowed," the statement said. Southern Afghanistan is the center of the Taliban-led insurgency, and the majority of the incoming troops will be heading there. The Taliban ruled Afghanistan from 1996 until being ousted from power in the U.S. invasion in late 2001. After the U.S. diverted its troops and resources to fight the Iraq war, the Taliban made a violent comeback. Now they lead a bloody insurgency that threatens President Hamid Karzai's rule and the entire Western project of normalizing this country, which has been embroiled in wars for the last three decades (AP)

## **KAZAKH STATE COMPANY SAYS READY TO SELL TBILISI GAS GRID**

**25 March**

Kazakh state oil and gas company, KazMunaiGas, said it would sell gas distribution company in Tbilisi, KazTransGaz-Tbilisi, if investments carried out in the network "is compensated." "We announced last autumn about our readiness to sell Tbilgazi," Kazakh official news agency reported quoting Kaigeldy Kabyldin, the head of KazMunaiGas, as saying at a news conference in Astana on March 25. "Everything that can be purchased can also be sold – only price matters. We are ready to sell under the condition that our investments, debt financing and financial assistance that we have been providing KazTransGas-Tbilisi are compensated." According to this report KazMunaiGas through its daughter company has invested about USD 100 million in Tbilisi's gas distribution network after taking over the company in 2006. Georgian National Electricity Regulatory Commission (GNERC) said on March 16 it had appointed "a special administrator," which will manage the Kazakh-owned gas distributor company temporarily. GNERC said that the move became required as KazTransGaz-Tbilisi owes GEL 80

million in debt, including GEL 68 million to Georgian Oil and Gas Corporation, from which KazTransGaz-Tbilisi, had purchased gas. "A special administrator will remain in the company before the improvement of financial condition and before repaying cost of supplied gas," Guram Chalagashvili, the head GNERC, said on March 16. "The special administrator, Temur Kopaliani, will be managing the company only temporarily and the assets will remain under the company's ownership." (Civil Georgia)

### **KAZAKH GOVERNMENT MAY DROP BTA SUPPORT OVER DEBT REPAYMENT**

**25 March**

Kazakhstan's government may drop its support for the biggest domestic bank, BTA, if any of its creditors ask for early debt repayment, the bank's chairman said on March 24. BTA, hit hard by the global financial crisis, has been at the centre of much scrutiny from foreign investors since the state took it over last month to prevent it from collapsing. Two of its senior managers have fled the oil-rich Central Asian country since, blaming the government for mishandling its rescue efforts. "If any of the creditors ask for early debt repayment, Samruk-Kazyna [state fund] may review its attitude towards supporting BTA group," BTA Chairman Arman Dunayev told reporters. The government invested about \$2 billion in BTA, with assets of \$31 billion, through Samruk-Kazyna as part of its takeover, saying it would have otherwise collapsed due to a deepening financial crisis that has hammered Kazakhstan's economy. The government says BTA might have to restructure some of its \$12 billion foreign debt, sparking concern about the broader health of Kazakhstan's once buoyant banking sector. (Reuters)

### **RUSSIAN, TURKMEN LEADERS PLAN TO SIGN GAS PIPELINE DEAL AT NEXT MEETING**

**25 March**

The Russian and Turkmen presidents plan to sign an agreement to build the East-West gas pipeline during their next meeting, the Russian leader's aid Sergei Prikhodko told journalists after Russian-Turkmen talks in the Kremlin on Wednesday. "This agreement is increasingly important to the prospects of cooperation between Russia and Turkmenistan. Work on the agreement continued during today's visit. The parties made considerable progress in their preparations of its text," Prikhodko said. Russian Energy Minister Sergei Shmatko is to visit Turkmenistan in the near future to fine-tune the document, he said. "The two presidents agreed to sign it at their next meeting," the official said, adding that the project carries a price tag of least \$1 billion. Russian President Dmitry Medvedev and his Turkmen counterpart Gurbanguly Berdimuhammedow can meet "either at the St. Petersburg economic forum, which is scheduled to take place in June, or during the traditional Russian President's Cup Horse Races in July," a Kremlin source told Interfax. The two nations plan to build a 600-kilometer-long trans-Turkmen gas pipeline, which will link natural gas deposits in Turkmenistan and the trans-Caspian gas pipeline and provide additional resources to be pumped using this pipeline system. Tentative estimates put the cost of the project at \$1.2 billion-\$1.5 billion. Russia, Kazakhstan and Turkmenistan signed an agreement on the trans-Caspian gas pipeline in December 2007. Its construction is expected to begin this year. (Interfax)