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THE CENTRAL ASIA-CAUCASUS ANALYST

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ASTANA AND TASHKENT BECOME STRATEGIC PARTNERS
Sergei Gretsky

The recent visit of Kazakhstan’s President Nursultan Nazarbayev to Uzbekistan on June 13-14 was closely watched in the capitals of other Central Asian states as well as Central Asia’s neighbors. The visit continued the discussions started last year during Uzbekistan’s President Islam Karimov’s visit to Kazakhstan when the two presidents initiated a process of closer alignment between Astana and Tashkent in regional security matters. This time the two leaders have taken relations between their countries a step further by signing a Treaty on Strategic Partnership.

BACKGROUND: Nazarbayev’s visit to Uzbekistan was, in his own words, “the continuation of the talks” between the two countries started last September during Karimov’s visit to Kazakhstan. The impetus for last year’s talks was concerns about regional security following the withdrawal of U.S. and NATO from Afghanistan in 2014. The failure of existing regional security institutions in Central Asia encouraged the two leaders to assume greater responsibility for their own and regional security and deepen their bilateral cooperation in political, economic, and security areas (see the 12/12/2012 issue of the CACI Analyst).

This time the talks between Presidents Karimov and Nazarbayev went beyond the discussion of security and covered the entire spectrum of bilateral relations and regional issues. The talks revealed a great degree of progress in relations between the two countries, shattering commonly held stereotypes and pointing at a qualitatively new level of understanding and cooperation between them.

First, it was difficult not to notice the ease and relaxed manner with which the two presidents interacted with each other. Contrary to the long-standing cliché that Kazakhstan and Uzbekistan and their leaders were vying for regional leadership it was clear that the two Presidents were more interested in speaking with one voice. In what appears to have become a tradition, it was the Kazakhstani president who delivered the joint message. At the press conference following last year’s summit, Nazarbayev stepped back to allow Karimov speak for both of them. This year Karimov reciprocated and it was the Kazakhstani leader who took the lead.

Second, Nazarbayev made it clear in no uncertain terms that Kazakhstan and Uzbekistan together are “the key states that provide peace, security, trade and growth of well-being” in Central Asia. He went on to say that the shared responsibility motivated the two countries to resolve regional issues, particularly those related to water resources, energy, and food security, through negotiations. In the most clear joint message to date, Nazarbayev emphasized that regional problems had to be resolved by Central Asians themselves.
“without the intervention of foreign powers.”

Third, the two leaders signed The Treaty on Strategic Partnership (TSP), affirming the new level of their bilateral relations and shared vision of their regional role. The treaty was initiated by Nazarbayev. Acknowledging the fact, Karimov stated that the two countries were driven by the understanding that by combining their resources Kazakhstan and Uzbekistan enhance their stature and “make other countries take their position into consideration.” The TSP is a qualitatively new framework of relations between the post-Soviet states, whose relations have often been based on treaties of “eternal friendship” devoid of any practical meaning. While the text of the treaty has not been made public yet, similar treaties signed by Kazakhstan with West European countries contains a clause that provides for military cooperation.

Fourth, Karimov and Nazarbayev had an extensive discussion of economic relations between the two countries and the ways of boosting them. While trade between Kazakhstan and Uzbekistan is steadily growing and Kazakhstan is Uzbekistan’s third largest trading partner, the opposite is not true. For Kazakhstan, Uzbekistan is only its twelfth largest trading partner. The two presidents focused on identifying avenues of expanding their economic cooperation. Developing transportation infrastructure was singled out. Transportation links with the outside world are of critical importance for both countries, which are landlocked (Kazakhstan) or double landlocked (Uzbekistan). One of the projects under discussion was the reconstruction of the 84-kilometer Beyneu-Aq-Jigit-Uzbekistan border road that would allow Uzbekistan access to the Aqtau port on the Caspian Sea and utilize both countries’ geographical location to serve as a transit trade route between Europe and Asia. Joint investment projects were identified as another avenue of boosting economic ties. The two presidents decided to establish the Investment Council (in addition to the existing Business Council) that would oversee the expansion of investment activities. As of 2013, there are 118 joint companies operating in Kazakhstan and 178 operating in Uzbekistan.

**IMPLICATIONS:** The June talks between Karimov and Nazarbayev demonstrate that Kazakhstan and Uzbekistan have moved a significant step further in their bilateral relations. Unlike last year’s summit, which focused primarily on regional security issues, the talks covered all aspects of bilateral relations – security, economic cooperation, cultural ties, etc. Another distinction is that by signing a number of agreements the two leaders have moved from general discussions to “filling Kazakhstan-Uzbekistan relations with concrete content,” in the words of President Karimov. Of the documents
signed the Treaty on Strategic Partnership is of particular importance and relevance. It signals that the two countries have reached a stage when they are comfortable to conduct a coordinated foreign, particularly regional, policy, which they have agreed to pursue in a variety of formats.

The talks have tangibly demonstrated that the two countries have no outstanding issues in their relations and that speculations about their rivalry over regional domination should be cast aside. In fact, the presidents of Kazakhstan and Uzbekistan did what was least expected of them – they claimed the mantle of joint regional leadership. The two leaders then declared that Central Asian countries are capable of resolving regional problems themselves. All this has important implications for the rest of the region and outside players alike.

While it is tempting to view Moscow as the prime target of the joint message coming out of Tashkent it is in no less directed at Bishkek and Dushanbe. Kyrgyzstan’s and Tajikistan’s domestic and foreign policies often put them at odds with Kazakhstan and Uzbekistan, forcing them to seek outside protection rather than settlement with their neighbors. It is no secret that the point of the utmost contention is the usage of regional water resources. Speaking for both, Nazarbayev once again confirmed that the positions of Kazakhstan and Uzbekistan on this issue were identical. He called on Kyrgyzstan and Tajikistan, the two upstream countries that control water resources in Central Asia, to show greater transparency and take into account the interests of all Central Asian states. Addressing Tajikistan’s leaders directly, Nazarbayev called on them to show rationality vis-à-vis the construction of the Rogun hydropower station. That statement dispelled hopes of those who believed that Kazakhstan’s support of Uzbekistan’s position in the water usage dispute with Tajikistan – and Kyrgyzstan – was ambivalent.

The joint message coming out of the Tashkent summit demonstrates that Kazakhstan and Uzbekistan are steadily moving toward creating a viable strategic partnership. To pursue that goal the two countries have conscientiously decided to build on each other’s strengths – Kazakhstan’s economic power and Uzbekistan’s military-security capabilities. Much to the chagrin of their neighbors far and near, this decision takes competition between them out of the equation and brings in complementarity. Regionally, it means that Kazakhstan and Uzbekistan would increasingly become the trendsetters, especially in economic and security areas. The implication for other countries, particularly Kyrgyzstan and Tajikistan, is that they will have to show greater deference to the interests of Astana and Tashkent, both in their domestic, i.e., vis-à-vis sizeable Uzbek minorities in both countries, and foreign politics. For Russia, it signals the need to tread more carefully in picking sides in regional politics and conflicts. Indeed, some pro-Kremlin commentators have gone as far as to suggest the emergence of an Astana-Moscow-Tashkent troika in Central Asian politics. While it is premature to talk about such alliance, these statements show awareness among Russian policy-makers that the Kremlin can no longer be the sole arbiter in regional politics.
CONCLUSIONS: The June 2013 summit between Presidents Karimov and Nazarbayev has opened a new chapter in Kazakhstan-Uzbekistan relations. The two countries have now become strategic partners and openly assumed responsibility for Central Asia’s future. The summit has resulted in concrete decisions to make the strategic partnership meaningful. Success in implementing these decisions, particularly in the economic sphere, will demonstrate the viability of the Astana-Tashkent partnership and their ability to exercise joint regional leadership.

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The prospects for a peace agreement between the Afghan government and the Taliban have risen in recent months. Nonetheless, the rapid closing of the Taliban office in Doha following its opening again indicated the low probability of a compromise settlement before NATO withdraws its main combat forces by the end of next year. Taliban leaders still refuse to deal directly with the Afghan government led by President Hamid Karzai, adopt a formal cease-fire, sever ties with international terrorist organizations like al-Qaeda, and acknowledge the legitimacy of the post-2001 Afghan Constitution. In essence, the parties are treating the negotiations as an extension of their military conflict through verbal means.

BACKGROUND: In the last few months, representatives of Western governments have been meeting extensively with representatives of the Taliban regarding how to end the war. A newly published study by the International Centre for the Study of Radicalisation (ICSR) should again remind us that the likelihood of the Afghan and Western government representatives negotiating a sustained peace deal with the Taliban remains small. Several British scholars wrote this monograph, entitled “Talking to the Taliban: Hope over History?”. They undertook a comprehensive study of the almost three decades' worth of negotiations with the Afghan resistance movements, reviewing the Soviet-era talks with the Mujahedeen guerrillas as well as the Western and Afghan government negotiations with the Afghan Taliban, which became a major force in Afghan politics in the late 1990s and remains the main threat to the Western-backed Kabul government.

Yet, generalizing lessons from history is always precarious since two situations are never identical. If nothing else the actors in the later period can see what happened earlier, which can change their calculations. But one obvious pattern that jumps out at the reader of the ICSR study is that none of these negotiations ever yielded a peace agreement. The authors suggest some insightful reasons why this might be the case. Other reasons also present themselves. One problem is that a large number of actors are seeking to negotiate with the Taliban or arrange such negotiations. In the U.S., the Defense and State Departments, as well as the White House National Security Council, have at various times assumed the lead role in the Afghan peace process. At the international level, in addition to NATO and the United Nations, Turkey, Qatar, Pakistan, and Saudi Arabia have
tried to organize peace talks. Their initiatives constantly overlap and distract from one another.

A reinforcing problem is that those groups seeking to negotiate with the insurgents constantly do so for diverse reasons, which allows the Afghan resistance to manipulate these differences for their own ends. Some advocates of talks genuinely aspire to achieve a lasting peace agreement, whereas others aim simply to divide and weaken the guerrillas by inducing some of their members to leave the battlefield. Some see negotiations as a "silver bullet" that could rid themselves of the Afghan albatross. An increasingly large group is now back talking with the insurgents in principle simply because they have not been able to achieve a military victory and cannot think of a better alternative.

Neither of these groups has really thought beyond the process to the desired outcome of any negotiations. The Taliban have been skilled at inducing competition among their various negotiation partners, at picking and choosing which parts of the proffered deals they find most appealing, at forum shopping – using one negotiating venue or process, then another that looks more attractive – as well as having different Taliban representatives communicate targeted but conflicting messages to their different opponents.

**IMPLICATIONS:** There are many potential spoilers that have the capacity to sabotage any Afghan peace agreement. One reason Western governments are so eager to induce Karzai to leave office with next year's elections is that Karzai and other Afghan officials are upset that the Taliban leadership still refuses to deal with their government. The Taliban describe Karzai as a Western puppet and insist on dealing directly with his supposed foreign puppet masters. From the Taliban’s perspective, the talks are partly designed to humiliate Karzai by showing how irrelevant he is. Karzai knows this and is trying to take actions to disprove it—by making concessions and favorable comments to the Taliban to get them to talk to him, seeking alternative peace paths that do not work, and attacking the U.S. for seemingly seeking to negotiate a separate peace with the Taliban in a rush to exit the fight.

Conversely, Afghanistan’s main ethnic minorities – such as the Tajiks, Uzbeks, and Hazaras – fear that Karzai will negotiate a secret deal with his fellow Pashtuns in the Taliban at their expense. They are already engaged in tactical hedging, building up their local militias and assembling weapons in preparation for a renewed civil war. NATO and other foreign governments are encouraging this process by providing weapons to their favorite proxies as well as the central Afghan National Security Forces, which might themselves break apart into ethnic and other factions in coming years.
In addition to divisions among the pro-government actors, the Taliban insurgents are also sharply divided by factions and geography. They are a highly decentralized movement and driven by local grievances such as disputes over land tenure or opium trade. These issues are largely unrelated to the central government’s policies and would not be solved with a peace agreement between the Taliban and Afghan government leaders. The ICSR study also finds recurring “wishful thinking” that a “moderate” faction of insurgent leaders is prepared to negotiate a successful agreement. But there is no concrete evidence that a powerful peace faction has ever been present in the Taliban movement. Instead, the Afghan insurgents have purged, and often killed, any of their leaders who defect or otherwise seem overly eager to reach a genuine peace deal with the Afghan government. In addition, it is not clear whether, even if a moderate Taliban leadership faction existed, it could deliver most of the rest of the movement to enforce any peace agreement. Taliban field commanders (the people with the guns) are distrustful of any negotiations. Even if Mullah Omar’s Quetta Shura Taliban were to negotiate a peace agreement, the more radical Haqqani network, which enjoys the patronage of key figures within Pakistan’s national security establishment, could fight on in alliance with local al-Qaeda remnants.

Securing Pakistan’s support is essential for achieving an enduring peace agreement. Pakistani officials have insisted on having a key role in any peace settlement, and have disrupted talks from which they have been excluded by arresting the senior Taliban representatives involved. Influential groups in the Pakistani government dispose of numerous Afghan proxies that they can induce and empower to disrupt any peace process as well as wreak havoc inside Afghanistan. Many in Islamabad see Afghanistan as a chessboard where Pakistan and India jockey for influence. Recent reconciliation efforts between Kabul and Islamabad have lost steam and their leaders have resumed denouncing one another for their bad faith. Like the Taliban, Pakistan has an incentive to delay since time is on its side, with its bargaining power increasing as Western influence declines.

**CONCLUSION:** Even if the talks start soon, the experience of other negotiations seeking to end a civil war suggest they will likely take considerable time to realize a deal. The parties need to feel comfortable working with one another, they need to compromise their initial demands, setbacks and misinterpretations constantly occur, within or outside the talks, and then the negotiators need time to sell any deal to colleagues. Then they need to implement the agreement and keep everyone on board. In the case of Afghanistan, it is hard to imagine that all these steps can occur before all NATO combat forces leave the country by the end of next year.

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NORMALIZED GEORGIA-RUSSIA RELATIONS MAY CONTRADICT GEORGIA’S TERRITORIAL INTEGRITY

Ariela Shapiro

On May 27, Russian border troops in South Ossetia started building barbed wire fences beyond the occupation line and into undisputed Georgian territory. These incursions, termed “borderization operations” by the Russian administration, are an estimated 25 kilometers in length and extend between 50-300 meters beyond the occupation line. While the U.S. State Department and European Union Monitoring Mission (EUMM) all promptly reacted by describing the fence building as “unacceptable” and “concerning,” neither were able to prevent or cease the construction. These actions demonstrate how Russia views the post-2008 “new geopolitical realities” and that Putin intends to dictate the terms and parameters of any “normalizing” of relations with Georgia.

BACKGROUND: Since the October 2012 parliamentarian elections, the Georgian Dream coalition has undertaken a series of unilateral steps to resurrect a progressive dialogue with Russia. These cooperative initiatives include a new bilateral forum to discuss trade relations with Russia as well as the December 2012 closure of the Russian-language PIK television channel that was broadcast into the Northern Caucasus and highlighted Georgia’s reforms to these audiences. In addition, in May the government made a political decision for Georgia to participate in the 2014 Winter Olympic Games in Sochi, an area that lies adjacent to the Russian-occupied territory of Abkhazia.

International observers have characterized Ivanishvili’s new approach towards Russia and the occupied territories as having three tiers: cooperation, engagement and conflict resolution. Under this rubric, the bilateral forum, chaired by Zurab Abashidze and Giorgy Karasin, will supplement the preexisting Geneva process talks as well as the Georgian Ministry for Reintegration’s (MRA) work with the Abkhaz de facto authorities.

Accordingly, Ivanishvili’s foreign policy seems more flexible than that of the previous government as he seeks to balance ties with NATO and the European Union with better relations with Russia. However, while Ivanishvili’s cooperative initiatives towards Russia may yet produce positive results, there is a systemic lack of effective communication and management between the Georgian institutions involved in these policies. This situation is impeding any sustainable on-the-ground conflict resolution activities as well as long-term conflict resolution efforts.

While Abashidze’s bilateral vector has powerful political support, the MRA’s engagement projects in the occupied regions have decreased from 162 to 31
in the last seven months. The reduction in these projects is not due to lack of political will to support engagement activities but rather indicates a lack of strategic planning and support for the various players involved with occupied territories.

In addition, many Georgian analysts note that the move in South Ossetia was intended to undermine the confidence of both the Georgian public and Georgia’s Western partners in the Ivanishvili government’s new approach.

**IMPLICATIONS:** In this context, Ivanishvili’s tendency to use appeasement tactics as a mechanism for recovering the occupied territories and rebuilding ties to Russia is quite concerning. Against the backdrop of the fence building incursions, Putin made an overture to the Georgian government in a June 11 televised interview. During the course of this interview, Putin proposed a “full scale restoration of Russia-Georgia relations” that would begin with mediated cooperation between the respective law enforcement and security agencies.

Through this interview, Putin intended to communicate to Ivanishvili’s government that he seeks to control, or at some level direct, the actions of the Georgian security forces in exchange for “normalization” of relations between the two countries. In response, on June 13 the Georgian Interior Ministry claimed its officers had “foiled a terrorist plot” and arrested two Dagestani suspects, both of whom were wanted by Russian security forces. These arrests indicate Ivanishvili’s willingness to allow Russia to set internal Georgian security priorities, and this attitude has broad implications for Georgian policies as regards the occupied territories.

The June 13 arrests indicate the Georgian government’s willingness to allow Putin to establish the terms for a “normalized relationship” despite Russia’s on-going violations of Georgia’s territorial integrity. This state of affairs has dangerous implications for Georgia’s ability to support the Geneva process and not allow conflict related issues to become part of the bilateral forum.

Currently, the resolution of all issues regarding the Abkhaz and South Ossetian conflicts, such as internally displaced persons’ right of return, falls within the confines of the Geneva process. While the stated purpose of the bilateral forum is to improve trade relations between Georgia and Russia and discuss the Sochi Olympics, Ivanishvili risks giving Putin another venue for manipulating Georgian foreign policy.

While Ivanishvili’s government has steadfastly adhered to the principle of Georgian territorial integrity, it has also displayed a dangerous tendency
to appease, and most probably underestimate, Russia. Russia may try to dominate the Abashidze-Karasin meetings by invoking a sense of “normalcy” into this forum in order to bring up issues related to the occupied territories and the conflict. As such, any discussion of the conflict by Abashidze and Karasin would undermine the Geneva process while obfuscating any clear international decision making processes.

Moreover, while the Geneva process has stagnated and is not trusted by most of the involved parties, the bilateral forum is still viewed as an effective dialogue mechanism. Given its high political profile, the Russian government may try to manipulate the content of the bilateral forum’s discussions to its benefit.

In addition, international observers have noted the Georgian government’s lack of attention to strategically integrating the various institutions involved in the bilateral forum, the MRA and the Geneva process. These representatives question the current lack of clarity in the Georgian government’s communication and decision making structures. Critically, international representatives feel disengaged from the Georgian government’s policy-making processes and critique its strategy, or lack thereof, for not clarifying its positions to its international interlocutors.

In the current pre-election period for the October 27 Georgian presidential elections, it is critical for the government to strongly illustrate their policies in order to solidify both domestic and international confidence. Ivanishvili’s government should work to make its decision-making mechanisms more transparent and engage the international community and its representatives in its foreign policy initiatives. If Ivanishvili cannot garner international buy-in for his policies, or worse feels such support is superfluous, Georgia may start to find its actions viewed with skepticism and distance by the international community.

**CONCLUSIONS:** The recent fence building activities demonstrate that Russia does not consider Georgian territorial integrity to be a priority and will seek to set the terms for a “normalized” Georgia-Russia relationship. While foreign actors rebuked these actions, the relatively small size of these incursions did not warrant serious involvement on the part of the international community. In addition, as the EUMM’s mandate only allows it to observe and report on developments along the Administrative Boundary Line, a geopolitical reality is being created that allows Russia to continue its calculated small acts of aggression.

At the same time, Ivanishvili’s policies regarding the occupied territories and Russia seem to favor appeasement rather than strategic negotiation and compromise. Even though the Georgian Foreign Ministry condemned Russia’s actions, Ivanishvili issued a restrained statement and suggested that the government “not go into hysteria” as Georgia has an “obligation and must mend [ties with Russia] through diplomatic efforts”.

Given Ivanishvili’s perspective, Abashidze and the bilateral discussions will command political clout, and could undermine both the Geneva process and the MRA’s engagement activities. The Georgian government should be careful not to appease Russia and allow the bilateral talks to become a forum for conflict related issues, thereby undermining the Geneva process. To ensure that its policies towards the occupied territories and Russia are effective and sustainable, the Georgian government should also engage the international community in its policy making processes while working to better coordinate its own internal agencies.

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Despite many positive developments in the last few years, the future of the ambitious TAPI gas pipeline project is still in doubt. All four partner countries are making serious preparations for the project. However, the uncertainty surrounding post-2014 Afghanistan has dampened the motivation among major energy companies to act as lead consortium partners of the project. In these circumstances, multilateral agencies like the Asian Development Bank may have to play a crucial role in salvaging the project. Likewise, if the U.S. administration is serious about its support for TAPI, it should put its full diplomatic and financial weight behind it.

BACKGROUND: In the last fifteen years, there has been much discussion on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline. Earlier, analysts highlighted many uncertainties concerning the project. These included gas reserves in Turkmenistan; the security situation in Afghanistan; and strained relations between India and Pakistan. Despite all these challenges, all parties have seriously considered the proposal. In the last couple of years, the project has been up for discussion at almost every major international meeting concerning Afghanistan. This has been one of the main items on the agenda at every Regional Cooperation Conference on Afghanistan (RECCA).

As per the latest reports, the proposed 1,700 km pipeline will run from the South Yolotan Osman fields in Turkmenistan to Afghanistan, from there it will be constructed alongside the highway running from Herat to Kandahar, and then via Quetta and Multan in Pakistan. The final destination will be to Fazilka in Indian Punjab. The project can transport up to 30 billion cubic meters of natural gas annually from Turkmenistan to South Asian countries. The agreement signed by the involved countries envisage the delivery of 90 million cubic meters per day (mmcmd) of gas from Turkmenistan to participating countries with 38 mmcmd each going to Pakistan and India and 14 mmcmd for Afghanistan.

India was formally invited to join the project in 2006, and was earlier participating in the talks as an observer along with the ADB, Turkmenistan, Afghanistan and Pakistan. The ADB has acted as the TAPI Secretariat since 2003. In the last ten years, it has also played a useful role in coordinating and facilitating the TAPI negotiation process, mainly through its small Technical Assistance (TA) projects costing a few million dollars.

Initially when concerns were raised about gas reserves, the Turkmen government in 2006 informed the members that an independent firm, De Golyer & McNaughton, had confirmed reserves of over 2.3 trillion cubic meters (TCM) of gas at Dauletbad
With major discoveries at South Yolotan (located in the southeastern Murgab Basin north of the Dauletabad field), however, many of these concerns subsided. Although instability in Afghanistan has been one of the main obstacles for the project, international attention to Afghanistan has conversely kept the project alive through all these years.

IMPLICATIONS: In the last few years, all four countries involved in the project have already signed most agreements required for its commencement. These include: an Inter-Governmental Agreement (IGA), a Gas Pipeline Framework Agreement (GPFA), a Gas Sales and Purchase agreement, and a broad agreement on transit fees. Early last year, India and Pakistan agreed on the principle of a “Uniform Transit Fee,” basically meaning that Pakistan will accept whatever transit fee India and Afghanistan agree upon. The Indian government later approved a payment of 50 cents per million metric British thermal units as the transit fee to Pakistan and Afghanistan.

To accelerate the project, the parties have formed a ministerial level Steering Committee and Technical Working Group. In February this year, the Indian government approved the formation of the Special Purpose Vehicle (SPV) for the TAPI project and permitted the Gas Authority of India Ltd (GAIL) to join the SPV. With an initial US$ 20 million contribution, the Dubai-based SPV, TAPI Ltd, would take up the feasibility study and design work as well as search for a consortium lead. All four countries have agreed to the concept and Indian GAIL has made initial investments of US$ 5 million in TAPI Ltd.

In recent months, even Bangladesh has shown an interest in joining the project. Knowing the history of the project, the significance of these developments cannot be underestimated. It means that the ground work for the project is ready. It is now time to commit serious finances for it.

According to an earlier pre-feasibility study by Penspen, the estimated cost of the project is about US$ 7.6 billion. Recent reports quote figures around US$ 9-12 billion. According to the ADB, the estimated design and construction period for the project is about four years. Since this is a large and complex project, all partners consider it necessary to attract a major energy company to lead the consortium, which will facilitate investment, manage construction and operate the pipeline.

To attract potential project partners, three road shows coordinated by the ADB and attended by representatives of all four participating countries were organized in Singapore, New York and London in September-October 2012.
Several companies and financial institutions attended the Singapore road show, including Petronas, Temasek and State Bank of India. In New York, many leading firms such as Chevron and Exxon Mobile, CITI Group and US Exim participated. Among others, British Petroleum, Shell, British Gas and Morgan Stanley attended the London road show. While all these companies have shown a keen interest in the project, none is currently willing to commit resources due to the uncertain situation in Afghanistan.

Although U.S. administration is pushing for the project, the U.S. Energy Information Administration feels that “the likelihood of such a pipeline coming online in the next few years is very slim due to the logistical and security challenges.” It is also reported that many oil majors may become interested in the project if they are allowed a stake in the upstream fields in Turkmenistan. Turkmenistan has earlier offered a Chinese company such a stake for the Turkmenistan-China gas pipeline. The Turkmen government now says that its new law does not allow stakes in gas fields. After failing to find a lead partner, there were reports that the participating countries were ready to sign a transaction advisory agreement with the ADB to raise funds for the project, yet these limited efforts may not be enough to save it.

At this point, all four participating countries in the TAPI project are keen to see it implemented. Both Pakistan’s Nawaz Sharif and India’s Manmohan Singh are eager to show some positive movement in bilateral relations. Along with other items, TAPI was one of the main items on the agenda when the influential India-Pakistan Business Council met in Islamabad recently. During the meeting, TAPI was termed a “historic step among the member countries.” If the project does not go through, Turkmenistan's government will move further towards China and possibly Russia. It will be a major setback for Afghanistan's current administration. The energy starved Pakistan will look for alternative energy ties with China and Iran. For India, it will be a sign of further U.S. disengagement from Afghanistan and Central Asia. Some Indian public sector companies like the Oil and Natural Gas Commission (ONGC) are already exploring the possibilities of bringing Russian hydrocarbons to India. There are reports that the ADB is already pulling out of another big energy project in Central Asia, the South Asia Transmission & Trade Project (CASA-1000). The ADB was supposed to sponsor 40 percent of this US$ 966 million project. These reports are not very encouraging for TAPI either.

CONCLUSIONS: The strategic significance of the project is great. If implemented, the TAPI gas pipeline can become a “game changer” in regional geopolitics and regional economic integration. It has the potential to smoothen the “Decade of Transformation” for Afghanistan. The time has come to commit serious finances for the project. In the absence of any major energy company coming forward, international financial organizations like the ADB should take a serious look at the project and
commit finances for TAPI. Another
dose of small TA projects will not be
enough. If the U.S. administration is
serious about the project, it also needs
to put its full diplomatic and financial
weight behind it. Otherwise
discussions on the TAPI gas pipeline
will be limited to academic and
diplomatic conferences for another
decade.

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KAZAKHSTAN AND THE UK LAUNCH STRATEGIC PARTNERSHIP

Georgiy Voloshin

On June 30 and July 1, British Prime Minister David Cameron paid his first official visit to Kazakhstan. This was also the first ever visit of a head of the British government to this Central Asian country. Accompanied by Kazakhstan’s President Nursultan Nazarbayev, Cameron took part in the inauguration of an oil-processing plant off the Caspian coast in the Atyrau region. The launch of this industrial facility whose construction had lasted for more than eight years coincides with the resolution of a months-long conundrum surrounding the Kashagan oilfield, one of the largest oil deposits in the world discovered during the last 40 years.

On July 2, Kazakhstan’s Ministry of Oil and Gas officially announced its intention to buy an 8.4 percent stake in Kashagan from the U.S. energy company ConocoPhillips which had earlier stated its desire to leave Kazakhstan in November 2012. While India’s state-owned oil and gas firm ONGC Videsh Ltd was considered as a major candidate for Conoco’s replacement, rumors have circulated that Kazakhstan’s Government prefers China National Petroleum Corporation, due to a special partnership between Astana and Beijing. Currently, the Kashagan deposit is operated by an international consortium comprised of seven partners, including the Anglo-Dutch multinational company Royal Dutch Shell.

Given the fact that the launch of production at Kashagan was already postponed several times between 2005 and early 2013, Kazakhstani authorities and foreign investors are all interested in accelerating the last stage of the preparatory phase currently underway. Therefore, Cameron’s visit was not only an additional high-level effort to lobby British commercial interests in Kazakhstan’s energy sector but also a gesture of reassurance directed toward Shell and dozens of smaller service companies from the UK. While the inauguration of the Bolashak plant, which may process 450,000 barrels of oil and 8.8 million cubic meters of natural gas per day, has been hailed as a new sign of progress on the way to the much-expected start of production, more hurdles still have to be cleared before Kashagan becomes operational in the second half of 2013.

During his subsequent visit to Astana, David Cameron also put his signature on the strategic partnership agreement between the UK and Kazakhstan. Although Great Britain ranks third in terms of foreign direct investment in Kazakhstan, behind the U.S. and the Netherlands, other European countries such as France, Germany, and Spain have been quicker to recognize Kazakhstan’s strategic potential and to respectively formalize enhanced cooperation treaties. However, London lately moved further in the same direction by including Kazakhstan
among the 14 most attractive trade partners for the near future. Last year, the trade turnover between the two countries reached US$ 2.3 billion, with over 600 UK-registered companies present in Kazakhstan.

The British Prime Minister’s two-day visit to Kazakhstan also allowed the signing of 14 investment agreements worth over US$ 1 billion. Thus, Kazakhstan’s Ministry of Industry and New Technologies concluded a partnership with SUN Gold for the construction of an ore-processing plant in the Aktobe region in the country’s west. Another agreement signed between the Industry Ministry and Rio Tinto paves the way for the establishment of the Geological Research Center as part of the technology transfer in the extracting field. In its turn, KazGeology will soon benefit from the technical expertise of Dando Drilling International entrusted with the construction of an assembly line for drilling installations. Another business deal concerns future cooperation between Kazakh Telecom and Weightless International in the conception and development of wireless communications.

Overall, David Cameron’s business delegation included over 30 companies. In his welcome address before the start of the Kazakh-British business forum, President Nazarbayev invited the British business community to invest in sectors other than oil and gas or mining and promised investment incentives aimed at further diversification of the national economy.

Finally, the two leaders touched upon the security situation in Afghanistan where the incipient peace talks between the Afghan government and coalition troops and the Taliban has already encountered serious problems. In this regard, David Cameron additionally requested the Kazakhstani side to ratify the UK-Kazakhstani land transit agreement signed by the two countries’ defense ministries last February. Nazarbayev had already ratified a similar agreement concerning the air transit of British military personnel and equipment from Afghanistan on June 15.

London remains one of Kazakhstan’s most active European partners in the field of military cooperation, while Kazakhstani soldiers and officers frequently travel to the UK to acquire professional training. One of Nazarbayev’s grandchildren, Aisultan, graduated from the Royal Military Academy at Sandhurst in 2009.
UNITED NATIONAL MOVEMENT STEPS DOWN IN TBLISI CITY COUNCIL

Eka Janashia

On July 1, the United National Movement (UNM) lost its majority in Tbilisi City Council (Sakrebulo) after Koki Ionatamishvili, a close aide to Tbilisi mayor Gigi Ugulava and the chairman of the party’s faction in the council, left the UNM.

Ionatamishvili publicly explained his decision as motivated by the UNM’s failure to transform and renew itself, which compelled him to leave the party. He also criticized the Georgian Dream (GD) coalition for purposely destroying the UNM and prompting the polarization of Georgian society.

In response, the president’s administration speedily exposed a private letter Ionatamishvili sent to Saakashvili several months ago, in which the former chairman requests Saakashvili’s assistance in selling his two percent share in a company for US$ 100,000. The revelation of the letter highlighted the personal reasons for Ionatamishvili’s resignation beyond ideological ones.

Despite the fact that the UNM is losing its remaining political power at the local level, the GD still falls short of majority in the capital city’s Sakrebulo. Out of the 50 Sakrebulo seats, three are vacant, 23 are held by UNM representatives and five by independent members, while the remaining seats are held either by members of the GD coalition or individuals affiliated with it.

The UNM claims that state authorities have exercised enormous pressure at the local level since the October 2012 parliamentary elections, after which dozens of UNM members abandoned their party’s mandates in Sakrebulos across Georgia.

In the morning of June 27, 23 Tbilisi municipality officials including UNM members were detained at various locations by the Finance Ministry’s (FM) investigations unit and then released. The FM declared that they were gathered “for questioning as witnesses in an ongoing investigation related to misspending and embezzlement of the municipality’s budgetary funds” and then were allowed to leave. However, some of the Tbilisi municipal officials insisted that they were handcuffed and told that they were arrested rather than summoned as witnesses. The incident took place while a NATO delegation led by Secretary General Anders Fogh Rasmussen was visiting Georgia. Tbilisi’s mayor Ugulava said that the government apparently released the detainees to eschew a political scandal.

Nevertheless, shortly after the NATO delegation left Tbilisi’s airport another wave of detentions started. The deputy mayor of Tbilisi Davit Alavidze, the head of the Tbilisi Development Fund Davit Avaliani, the head of the procurement service in the Tbilisi City Hall Alexi Tabuashvili, and the deputy head of the capital city’s Mtatsminda
The Public Defender’s office as well as three watchdog groups – Georgian Young Lawyers’ Association, Transparency International Georgia and International Society for Fair Elections and Democracy – questioned the legality of the FM investigations service’s actions.

The president of the monitoring committee of the Congress of Local and Regional Authorities of the Council of Europe, Lars O. Molin said in a statement on July 4 that the “the number of legal proceedings” and the “manner” in which local elected representatives have been arrested triggered “deep concerns” of the committee.

Prime Minister Bidzina Ivanishvili said that if there were procedural violations, an investigation should be carried out and offenders punished. That mass detentions took place “at a politically wrong time” indicates that “all processes are not managed by a single person and from one center and that is normal and good,” he said.

However, the detention and quick release of local officials, followed by a renewed wave of arrests more likely indicates mismanagement and a lack of coordination among state agencies rather than a positive trend. Further, the Rustavi court’s move most probably demonstrates pressure on the judiciary system that could hardly be appraised as “good” or “normal.”

Whereas the continuing retreat of the UNM members signals a crisis for the party, it does not seem like a natural process but rather depicts the government’s intention to wipe out the
SHAH DENIZ CONSORTIUM OPTS FOR WESTWARD GAS EXPORTS THROUGH TRANS-ADRIATIC PIPELINE

Mina Muradova

The Shah Deniz consortium has announced its selection of the Trans Adriatic Pipeline (TAP) as the route for transporting gas from the Caspian Sea to Europe. The choice of TAP over the rival pipeline Nabucco West determines a route that will be used to diversify gas supplies to the European market in order to reduce European dependence on Russian gas.

The EU’s Energy Commissioner Günther H. Oettinger said that the EU has obtained a definite commitment from Azerbaijan that gas will be directly delivered to Europe through a new dedicated gas pipeline system. “Whether the system consists of two gas pipelines – TANAP and TAP – or one single pipeline as earlier projects had foreseen - does not make any difference in terms of energy security. We now have a new partner for gas, and I am confident that we will receive more gas in the future,” – he said in a statement.

TAP’s gas transportation route – backed by Swiss energy company Axpo (42.5 percent), Norway’s Statoil (42.5 percent) and Germany’s E.ON Ruhrgas (15 percent) – will be approximately 800 kilometers in length, which is 400 kilometers shorter than its rival pipeline. Transport will begin near the Greek-Turkish border (Komotini), cross Albania and the Adriatic Sea, and connect with the Italian natural gas distribution system near San Foca in Italy.

Regarding the selection of TAP, BP said there was a “substantial” commercial difference between the two competing pipeline projects, including the cost of shipping the Azerbaijani gas and gas prices in the respective markets. BP operates the Shah Deniz consortium, which also includes Statoil, Azerbaijan’s energy company SOCAR, Total, Lukoil, NICO and TPAO. The decision was characterized as “an important milestone” in the opening of the Southern Corridor, which will deliver natural gas to customers in Greece, Italy and Southeast Europe.

“For over two years we have been working closely with and evaluated a number of pipeline projects to select the best option that will become part of the planned southern corridor,” said BP’s regional president Gordon Birell on June 28 at the official ceremony. BP also states that the decision is an
important step in the consortium’s plans for a final investment decision on Shah Deniz II. This project, with its associated pipelines, will cost over US$ 40 billion and will bring over 16 billion cubic meters annually (bcm) of Azerbaijani gas to market. “We are delighted that the implementation of the Southern Gas Corridor will be made possible through development of the South Caucasus Pipeline Expansion, the Trans Anatolian Pipeline and the Trans Adriatic Pipeline,” stated Rovnag Abdullayev, President of SOCAR.

It is planned that TAP will start initial deliveries of ten bcm of gas annually to Europe and six bcm to Turkey in 2019, linking to the Trans Anatolian Pipeline (TANAP), which envisages the construction of a pipeline from Turkey’s eastern to its western border. According to SOCAR, TANAP’s annual capacity is planned to reach 23 bcm in 2023 and 31 bcm in 2026. Shah Deniz II is expected to add another 16 bcm of gas to the approximately nine bcm from Shah Deniz I.

The second stage of development of the Shah Deniz field, located some 70 kilometers offshore in the Azerbaijan sector of the Caspian Sea, is expected to include two new bridge-linked production platforms; 26 subsea wells to be drilled with two semi-submersible rigs; 500 kilometers of subsea pipelines built at up to 550 meters of water depth; a 16 bcm upgrade for the South Caucasus Pipeline (SCP); and an expansion of the Sangachal Terminal. Further pipelines will be built and expanded to transport Shah Deniz gas through Turkey and Europe.

Although the capacity of the TAP pipeline can expand to 20 bcm, SOCAR is in no hurry to reject the Nabucco pipeline. “We clearly see the Nabucco pipeline corridor as the natural market for our future volumes of gas,” Abdullayev said at a news conference. He stressed that beyond Shah Deniz, Azerbaijan’s gas exports will increase dramatically as fields like ACG Deep, Absheron, Umid and Shafag-Asiman are developed, and Azerbaijan views the pipeline route towards Austria as a natural market for this gas. Turkey’s Energy and Natural Resources Minister Taner Yildiz also supports the idea that both projects will be needed considering the growing gas demand in Europe. The Turkish and Greek governments are currently assessing an offer to become partners of TAP.

According to TAP managing director Kjetil Tungland, Belgium’s Fluxys is expected to join the TAP by August, while Shah Deniz members SOCAR, BP and France’s Total have said they will take stakes in the pipeline project by the end of the year.

The International Energy Agency forecasts that gas demand in the EU will increase from the current 526 bcm to 622 bcm by 2030. Simultaneously, the EU’s Energy Roadmap 2050 forecasts that gas imports will rise, notably due to a decline in home production. This additional demand should be covered by new, additional gas suppliers.
The Shah Deniz consortium has agreed on terms with a number of companies in Italy and Greece for its gas sales. In addition, negotiations are underway to sell gas in Bulgaria, and Shah Deniz plans to express its interest in expanding pipeline capacity to that country.

BP’s vice-president for the Shah Deniz Project El Cook has stated that negotiations with potential buyers have already been conducted, and “we can expect signing of contracts within a few weeks.”

According to Fineko agency, SOCAR’s Vice President Elshad Nasirov said that the final gas tariff will be set in negotiations with specific customers. He noted that it will not be a fixed price, which Azerbaijan has applied for gas exports from Shah Deniz I. “Within the first stage the gas will be received by Greece and Italy. There will not be a single gas buyer in Europe. Only in Italy it is planned to enter into agreements with several buyer companies,” Nasirov added. Switzerland is a potential buyer after a connecting gas pipeline between Italy and Switzerland will be built in 2016. The Greek natural gas company DEPA has already submitted an initial bid to buy one bcm of gas from Azerbaijan through TAP, the Greek Deputy Energy Minister Asimakis Papageorgiou said on Friday. Energy Minister Yannis Maniatis said the quantities were provisional and could change when commercial terms of the planned pipeline are finalized.
ARMENIA SHOCKED BY CONTROL CHAMBER'S BUDGET REPORT
Haroutiun Khachatrian

The Armenian Control Chamber (CC) recently released a highly controversial report on the government's execution of the 2012 state budget. Under Armenian legislation, the CC is a special non-partisan body which controls the efficiency by which state funds are used. The CC’s president is proposed by Armenia’s president and appointed by the Parliament for six years. The report was presented at a session of Armenia’s parliament, the National Assembly, on June 17 and 18 although it had been ready for some time.

During the presentation, the CC's president Ishkhan Zakarian passed a tough verdict on the usage of state funds in 2012, stating that Armenia's state budget “was sacked.” To underscore his point, Zakarian held a piece of cable while delivering his presentation, saying that the CC had discovered purchases of such cable in a project at prices exceeding the market price by ten times. This and other, similar examples induced questions from a number of MPs, including the parliamentary chairman Hovik Abrahamian, whether the prosecutor’s office was studying the facts presented in the report. The National Assembly immediately decided to forward the report to the Prosecutor’s office.

The report received significant public attention and many Armenians considered it to constitute evidence of severe corruption within the country’s state structures. The Armenian government received the report with alarm, inducing an instruction from Prime Minister Tigran Sargsyan to his ministers to “either reject or confirm what the CC says.” The first government official to react to the CC report was Vice Prime Minister Armen Gevrgyan, who said that the report demonstrated to the government that violations had indeed taken place in 2012, but added that the volume and rate of such violations indicated in the report were inflated. Hence, words like “sacked” should not be used to describe the use of state funds in 2012, Gevrgyan said.

In a special statement on July 4, the CC dismissed claims made in Armenian newspapers that its suspicions comprised about 70 percent of the state budget. The CC said it never made such a claim, neither in its reports, nor in Zakaryan’s speech in the National Assembly.

On July 1 and 2 at least eight government representatives met with reporters. The general conclusions of these meetings were, firstly, that as rule, the ministries themselves did not perform the works indicated in the report. Rather, they acted as controllers of the hired companies and had in many cases detected, and punished, the same violations as indicated in the CC report. Secondly, the ministries and the CC for the most
part agree that the legislation needs improvement. Thirdly, the implementation of some processes that the CC and the government agree upon need more time. Fourthly, the government and the CC disagree on certain points.

PM Sargsyan is a member of the ruling Republican Party Board (RPB), while Zakarian, formally a non-partisan and a former head of the National Olympic Committee, occupies his current office since November 2007 when current President Serzh Sargsyan was Prime Minister. Hence, both are members of the current ruling elite and the dispute over the use of state funds seems to indicate an intra-elite conflict. The minister of education and science Armen Ashotyan, also a member of RPB, put it the following way: “It is natural that in conditions of weak opposition the authorities should create more opportunities for ... discussions, to enable progress.”

President Sargsyan himself acted in defense of the government, which he recently reappointed. During a meeting on July 2, Sargsyan said that the CC should function as a Statistical Service; it should present facts and avoid drawing political conclusions. The RPB organized a meeting on July 4 to discuss the conclusions of the CC report, but it took place behind closed doors and its results have not been made public. As for potential further action by the Prosecutor’s Office, it may need at least a month to reach a conclusion on this issue.