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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: 300-400 words of analysis about what has led up to the event or issue and why this issue is critical to the region. Include background information about the views and experiences of the local population.

IMPLICATIONS: 400-600 words of analysis of the ramifications of this event or issue, including where applicable, implications for the local people's future.

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AUTHOR'S BIO: provide a short bio of yourself in 20-50 words.

Field Reports focus on a particular news event and what local people think about the event. Field Reports address the implications the event or activity analyzed for peoples' lives and their communities. Field Reports do not have the rigid structure of Analytical Articles, and are shorter in length, averaging ca. 700-800 words.

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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WHY THE SOUTH CAUCASUS NEEDS A STRONGER U.S. AND EUROPEAN POLICY

Mamuka Tsereteli

The South Caucasus has been on the radar screen of U.S. policy makers since the mid-1990s, when the region was seen as an integral part of the pro-active U.S. security and energy policy towards Europe. Those policies resulted in several pipeline projects that connected Azerbaijani resources via Georgia and Turkey to European and world markets. Today, after several years of decline in U.S. strategic interests towards Europe, the U.S. is revitalizing its focus through the Transatlantic Trade and Investment Initiative. This opens new opportunities for countries that are not members of the European Union, but aspire for integration into the Trans-Atlantic strategic and trade space.

BACKGROUND: The collapse of the Soviet Union and the Warsaw Pact security system opened an opportunity for a pro-active U.S. security and economic policy towards Central and Eastern Europe, oriented towards strengthening the sovereignty and independence of the countries liberated from the Soviet yoke. Alongside the eastward enlargement of NATO and the EU, energy security also became a subject of attention for U.S. policy-makers due to Europe's high overall dependency on Russian energy. The discovery of hydrocarbon resources in the Azerbaijani section of the Caspian Sea allowed Azerbaijan, Georgia, and Turkey to present themselves as a new alternative transit system, viable for supplies of oil and natural gas to European markets.

The close collaboration of the U.S., Turkey, Azerbaijan, Georgia, and Kazakhstan in the process of implementing the so called multiple pipeline policy played a crucial role in building strong economic and trade links between the Caspian Sea and Black Sea/Mediterranean seaports. The energy

engagement with the region translated into substantial Western, as well as regional geopolitical and economic gains. The construction of the major oil and natural gas pipelines between Azerbaijan, Georgia and Turkey solidified the region's dramatic break from Russia's political and energy dominance.

After the enlargements of NATO and the EU and the Multiple Pipeline Policy's success, there were no U.S. policy initiatives of a similar magnitude towards the region. Respectively, there were no major policy initiatives aimed at linking the South Caucasus to Europe. Russia was no longer seen as a source of strategic threats and U.S. strategic attention switched to Asia, the Middle East and other parts of the world.

Due to shale gas development in recent years, the U.S. has become the world's largest producer of natural gas and no longer needs to import Liquefied Natural Gas (LNG). Volumes that were designed for the U.S. market by producer countries such as Qatar, Algeria, Trinidad and others could now be exported to Europe, which has built,



and continues to build, several new LNG receiving terminals. This reduced the relative dependence on Russian gas in Europe, and also reduced prices. Hence, while the Southern Corridor for natural gas, originating in Azerbaijan, is still a priority in European diversification strategy, there is a diminishing sense of urgency related to this project. This fact is also reflected in policy making. The fact that the U.S. government abolished the position of Special Envoy for Caspian Diplomacy Issues for the first time since its introduction in the 1990s is reflective of these new realities.

IMPLICATIONS: Yet, the U.S. and European states remain interested in developments in the South Caucasus. There is broad support both for the Southern Energy and Transportation Corridor, and for the greater integration of the three South Caucasian countries into the European political, economic and cultural space. The South Caucasus is still relevant for the purposes of ongoing military operations in Afghanistan and remains prospective transit area for the planned withdrawal of forces in 2014. However, this support no longer translates into major strategic and political initiatives, let alone the political or financial

resources to support such initiatives. The region's unresolved conflicts are a vivid demonstration of the lack of coordinated efforts by the international community to facilitate significant development in the region.

However, the Transatlantic Trade and Investment Initiative, as reflected in President Obama's 2013 State of the Union speech, presents a potential avenue for increased strategic engagement. The South Caucasus has the potential to become part of this process through various mechanisms and agreements that bring the region closer to Europe.

The primary strategic objective for the South Caucasus is to find ways to raise the region's visibility in the policy-making processes in Washington and Brussels. In turn, such visibility requires that the region is attached to major U.S. and EU policy initiatives.

Skeptics say that Europe no longer has the capacity to offer significant incentives to its partners due to the ongoing economic crisis. In this view, Europe is exceedingly slow in decision making and offers many unnecessary regulations that slow down economic growth. After all, it is a fact that even highly prioritized EU projects aimed at connecting Caspian natural gas resources to Europe remain unimplemented, while China managed to build both oil and natural gas pipelines, thus allowing Central Asian states to diversify their markets.

Yet, these skeptical views tend to ignore that the combined EU economy is still the largest economy in the world. The EU is also the

largest trade partner for the U.S., by far the largest foreign direct investor in the U.S. economy and the safest destination of U.S. FDI, and the average GDP of EU countries is still four times larger than China's. Closer integration into the European economic space through trade and investments opens greater economic opportunities for the countries in the European neighborhood, and the countries of the South Caucasus have a potential to be a part of the process.

In this context, the South Caucasus countries should ally themselves closely with other Eastern European countries, and most importantly with Turkey to find a common voice and convince Washington and Brussels that the region represents a natural expansion of the European economic space, and must be included in any policy initiative related to the broader Europe. Reinventing the European economic space to include Turkey, Ukraine, the South Caucasus and even Russia may become an attractive long term policy initiative for both Washington and Brussels that will also incorporate the interests of South Caucasus. Existing EU mechanisms such as the

Eastern Partnership initiative, covering Moldova, Belarus, Ukraine and the three countries of the South Caucasus, may facilitate reaching this ultimate goal. However, like many other EU initiatives, they lack dynamism.

CONCLUSIONS: The leadership and initiative of the South Caucasus countries in this process will be decisive. Armenia, Azerbaijan and Georgia need to take a proactive stand and demonstrate that they are willing and capable of being strategic partners for the transatlantic community of values. Similar to the role Azerbaijan and Georgia played in the development and implementation of the multiple pipeline policy in the 1990s, the Euro-Atlantic integration of the South Caucasus can only turn into a long-term strategic project if there is a sense of strategic presence from the U.S. and EU, and if regional actors assume the responsibility and implement the policies that will lead to greater integration.

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INDIA'S ONGC PLANS TO BRING RUSSIAN HYDROCARBONS TO SOUTH ASIA

Gulshan Sachdeva

After years of discussions on TAPI and IPI, the Indian public sector giant ONGC now plans to bring Russian hydrocarbons to India via Central Asia, Afghanistan and Pakistan. If taken seriously by all concerned parties, the project has the potential to fundamentally change the energy security scenario of India as well as Pakistan, offer vast new markets for Russian hydrocarbons and provide an economic cushion for Afghanistan in its decade of transformation.

BACKGROUND: Despite many security and political difficulties, India continues to be engaged in discussions on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) as well as Iran-Pakistan-India (IPI) gas pipeline projects. The Indian state owned Oil and Natural Gas Corporation (ONGC) has now started floating the idea of bringing Russian hydrocarbons to India via Kazakhstan, Uzbekistan, Afghanistan and Pakistan. The idea is already under serious discussion at official and unofficial meetings. It seems that the ONGC Videsh Ltd. (OVL), the international arm of the ONGC, is awaiting political clearance to announce concrete technical details. The idea was first floated during the Kazakh foreign minister's visit to India in March 2013 and later on the sidelines of the "Heart of Asia" ministerial meeting in Almaty. The issue was also discussed during the Indian External Affairs Minister's visit to Moscow in late April.

It was initially suggested that the pipeline would start in the southern Kazakh city of Shymkent, an oil refining hub, and then run south through Uzbekistan and reach Afghanistan. From Afghanistan it may

follow the TAPI route. Since extensive energy linkages already exist between Central Asia and Russia, the proposed route was further extended north to open Russian hydrocarbon exports to South Asia. From the Gazprom Central Asia-Centre pipeline, built during the 1960s, linkages have previously existed to Mazar-e-Sharif in Afghanistan and these could be revived again. The distance to the Indian border from Mazar-e-Sharif is about 1200 kilometers. The ultimate idea is to establish an energy corridor of gas and oil pipelines linking South Asia into Eurasia. If needed, parallel road corridors could also be constructed.

At this stage of economic modernization, India is adapting to economic globalization and to the emerging Asian and global balance of power. India is vulnerable due to insufficient energy resources. Accelerated growth has also forced India to synchronize its energy security strategy with its foreign and security policy. India's actions and commitments on the energy front will in the coming years shape its relations with countries like the U.S., Russia, China, Iran and Kazakhstan.



IMPLICATIONS: In the past, India's external energy policy largely meant securing reliable supplies from the Gulf. More recently, it has included multiple strategies of diversification, acquiring assets abroad and pipeline politics. Various official policy documents broadly outline that India's energy security can be increased by (a) diversifying both its energy mix and sources of energy imports; (b) pursuing overseas acquisitions of energy assets; and (c) initiating policy reforms to attract foreign investment as well as improving domestic production, distribution and consumption. In addition, energy diplomacy has also become one of the main agendas of India's foreign and security policy. India is seriously pursuing the nuclear energy option as well as import sources beyond the Middle East. Bilateral nuclear agreements with the U.S., France, Russia and Canada, as well as consistent engagement with the countries of Eurasia, Africa and Latin America can be understood in this perspective.

For more than a decade, India has also been exploring the possibility of importing gas through pipelines from Turkmenistan, Iran, Myanmar and Bangladesh, albeit with little success. Although India is geographically

relatively close to four major gas producing nations, Russia, Iran, Turkmenistan and Qatar, the country is not receiving any gas from these exporters via pipelines. India has negotiated a long term agreement with Qatar to supply LNG but this seems to be a relatively expensive proposition. There are also discussions on a deepwater transnational gas pipeline from Oman for transporting natural gas sourced from Turkmenistan, Iran and Qatar to India.

Overall, it is quite clear that apart from the economics of the project, almost every pipeline plan to India must be weighed against security issues (Afghanistan/Pakistan), political issues (India-Pakistan relations, the U.S.-Iran standoff) and solid geo-political and economic competition (China). Hence, if India is serious about obtaining energy through pipelines, it needs to put solid political weight behind these proposals and must also work out a grand strategy to deal with these related issues simultaneously. The present energy outlook makes clear that Indian policy makers do not have the option of waiting. Thus, along with TAPI and IPI India will also be pushing for Russia-India hydrocarbon pipelines.

Compared to TAPI and IPI, the Russia-India hydrocarbon pipeline project has better chances of success. Apart from traditionally close relations built on mutual trust and the India-Russia strategic partnership since 2000, the OVL already has a 20 percent stake in Sakhalin 1. In 2009, OVL also acquired Imperial Energy which has seven discovered blocks in Tomsk, Siberia. In addition, OVL has agreed to buy U.S. energy major

ConocoPhillips' 8.4 percent stake in Kazakhstan's Kashagan oilfield for about US\$ 5 billion. There are some reports that under Chinese pressure, Kazakhstan is now considering exercising its pre-emption rights to buy ConocoPhillips's stake so that it can later sell it to a Chinese firm.

Still, OVL is confident about its hitherto biggest acquisition abroad. The Indian government would also not like to see a repeat of 2005 when China outbid India to acquire PetroKazakhstan, Kazakhstan's third-largest oil producer with Chinese CNPC raising its bid to US\$ 4.18 billion. Similarly, OVL now also has extensive international experience with 27 oil and gas projects in 14 countries including Russia, Venezuela, Kazakhstan, Sudan, South Sudan, Syria, Vietnam, Brazil and Colombia. Similarly, it has developed partnerships with leading companies such as ExxonMobil, Shell, Total, Repsol, Statoil, Petrobras, Rosneft, Petro Vietnam, CNPC, Sinopec, PDVSA, TPOC, Petronas and Ecopetrol. Recently, the company has concluded a US\$ 1 billion deal to buy U.S. energy major Hess Corp's 2.76 percent stake in the Azerbaijan International Operating Company. Therefore, closer ties between India and Russia and OVL's experience in the region add to the credibility of the project.

Secondly, Russia should be supporting this project as it is seriously looking for new gas markets. There is little scope for expansion in the traditional European market. Europe is facing economic stagnation and European policy makers are seriously trying to diversify sources of gas beyond Russia.

Europe's own development of shale gas production may take time but it will soon start importing shale gas from the United States. Despite close relations with China, Russia has also not been able to make a major headway into the Chinese market. Instead, China has successfully concluded direct deals with Central Asians. In contrast, India can provide a secure and enormous long term market for Russian gas exports.

Thirdly, the project is favorable when considering regional geopolitics. Unlike IPI, it does not contain an Iranian angle. It could also potentially become a big transit project for Afghanistan and hence be compatible with the U.S. promoted Silk Road Strategy. It also fits well within the multi-vector policies of Kazakhstan and Uzbekistan. With both Russian and U.S. support and possible hydrocarbon imports for its energy starved economy, Pakistan could also become an important partner to the project.

CONCLUSIONS: Overall, the India-Russia hydrocarbon corridor could become a game changer in regional geopolitics and economics. It would re-energize the India-Russia strategic partnership, create solid linkages between South Asia and the emerging Eurasian Economic Union, stabilize Afghanistan economically, and could create incentives for peace between India and Pakistan. Pakistan's new democratically elected government would also like to engage in more energy projects to end the country's serious energy shortages. A major concern is the security situation in Afghanistan. However, emerging details of a security agreement between the U.S. and Afghanistan may provide some solutions to

the post-2014 uncertainty. The India-Russia hydrocarbon pipeline project may also further strengthen the viability of TAPI.

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FACING GROWING IRANIAN THREATS, AZERBAIJAN DEEPENS TIES TO ISRAEL

Robert M. Cutler

Iranian legislators in Teheran have drafted a bill calling for revision of the 1828 Treaty of Turkmanchay, which divided the multiple Azerbaijani khanates between the Russian and Persian Empires. While this cannot be taken wholly seriously, it is a symbol of the deterioration of bilateral relations. It comes against a background of worsening rhetoric between Teheran and Baku, which have in the past extended into subversive actions by Iran on the territory of Azerbaijan. It is thus in the line of longstanding Iranian threats against Azerbaijani sovereignty and the government of President Ilham Aliyev.

BACKGROUND: The Safavid dynasty of Persia ruled the territory of present-day Azerbaijan during the sixteenth century. In 1603 the Ottoman Turks occupied the region, and the victories of Russian Tsar Peter the Great in the early 1700s sealed the fall of Safavid influence, breaking the territory up into independent and mutually quarreling khanates. Following further Russo-Persian wars in the early nineteenth century, the 1828 Treaty of Turkmanchay confirmed the ceding of the northern khanates to Russia, splitting historical Azerbaijan in two. Subsequently, Tsar Nicholas I created the necessary condition for the situation now known as the Karabakh problem. With the Treaty of Turkmanchay, he styled himself protector of the Christians in the Persian Empire, and received them into his own lands, settling many ethnic Armenians in what is now Nagorno-Karabakh.

The legislative bill in the Iranian Majlis is in line with over a decade of provocations against Baku and challenges against Azerbaijani sovereignty. Perhaps the best known of these took place in the summer of

2001, when Iran deployed military force in the Caspian Sea and threatened to use it against a BP-led mission intended to explore the Alov hydrocarbon deposit in the Azerbaijani sector. This mission included an Azerbaijani vessel, and the Iranian threat forced a cessation of work that continues to this day. The Iranian name for the deposit is Alborz, which perhaps by no coincidence is also the name of the country's first deepwater semi-submersible drilling rig, launched four years ago in the Caspian Sea.

More recently, in 2007 fifteen Iranians and Azerbaijanis were convicted of spying on state oil facilities and conspiring to overthrow the government in Baku. In 2008, a plot by Hezbollah operatives to blow up the Israeli Embassy in Baku with Iranian assistance was exposed and thwarted. In late 2011 the Azerbaijani journalist Rafiq Tagi, who had since 2005 been the subject of a death-penalty fatwa from Grand Ayatollah Fazel Lankarani, was murdered in a knife attack in Baku days after publishing an article that criticized Iranian president Mahmoud Ahmadinejad for discrediting



Islam. And in early 2012, Azerbaijani police exposed and arrested members of yet another terrorist cell created by the Iranian Revolutionary Guards together with the Lebanese Hezbollah.

IMPLICATIONS: The southern nineteenth-century khanates not absorbed into the Russian Empire are referred to as Iranian Azerbaijan, or sometimes by northern irredentists as “Southern Azerbaijan.” They now constitute four contemporary northwestern Iranian provinces that include over 10 percent of the country’s population, which is itself variously estimated to count between one-quarter and one-third ethnic Azerbaijanis. Perhaps in reply to the Majlis initiative seeking revision of the Treaty of Turkmenchay, Azerbaijan’s foreign minister, Elmar Mammadyarov, paid the first-ever high-profile visit by any of Baku’s cabinet ministers to Israel in late April. There are historic and cultural links that undergird the informal upgrading of bilateral diplomatic relations. Sephardic Jews have reputedly lived in the mountains of Azerbaijan since close to 600 BC, and the region was a relatively safe refuge for Ashkenazi Jews fleeing Russia from the

German invasion during the Second World War. Such a trip was in any case overdue in view of the depth and breadth of bilateral relations for such a long time.

Experts estimate that Azerbaijan supplies at least one-third, perhaps as much as two-fifths of Israel’s oil (roughly 20 million barrels), and trade turnover between the two has reached US\$ 4 billion per year. Azerbaijan is reported to have purchased US\$ 1.6 billion in arms from Israel in 2012, and Israeli firms are cooperating with the relevant Azerbaijani ministries in advising on the Azerbaijani manufacture of military weapons. Apart from that, Azerbaijan has for a long time been a main link of the Northern Distribution Network, which supplies equipment to NATO forces in Afghanistan, and Iran has accused it of preparing to allow Israel to conduct military operations against Teheran. Hard evidence to support this accusation has been lacking, but it is important to note that Azerbaijan’s present-day ties with Israel are not merely an artifact of state interests. They reflect the historical experience of Azerbaijan, where the nation-building antecedents even in the nineteenth century were tied to anti-clericalism. So it should also not be a surprise that the spectrum of Azerbaijani revolutionary parties in the late nineteenth and early twentieth centuries replicated the political variety seen in Europe and were influenced by European ideologies.

Tehran’s threats against Baku are driven not only by Azerbaijan’s foreign policy orientation but also by its status as a post-Soviet state with a majority Shi’ite population but secular Muslim identity. As

such, it gives the lie to the Iranian regime's theocratic doctrines and eschatological pretensions. Iran pretends to give formal diplomatic support for Azerbaijani sovereignty over Nagorno-Karabakh, but its sponsorship of actions against Azerbaijani sovereignty as mentioned above reveals its real preferences. Indeed, Iran has greatly deepened and broadened its relations with Armenia in the last six years, opening a crucial gas pipeline to Armenia that has been an energy lifeline, constructing two hydroelectric plants on their common border, and building highway and railroad links. By contrast, relations between Iran and Azerbaijan are already rather poor, and there is little that Teheran can do to prevent Baku from deepening its relations with Jerusalem. Because there are so many current problems and so much mutual distrust, relations between Azerbaijan and Iran are unlikely to normalize even after the upcoming presidential elections in Iran, regardless of which faction of the Teheran elite is able to claim victory.

CONCLUSIONS: Iran's threats affect not just Azerbaijan but also Turkey, since Turkey's current prosperity is due in significant part to its low-cost imports of natural gas from Azerbaijan for domestic

use, as well as its role as a transit country for Azerbaijani oil (Baku-Tbilisi-Ceyhan pipeline) and, soon, gas (Baku-Tbilisi-Erzurum and Trans-Anatolian pipelines) to European and world markets. With its investment in Turkey's petrochemical sector, Azerbaijan is set to become the largest foreign investor in the country before the end of the present decade. Although Mammadyarov's visit to Israel was not "official", he met with the president, prime minister, defense minister and other senior officials in the country for intensive discussions. At a news conference after the trip was over he concluded that it was only "a matter of time" before Azerbaijan opened an embassy in Israel. Official Baku does not credit Teheran's accusations against Israel that it is seeking to throw a wrench into Azerbaijani-Iranian relations. On the contrary, Azerbaijan is said to have refrained from high-level visits to Israel in the past in order not to antagonize Iran. Mammadyarov's visit may therefore, in future retrospect, be seen as a turning point.

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RUSSIA UNLIKELY TO CHANGE POLICIES IN NORTH CAUCASUS AFTER BOSTON BOMBING

Valery Dzutsev

The security situation in the North Caucasus has deteriorated progressively since Moscow expelled foreign organizations from the region. Following the recent Boston Marathon bombing and its purported connection to the North Caucasus, the region and its precarious situation has attained increased international interest. Yet, while several arguments can be made for why an increased international presence in the region would benefit all sides, the Russian government will likely opt for keeping the region isolated from the world while justifying its ongoing military campaign in the North Caucasus as a contribution to global counterterrorism.

BACKGROUND: The attack on the Boston Marathon was the deadliest terrorist bombing in the U.S. since 9/11. The primary suspect of the attack in Boston, 26-year-old Tamerlan Tsarnaev spent over 6 months in Russia in 2012 and allegedly carried out the Boston attack less than a year after his return to the U.S., raising several questions about the role of his visit to Russia's in the attack. Even though the strength of the link between the attack and the North Caucasus remains unclear at this point, it still suffices to raise the question of whether the North Caucasus has become a security problem of international dimensions. If Russia's North Caucasus has become a potential source of terrorism in the western world, then the simmering conflict in the region has practically ceased to be an exclusively internal Russian affair.

Russian officials initially denied any connection between Tsarnaev and the North Caucasian insurgency. Dagestan's Interior Minister Abdurashid Magomedov was quoted by Interfax news agency on April 24 as saying that Tsarnaev had no contacts

whatsoever with the underground movement during his stay in the republic. It later transpired that Russian security services tracked Tsarnaev's activities and detected his meeting with a known militant. The details of Tsarnaev's contacts in Dagestan have remained unclear. President Putin nearly hailed the attack on Boston as a proof of his long-held views. Having rebuked the U.S. for supporting the North Caucasus insurgency at his annual phone-in TV conference on April 25, Putin continued on a more conciliatory note: "I am saying all this not to put the blame, but to call on bringing ourselves closer together in resisting our common threats, of which terrorism is one and increasingly dangerous. If we truly join our efforts, we will not allow these strikes and suffer such losses."

The Russian government has so far communicated two contradictory messages. If there was a link between the Boston attack and the North Caucasus, that would indicate that Russia's control over the situation in the region has waned to such a low level that the region has started to pose a



security threat far beyond Russian boundaries. Needless to say, in such a case Putin's mentoring tone is out of place as his policies in this Russian region are in part responsible for what happened in Boston. At the same time, if the Boston attackers did not have any connection to the North Caucasus, then the U.S. can scarcely benefit from cooperating with Russia on the terrorism threat and Putin's call is again untimely.

IMPLICATIONS: The Kremlin's strenuous efforts to suppress the rebellion in Chechnya over the past 20 years appear to have led to an entirely new situation, where the North Caucasus has gradually become an international security threat. Clearly, Russia's policies in the North Caucasus have produced unsatisfactory results. The conflict was initially confined to Chechnya's borders but has gradually spread to neighboring Ingushetia, Dagestan, and Kabardino-Balkaria with some spillover also to other parts of Russia. On average about 700 people are killed in the North Caucasus every year in the ongoing conflict between government forces and the insurgency movement. Numerous human rights violations by the government forces, such as extralegal

killings, torture and kidnappings have been documented by human rights organizations in the region. Since the start of the second Russian-Chechen war in 1999, the Russian government has pushed international NGOs and other organizations out of the North Caucasus, claiming that they undermined Russia's territorial integrity and helped the insurgents. Ironically, while Moscow has been successful in expelling foreign organizations deemed hostile to the government, the North Caucasus has seen increasing levels of instability. The Boston attack suggests that time is right for reversing the trend and allowing international developmental organizations access to the North Caucasus in order to prevent a further slide into violence and oppression.

The timing of the Boston attack further heightens the relevance of considering civil violence in the North Caucasus as an international security issue. In 2014, Russia will host the Winter Olympics in the resort town of Sochi that is situated in the western part of the North Caucasus. Even though Russian security services have established what could be called a cordon sanitaire around the town, practically barring North Caucasians from taking construction jobs or resettling in the area, chances are high that the insurgents will be incentivized to draw attention to their cause through an act of terror during the Olympics. International involvement in drawing a road map for conflict resolution in the North Caucasus could greatly improve the climate in this conflict-ridden region.

Apart from the danger that the North Caucasus insurgency poses to a one-time international event like the Olympics, it also constitutes a continuous regional threat of spillover into the neighboring states of Georgia and Azerbaijan. Indeed, if the Boston attack was indeed an instance of spillover from the North Caucasus, these nearby countries are immeasurably more vulnerable to such attacks and subsequent instability. Hence, apart from its general international dimension, the North Caucasus insurgency also has a far more profound regional impact.

Domestically in Russia, the conflict in the North Caucasus used to play the role of a rallying around the flag artifact for ethnic Russians. Putin's ascent to power as Russia's strongman was intrinsically connected with his harsh suppression of de-facto independent Chechnya in 1999-2001. Therefore the means chosen for addressing the conflict in the North Caucasus have a broad impact not only on international and regional security, but also on domestic politics in Russia and Russia's political evolution.

CONCLUSIONS: Thomas de Waal noted in a recent Financial Times article that following the Boston bombing even the Russian patriots most suspicious of the West should now recognize that "opening up the

north Caucasus is a better option than leaving it as a dark forgotten corner of Europe incubating violence." However, President Putin is likely to oppose this idea, because international recognition of the North Caucasus as a place of origin for religious extremists is not necessarily negative news for Moscow. Russia would likely be quite satisfied with the region being viewed as the Islamist fringe of European Russia that should be suppressed with crude force. The outside world, however, should certainly be concerned with the situation in the North Caucasus and Russian policies in this region, because Moscow is part of the problem of protracted violence in this region. Hence, joining forces with Moscow to legitimize even more egregious human rights violations may help the Russian leadership to shield itself from international criticism, but will hardly make the world safer. If President Putin so ardently seeks an alliance with the West against terrorism, surely he should support Western organizations in the North Caucasus that could promote a peaceful resolution of the conflict.

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FIELD REPORTS

U.S. DISMISSES CASE AGAINST SON OF KYRGYZSTAN'S FORMER PRESIDENT

Joldosh Osmonov

The decision of U.S. prosecutors to dismiss the case against Maksim Bakiev, the son of Kyrgyzstan's former president Kurmanbek Bakiev, was a disappointment to the Kyrgyz leadership. While some observers relate the developments to the situation around the U.S. Manas airbase, others claim that U.S. side indeed did not have enough evidence against Bakiev's son.

The U.S. prosecutor's office confirmed on May 10 that the criminal case against Bakiev has been dismissed. Robert Nardoza, a spokesman for the U.S. Attorney Loretta Lynch, has declined to comment on the reasons for dropping the case against the former president's son, who was accused of financial fraud and obstruction of justice. Later, U.S. Ambassador to Kyrgyzstan Pamela Spratlen stated that the decision to dismiss the case was dictated by the lack of evidence against Bakiev and added that further details can be obtained from the U.S. Justice Department.

Meanwhile, the fate of Bakiev, who was detained in London in October 2012 and put under house arrest, remains unclear as the U.S. extradition inquiry is no longer

relevant. Tim McAtackney, spokesman for the United Kingdom's Prosecution Service, has informed that the court hearing on extraditing Bakiev to the U.S., which was scheduled for May 13 has been canceled.

Bakiev left Kyrgyzstan in 2010 after the government change that ousted his father. During his father's reign, he headed the Central Agency on Development, Investments and Innovations, which was considered a "shadow government" controlling the state's main assets, the main strategic spheres of the economy and foreign investments. In March 2013, Bakiev was sentenced in absentia by a Kyrgyz court to 25 years in jail and confiscation of property for abuse of power, corruption, and criminal complicity.

The Kyrgyz Foreign Ministry has expressed its disappointment with the U.S. prosecutor's decision. Kyrgyzstan's Foreign Minister Erlan Abdyldaev stated during a session of the parliamentary committee that U.S. authorities at different levels have emphasized the gravity of crimes committed by Bakiev. However, one of the main principles of democracy – the rule of law and

unavoidability of punishment – did not work, Abdyltaev said. Furthermore, Kadyr Toktogulov, the Press Secretary of Kyrgyzstan's President, noted that the U.S. decision to stop the criminal case is incomprehensible to the Kyrgyz side. "We have no doubts that Maksim Bakiev had robbed the country and is now living in London on this money," Toktogulov claimed.

The news about the decision of U.S. authorities is widely discussed both among the Kyrgyz public and in the country's political circles. Kanybek Imanaliev, head of the Kyrgyz parliamentary committee on international relations, criticized the U.S. prosecutor's decision and stated that the arguments given by the U.S. authorities seem unconvincing. He said that Bakiev remains a criminal for Kyrgyzstan and that the country's foreign ministry should strive to sign an extradition agreement with the United Kingdom.

Most Kyrgyz political experts claim that it will now be difficult for the Kyrgyz side to have Bakiev extradited to Kyrgyzstan from the UK due to the absence of an appropriate extradition agreement between the two states. Nevertheless, Abdyltaev stated that Kyrgyzstani authorities will put all their efforts into bringing Bakiev to the country and prosecuting him.

Political analysts have expressed various opinions about the reasons for the U.S. prosecutor's decision and its possible consequences. Many related this event to the

situation surrounding the U.S. airbase in Kyrgyzstan and its future fate. Local expert Zamirbek Biymurzaev claims that this decision means that the U.S. airbase will be removed in 2014 after all. The Kyrgyz leadership was hoping that the U.S. side would in the end extradite Bakiev to Kyrgyzstan; however, U.S. authorities decided differently and let Bakiev go. The Kyrgyz side will not forgive the Americans and will do everything to withdraw the airbase from its territory, Biymurzaev said.

On the contrary, another political expert, Mars Sariiev, argues that the criminal case was dismissed because it became obvious that the U.S. will keep its airbase in Kyrgyzstan and that the "Bakiev argument" is no longer relevant. Sariiev noted that the final decision on the airbase will be made in Russia and the U.S., not in Kyrgyzstan. He assured that official Moscow and Washington, D.C. will "come to an agreement" given that the U.S. will allow Russia "to enter" the Middle East and obtain access to the Mediterranean Sea. Sariiev claims that the Bakiev case was "a political trump" in the hands of the Americans, and dropping the case means that the issue of the airbase has already been resolved.

However, some analysts also think it is ridiculous to link the Bakiev case to the airbase issue. According to local expert Marat Kazakpaev, these are two separate issues and Bakiev's importance should not be overestimated. The U.S. side has other things to offer to Kyrgyzstan, and they are more attractive, he stated.

GEORGIAN DREAM NOMINATES PRESIDENTIAL CANDIDATE

Eka Janashia

On May 11, the leader of the ruling Georgian Dream (GD) Coalition, Prime Minister Bidzina Ivanishvili, nominated Education Minister Georgy Margvelashvili as GD's presidential candidate for the October 2013 elections. Although Ivanishvili proclaimed that anyone can defeat the candidate of United National Movement (UNM), the major opposition party, he still preferred to bid for his "friend" and "exemplary" minister. The UNM, in turn, has not yet nominated its candidate and plans to reveal him or her through U.S. style primary elections.

A doctor of philosophy, 43 year-old Margvelashvili was selected "unanimously" by the GD leadership. Ivanishvili described him as "very creative, unique in crisis situations, and experienced in management and politics." Margvelashvili "is a good analyst, a good expert; I don't know what else to list," Ivanishvili said. Margvelashvili's appearance on the Georgian political scene dates back to 2003 when he joined the opposition electoral bloc Burjanadze-Democrats ahead of the November parliamentary elections. Since then he has been associated with the former Speaker of Parliament Nino Burjanadze and in 2008 even became a member of the board of advisers of her Foundation for Democracy and Development.

Margvelashvili has also served twice as a rector of the Georgian Institute of Public Affairs, from 2000 to 2006 and then again

from 2010 to 2012. His academic career and prominent criticism of Saakashvili's government apparently made him an appealing presidential candidate for Ivanishvili. Conspicuously, the billionaire-turned PM offered Margvelashvili the post of Minister of Education and Science of Georgia in 2012 and even promoted him to the position of Deputy PM in 2013 after stripping Defense Minister Irakli Alasania of this status (see the [2/13/2013 issue of the CACI Analyst](#)).

Alasania had previously been one of the leading potential Presidential nominees along with Minister of Energy and Natural Resources Kakhi Kaladze, Republican MP Vakhtang Khmaladze and former Foreign Minister Salome Zurabishvili. Among these, however, Alasania enjoyed the greatest popular support. According to a survey conducted in November 2012 by the National Democratic Institute (NDI), 72 percent of respondents backed Alasania's appointment as Minister of Defense while Margvelashvili's assignment was approved by 53 percent. Moreover, in the NDI's March 2013 survey, Alasania's job performance was voted second best among the ministers whereas Margvelashvili gained the tenth place.

Three days before the GD presidential candidate was announced, Alasania said that he was aware of "the final episode of the series for choosing the candidate." Talking at the Public Broadcasting Channel 1

program – Dialogue with David Paitchadze, he also hinted that it might be necessary to achieve a compromise within the coalition.

Meanwhile, the UNM secretary general and former PM Vano Merabishvili said on May 9 that the party would identify its candidate through primary elections. Whereas Merabishvili declined to state directly whether he plans to run, the minority vice Speaker of Parliament and former state minister for Euro-Atlantic integration Giorgi Baramidze did not exclude the possibility that he will run in the primaries. Tbilisi's incumbent mayor Gigi Ugulava whose term in office expires in 2014 ruled out his own participation and named Davit Bakradze, the former Speaker of Parliament and one of the leaders of the UNM parliamentary faction, as the best suited candidate for the presidential elections. Notably, the recent NDI survey revealed that the number of respondents who like Bakradze increased from 42 percent in November 2012 to 48 percent in March 2013. He is followed by Vano Merabishvili with 26 percent and Gigi Ugulava with 25 percent popular support.

Among the players who may also join the presidential race are Nino Burjanadze and the leader of the Christian-Democratic Movement (CDM) Giorgi Targamadze. According to the NDI March 2013 polls, Targamadze enjoys 31 percent public support whereas 43 percent of the respondents dislike

him. Burjanadze, in turn, has the highest disapproval rate at 60 percent.

There are also some speculations about the possible participation of the Moscow-friendly Georgian businessman Levan Vasadze and the pro-western Salome Zurbishvili in the 2013 presidential elections. Whereas Zurbishvili might be less competitive without Ivanishvili's support, the young, affluent and successful Vasadze, who is a close friend of Georgian Patriarch Ilia II, could trigger some important shifts in the political rivalry. However, Vasadze is not yet a citizen of Georgia and his chances of becoming one before the scheduled elections are low.

Although the constitutional provisions, adopted in 2010 and scheduled to enter into force after the upcoming presidential election, envisage a considerable reduction of presidential powers, the right of a vote of non-confidence in the government through vetoing the Prime Minister's nomination by the Parliament will be retained under the new constitution. Thus, the struggle for the post will gain momentum as the elections getting closer.

The nomination of Margvelashvili suggests that Ivanishvili made a bid for a person with comparably low political ambitions and popular support. Margvelashvili's prospects in the elections are therefore closely tied to Ivanishvili's continued popularity.

KAZAKHSTANI AUTHORITIES ISSUE WORRYING MACROECONOMIC STATISTICS

Georgiy Voloshin

On May 2, Kazakhstan's Auditing Committee released detailed statistical data for 2012 concerning the state of the country's budget and its evolution over the past calendar year. According to the information made public by the Committee's chairman Aslan Musin who previously headed the presidential administration, the total losses incurred by state-owned or state-controlled companies amounted to over US\$ 22.6 million. The survey of 300 companies with state participation effectively showed that more than 40 percent had not yielded any profits between January and December 2012. At the same time, the 40 biggest state enterprises account for 47 percent of the total losses or some US\$ 10.7 million.

These poor results are corroborated by the financial statements earlier published by the country's individual companies. For instance, the national oil and gas company KazMunaiGaz reported a 13.6 percent decrease in its profitability in 2012, with its total profits dropping from US\$ 3.2 billion to US\$ 2.76 billion in the span of twelve months. In late April, Kazatomprom, the national operator of the uranium industry, revealed a 36 percent drop in its own profits, from US\$ 533.3 million at the end of 2011 to only US\$ 340 million in December 2012. While both companies succeeded in generating net profits, the overall situation in the energy sector has been marked by a downward trend due to the unimpressive

demand on the world markets and mostly pessimistic production forecasts.

In early May, Kazakhstani media quoted unidentified sources close to the government according to whom the first oil at the Kashagan deposit on the Caspian Sea is expected in the first week of July, when the country will be celebrating the 15th anniversary of the capital city and President Nazarbayev's 73rd birthday. Although the North Caspian Operating Company has recently confirmed this schedule, well-informed sources say that it judges such expectations to be highly unrealistic and would prefer to stick to the September 2013 deadline, earlier announced by Oil and Gas Minister Sauat Mynbayev. The Kashagan-related uncertainty is further aggravated by the absence of clarity on the sale of ConocoPhillips' 8.4 percent share in the project. While the Kazakhstani government has not yet blocked the US\$ 5 billion deal between Conoco and India's ONGC, it is increasingly likely to do so, which only confounds investors' short- and medium-term expectations with regard to oil production at Kashagan.

The poor state of affairs in the energy sector is also linked to ENRC's current legal problems in the UK. On April 26, Kazakhstani media reported that the Serious Fraud Office, an independent UK government structure, had launched an inquiry into the company's worldwide business citing suspicions of large-scale

fraud, bribery, illegal payments and massive corruption. The chairman of ENRC's board of directors had earlier announced his resignation amid unending rumors about the upcoming sale of the majority of the company's assets in a context of plummeting revenues and rapidly growing liabilities.

Beside the oil, gas and mining sector, Kazakhstan's banks are also experiencing difficult times. In late April, one of the largest banking institutions, Kazkommertsbank, reported a net loss of US\$ 872.9 million in 2012 against US\$ 156.8 million worth of net earnings one year before. At the same time, its equity capital decreased by almost 30 percent to US\$ 2 billion. Concurrently, the embattled BTA Bank overtaken by the government-controlled Samruk-Kazyna Sovereign Welfare Fund back in February 2009 suffered a bitter defeat after a specialized economic court refused to satisfy its US\$ 420 million lawsuit against Silicium Kazakhstan. This now bankrupt company obtained a loan from BTA Bank in December 2008 for the construction of a metallurgical silicon plant but failed to launch production. Meanwhile, its former director has recently been

convicted to 12 years in prison on several criminal charges. Finally, the Fitch rating agency downgraded on May 9 the long-term default rating of another bank, ATF, lately sold by UniCredit Group for a quarter of the price it had paid in 2007 prior to the world economic crisis.

Finally, the Auditing Committee underscored in its report a sharp decrease in the tax revenue for 2012, registering a US\$ 170.7 million drop as compared to 2011. In Musin's view, the recent tax amendments providing for the repayment of VAT charges to large taxpayers do not fully take into account the state's interest. However, the main reason for the national economy's poor tax performance last year is the alarming situation on the world energy markets leading to the stagnation of exports of oil, gas and other raw materials from Kazakhstan. The Kazakhstani government has already declared that the country's budget will not receive more than US\$ 3.3 billion worth of expected tax revenue in 2013. This could not only compromise its earlier GDP forecasts but also jeopardize the implementation of large-scale infrastructure projects.

NEW TENSIONS BETWEEN AZERBAIJAN AND IRAN

Mina Muradova

Two citizens of Azerbaijan have been detained in Iran on charges of "illegal actions" with no further information available. The arrest follows the visit of a high-ranking Azerbaijani official on national

security issues to Tehran and is considered to be a sign of deteriorating relations between the two countries.

Close in culture and different in an ideology, pro-western Azerbaijan and pro-Islamic Iran are going through new wave of tensions following a March 30 conference in Baku organized by groups seeking independence for Iran's sizable Azeri minority, estimated to between 20 and 25 million and inhabiting Iran's East and West Azerbaijan provinces.

A headline of the forum that translates into "Future of the Contemporary Southern Azerbaijan" was organized by the so-called National Liberation Front of Southern Azerbaijan and was attended by activists, academics, and former Azerbaijani officials. Current Azerbaijani government officials were reportedly not present at the conference.

Forum participants said that Iran faces a dire political future because of sanctions along with domestic and international pressure, and has experienced a heavy crisis since the beginning of 20th century. They predicted that the northwestern provinces, referred to as "Southern Azerbaijan," will "inevitably" become independent. A participant was quoted by contact.az as saying that "If the Iranian government loses control, the National Movement is ready to take control of Southern Azerbaijan." Activists of the National Movement also stated that they expect Baku to adopt a national concept or strategy with regard to "Southern Azerbaijan."

Tehran's reaction was immediate. The Iranian Foreign Ministry summoned the Azerbaijani ambassador to Tehran and warned him that such provocations could

"seriously damage the development of bilateral ties" between the two countries. The Iranian Foreign Ministry also expressed Tehran's discontent with the failure of Azerbaijani authorities to prevent the event. A spokesperson of Azerbaijan's Foreign Ministry stated that the ideas expressed at this conference do not reflect Baku's official position. However, Mehdi Sanai, head of the Iran-Azerbaijan inter-parliamentary friendship group claimed that "anyhow, Azerbaijani authorities bear the responsibility for holding such an event," and considered the "anti-Iranian" conference to constitute "interference in the internal affairs" of his country.

The diplomatic row continued with the unexpected proposal from Iranian MP Kamal Aladeen Firmouzan to conduct a referendum on returning Azerbaijan to Iran. Firmouzan claimed that there is a real desire and interest among Azerbaijani citizens to rejoin Iran. In addition, the Iranian parliament went further and announced on April 9 that MPs had started working on a bill to revise the Turkmanchay Treaty with Russia and re-annex Azerbaijan to Iran. According to the Turkmanchay and Gulustan treaties signed in the 19th century, the Persian and Russian Empires recognized Russian suzerainty over most of what is modern-day Azerbaijan and established the Aras River as the common boundary between the two empires, after Persia's 1828 defeat in the Russo-Persian War.

Sanai commented on the initiative of Iranian MPs that, "these proposals, of

course, are not a part of the official policy of our country, but it is a response to the actions of official Baku,” and recommended Azerbaijan to behave “correctly and with reserve” in relation to Iran.

Azerbaijan’s foreign minister says that he does not believe the recent call by a group of Iranian lawmakers for the annexation of part of Azerbaijan should be taken seriously. “I believe the Iranian government would never support senseless ideas that would never produce any results,” Elmar Mammadyarov told journalists in Baku. On April 22, Mammadyarov opened a new page in Azerbaijan’s development of bilateral ties with Israel, Iran’s number one enemy. He became the first Azerbaijani foreign minister to visit Israel in the 21 years of diplomatic relations between the two countries. No documents were signed, but Mammadyarov met with Israeli President Shimon Peres, Prime Minister Benjamin Netanyahu and Defense Minister Moshe Yaalon.

In order to balance the Israel visit, another high-ranking Azerbaijani official paid a visit to Tehran. On April 29, Azerbaijani National Security Council Secretary Ramiz Mehdiyev, who doubles as President Aliyev’s influential administration chief, flew to Tehran to meet with Iranian President Mahmud Ahmadinejad and other senior Iranian officials. Azeri observers believe that the trip was intended to calm an angry Tehran and demonstrate that Azerbaijan regards Iran as “a friend” in its foreign policy and will not allow Azerbaijani

territory to be used by Israel and the U.S. in any potential attack against Iran.

Yet, following Mehdiyev’s visit, Tehran detained two Azerbaijani citizens without making accusations against them public. Ten days after the arrest of Khalida Khalid and Shamkhal Huseynov on April 30, the Iranian Ministry of Foreign Affairs responded to two notes from Azerbaijan’s Foreign Ministry, stating that the detained Azerbaijanis are facing “charges of illegal actions while not specifying what is implied under illegal actions,” according to Azerbaijani Foreign Ministry spokesperson Elman Abdullayev. Iranian media has reported that Khalid, a researcher, was detained by employees of the Ministry of Information, Security and Intelligence of Iran (ETTELAAT) in Tabriz in the house of local Azerbaijani activist Mohammad Rashidi. She could face charges of espionage.

Vafa Guluzade, a former state adviser on foreign policy, believes that recent developments are related more to the internal political situation in Azerbaijan than to the country’s external relations. “...Before the presidential elections, Azerbaijani authorities aim to get support from Israel and through the influential Jewish diaspora – to obtain the support of the U.S. and European Union,” – he said. However, Guluzade also commented to Turan news agency that the authorities definitely believe that “the situation in the country is under control and that Tehran will not be able to take any destructive action against Azerbaijan.”