

# Central Asia-Caucasus Analyst

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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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## **Submission Guidelines:**

**Analytical Articles** require a three to four sentence Key Issue introduction to the article based on a news hook. Rather than a general, overarching analysis, the article must offer considered and careful judgment supported with concrete examples. The ideal length of analytical articles is between 1,100 and 1,500 words. The articles are structured as follows:

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

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

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

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

**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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# THE BAKU SUMMIT LAUNCHES A BREAKTHROUGH LNG PROJECT

*Ariel Cohen and Gulmira Rzayeva*

*On September 14, Presidents Ilham Aliyev of Azerbaijan, Mikheil Saakashvili of Georgia, Traian Basescu of Romania and Prime Minister Viktor Orbán of Hungary gave new impetus to the realization of a revolutionary liquid natural gas (LNG) project. The high level attention to the project, named AGRI (Azerbaijan-Georgia-Romania Interconnector) is likely to attract other states to join. Experts say AGRI may be the most promising route for delivering LNG from the Caspian to Europe. It would connect existing and planned natural gas grids in Eastern Europe via Romania, Hungary, Bulgaria, and possibly Austria, as well as via an existing interconnector in Hungary.*

**BACKGROUND:** Facing a recognized need to boost gas exports through the Southern Corridor and a slow implementation of the Nabucco pipeline, Azerbaijan has launched a new LNG project: the Azerbaijan-Georgia-Romania Interconnector (AGRI), which will transport Azerbaijani gas by pipeline to a Black Sea port in Georgia for liquefaction and further transport to the Romanian Black Sea port of Constanta via tanker.

The gas will then be pumped through Romania's pipeline system further to the neighboring states. Thus, Caspian gas will be supplied to the European market. The project envisages the construction of a liquefaction plant for LNG export in the Azerbaijani-owned oil export terminal of Kulevi in Georgia, as well as the construction of a terminal for importing liquefied gas to a re-gasification plant in Romania.

The project is capable of handling 7 to 20 billion cubic meters (bcm) annually. The trilateral agreement was initiated by the Ministry of Economy, Commerce and Business Environment of Romania; the Azerbaijani Ministry of Industry and Energy; and the Ministry of Energy of Georgia.

According to preliminary estimations, the total cost of the project will range between € 1,2-4,5 billion, depending on the volume of transported gas, which will increase over the planned three phases, while the actual construction costs and export volume will be determined after the feasibility studies of a joint working group, which is to be established after the Baku summit.

AGRI gains new momentum after the summit in Baku on September 14, 2010, with the participation of the presidents of Azerbaijan, Georgia and Romania, as well as the President and Energy Commissioner of the European Commission, Jose Manuel Barroso and Guenther Oettinger. The signature of the Baku Declaration authorizes the launch of feasibility studies of the AGRI project and the establishment of a joint working group between Azerbaijan, Georgia and Romania. It is likely that after this high level meeting in Baku, other interested states will also join the project.

**IMPLICATIONS:** The selling point of AGRI is the speed of implementation, converting ideas into reality. Since the presidents of the three states signed the Memorandum of Understanding on supply of LNG to Romania



via Georgia on April 15, the project is moving ahead. Its realization appears to be the fastest among the projects of the Southern Corridor (Nabucco, White Stream, Trans-Adriatic Pipeline (TAP) and the Interconnector Turkey-Greece-Italy).

Given Romania's vulnerability to the disruption of gas supplies via Ukraine, Bucharest signed the AGRI agreement in order to address Romanian energy problems and to improve the overall long-term energy supply of the EU. AGRI suits the gas supply sources and routes diversification policy of the EU, which is the best solution to achieve energy security.

From the Azerbaijani perspective, the AGRI LNG project is an excellent opportunity to enter the downstream market of southeastern Europe, including Hungary, Bulgaria,

Macedonia, Slovakia, Serbia, Croatia, Albania and Kosovo. If AGRI is built, Azerbaijani gas will access Central European countries like Austria, the Czech Republic, and others, especially once the united EU gas grid system is built, which will also help to address emergency shortages.

Meanwhile, Yuriy Boyko, the Fuel and Energy Minister of Ukraine, has showed interest in the project and has expressed readiness to purchase 10 bcm of Azerbaijani LNG – 5 bcm in the first stage and 5 more in the second – once the LNG import terminal will be built in Odessa. According to Boyko, the overall financing of this profitable project is US\$ 3 billion. Boyko stated that Kiev could save at least US\$ 60 per tcm over imported Russian gas if it had an LNG import terminal.

The technical-commercial feasibility studies will be finished by the end of this year, using Azerbaijani experience from the construction of the Kulevi terminal. Today, gas from Qatar costs US\$ 190 per tcm after re-gasification. If Ukraine joins the project, the price for Shah Deniz gas could be projected to cost US\$ 190 per 1000 cubic meters, which is cheaper than the piped Russian gas.

Thus, the willingness of Ukraine to join the AGRI project and to build a LNG import terminal in Odessa is sending a strong message to Gazprom, making it aware that Kiev still has alternatives to choose from, and AGRI could be the trump card in its negotiations on the gas purchase-sale price with Gazprom.

AGRI could also be considered a more viable, faster and cheaper alternative to Nabucco, since Azerbaijan is ready to commit the gas originally earmarked for Nabucco, and fewer transit states are involved. After the feasibility studies and determination of the exact costs of the project, Baku might choose to go with the more commercially profitable project, thereby committing the entire remaining volume from Shah Deniz 2 to AGRI and leaving no spare capacity for Nabucco.

From Hungary, gas will be delivered to the Austrian hub Baumgarten by the pipeline connecting the two countries and from there distributed to markets in Western Europe. However, since gas prices in Western Europe are higher than in the Balkans, it will be more profitable for Balkan states to buy gas directly from Caspian suppliers.

Since Romania is the only East European country capable of supplying a large share of its internal consumption from its own resources, 3-4 bcm of gas annually will be delivered to Romania. As for Bulgaria, any imported volume

of gas is important as Sofia is planning to set up a natural gas trade platform and expand its gas storage facilities in a similar fashion as the Central European Gas Hub (CEGH), of which 80 percent is owned by Austrian OMV. Bulgaria wants to replicate this Austrian venture and is keen to use any opportunity to increase its energy role in Europe.

**CONCLUSIONS:** AGRI adheres to the requirements of the Trans European Energy Network (TEN-E) guidelines as it will likely contribute to the EU's objectives and policies aimed at a secure and diversified energy supply and will be eligible for EU financial support. A the president and energy commissioner of the European Commission expressed strong support for the AGRI summit in Baku, the EU demonstrates support for the Caspian-to-Europe natural gas project and is actively engaged in its realization. This is despite the fact that Azerbaijan's potential commitment of gas for the AGRI route may diminish possible gas throughput volumes for Nabucco. As for Azerbaijan, once the project is operational, Baku will have a stake in the European market. This will primarily be true for Eastern Europe and the Balkan states in the short term, however, after the European united gas network is built this may well extend to Central and Western Europe. This will be a significant geopolitical achievement for Azerbaijan and its partners in the AGRI project.

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# ASSESSING AFGHAN WAR ALTERNATIVES

Richard Weitz

*Within 24 hours, two prominent think tanks on both sides of the Atlantic Ocean released alternative strategies for conducting the war in the Afghanistan. The reports issued by the Afghanistan Study Group (ASG) in Washington and the International Institute for Strategic Studies (IISS) in London both call for a dramatic scaling back of the coalition's war goals and military efforts in Afghanistan. They shared the basic underlying position that the means being spent on the war have exceeded the value of the objectives being sought. Yet, while the two reports raise important points, implementing their recommendations would be premature.*

**BACKGROUND:** The ASG began meeting after the Obama administration launched its new Afghan-Pak strategy last December to assess its effects and discuss alternative approaches that could more effectively achieve U.S. global interests at a lower cost in terms of resources and people. Its members have concluded that the current strategy has failed. According to the Group, due to the recent surge in American troops and the decision to engage in a comprehensive nation-building exercise, the United States is spending almost US\$ 100 billion annually on various programs in Afghanistan. Meanwhile, thanks to earlier U.S. military operations, only approximately 400 “hard-core” members of al-Qaeda remain in all of Afghanistan and Pakistan, effectively an accomplishment of the original goal of the American intervention.

In the ASG's assessment, “The U.S. interests at stake in Afghanistan do not warrant this level of sacrifice”. To accomplish these objectives better, the Group is seeking to change how Americans view the conflict. Their study believes that the large Western military presence in Afghanistan has counterproductively led many Afghans and Pakistani Pashtuns to take up arms to resist what they see as an illegitimate foreign

presence. The ASG also asserts that, rather than being a war between the Karzai government and insurgents allied with international terrorists, the conflict in Afghanistan is actually a civil war among several groups competing for power and resources.

Given these views, the ASG supports a large-scale U.S. military withdrawal, especially from southern Afghanistan, combined with a negotiated resolution to the conflict that would establish a decentralized political system in which many competing Afghan groups exercise some authority. The study further endorses a U.S. diplomatic campaign to encourage influential countries near Afghanistan—including China, India, Iran, Pakistan, Turkey, and Saudi Arabia—to become more deeply engaged in stabilizing the country. Finally, its members argue that the United States can rely on limited applications of military power to prevent Al Qaeda or other international terrorists from establishing another safe haven in Afghanistan.

The analysis of the International Institute for Strategic Studies (IISS) is less developed than that of the ASG since the Institute did not issue a separate study on Afghanistan. Instead, their position is reflected in sections of their annual

*Strategic Survey* and several commentaries published in the media. Still, the Institute's views and recommendations strongly resemble those of the ASG.

The main IISS concern is that, in committing to a counterinsurgency campaign in Afghanistan, the Obama administration has engaged in an excessively ambitious plan of nation-building with the unrealizable goal of establishing a secure and politically stable country with a strong central government. The Institute considers this goal unrealizable and therefore urges Western governments to consider how best to protect their interests following the inevitable reduction of foreign troops. In particular, the IISS advocates pursuing the more modest goal of disrupting, dismantling, and defeating Al Qaeda in Afghanistan and neighboring Pakistan while allowing the Taliban, which are not seen as threatening Western countries directly, to exercise control over the Pastun-dominated areas of southern Afghanistan. A considerably reduced Western military presence based in northern Afghanistan would then apply limited military force to prevent the Taliban from conquering the entire country or Al Qaeda from reestablishing operational bases in Afghanistan, though they consider either development unlikely. The West could then provide economic and other assistance to local allies while supporting a highly decentralized Afghan political system in which most policy decisions are made at the provincial level. The IISS also advocates a similar confederal organization for the Afghan Security Forces, which would integrate local militias outside of the Pashtun areas controlled by the Taliban.

**IMPLICATIONS:** These reports make a valuable contribution to the international debate on how the United States and its allies

can best advance their interests in Afghanistan. We should constantly ask ourselves whether the Afghan campaign is proceeding well and, if not, what we should do to improve matters. It is also important to have a fall-back strategy in case the current counterinsurgency surge approach fails or proves too costly. Arguments about sunk costs must not be blindly accepted as a reason to continue an unwinnable war. As long as international terrorists are denied access to the nuclear weapons in Pakistan or other countries, the amount of damage they can do is inherently limited.

Europeans will likely cite the IISS report to support their desire to reduce their troop commitments in Afghanistan and rely more on economic, diplomatic, and other non-military means. In contrast, the ASG, while drawing more attention in Washington than the IISS assessment, is unlikely to affect U.S. policy before the Obama administration conducts a formal review of its Afghan-Pak strategy in December. As a result, the Afghanistan conflict is likely to continue to become less a coalition effort and increasingly a U.S.-led campaign, making it Obama's War.

The reports indirectly highlight the communication complexities facing Western governments. Their leaders have multiple audiences they must address, but three are especially important. First, they must make the Taliban think they will remain engaged militarily in Afghanistan as long as necessary to compel the insurgents to negotiate a peace settlement. Second, they must make the governments of Afghanistan and neighboring countries understand that the international commitment is limited and that they must therefore increase their own efforts to promote peace and prosperity in Afghanistan. Third, Western leaders must assure their home

audiences that their sacrifices in lives or treasure will not be excessive or in vain.

On the negative side, the reports do not really help us overcome the problem of clearly distinguishing a counterinsurgency from a counterterrorism strategy. The best way to prevent the Afghanistan-Pakistan theater from becoming a terrorist haven is to defeat their local insurgent allies. In practice, it is hard to separate the Taliban from al-Qaeda. The two groups have been closely interlinked for years by personal and ideological ties. Even if the Taliban leadership wanted to prevent Al Qaeda from returning to Afghanistan, it is hard to imagine the Taliban authorizing the use of force against its Islamist allies to prevent them from doing so.

The reports may overestimate the pressure on NATO governments to curtail their military engagement in Afghanistan. In the United States and many other NATO countries, the political leaders have sufficient maneuvering room to sustain their military commitments to Afghanistan for at least a few more years. Although public support for the war has fallen almost everywhere, it has not become a salient electoral issue. The economy and other domestic issues remain the most decisive in determining election outcomes. In the United States, the Republicans are if anything even more supportive of sustaining the large U.S. troop presence in Afghanistan now that the decline in American troop strength in Iraq is reducing strains on the overstretched U.S. military.

Neither report devotes much attention to assessing the regional consequences of their preferred policies. Under present conditions, allowing the Taliban to regain control of southern Afghanistan would likely lead

neighboring governments again to provide assistance to local favorites. The Pakistanis could conceivably support the Taliban, as could Saudi Arabia and perhaps even China if Beijing received assurances that the Taliban would not support Uighur extremists in China and would not challenge China's growing economic presence in Afghanistan's natural resources sector. Meanwhile, Russia, India, and perhaps other countries (such as the Central Asian states) would back various anti-Taliban forces. Under these conditions, we are likely to see a protracted civil war, though with local rather than Western governments bearing most of the costs.

**CONCLUSIONS:** Above all, implementing the reports' recommendations would be premature. The NATO troop surge has only just occurred, with the last additional American soldiers joining the battle only a few weeks ago. History tells us that the fate of insurgencies is very unpredictable, a lesson reinforced most recently by the Iraq War, where the coalition managed to convince sufficient local groups to resolve their differences through political means. The coalition might train and equip sufficiently powerful Afghan National Security Forces to allow the Kabul government, along with its local allies, to balance the insurgents, encouraging guerrilla fighters to defect and their commanders to compromise. Without military pressure, the only thing senior Taliban leaders appear willing to discuss is how rapidly Western troops will abandon their country.

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## WILL GAS HELP RESOLVE THE NAGORNO-KARABAKH CONFLICT?

Samuel Lussac

*Since August 2010, a rumor is spreading that the Azerbaijani State oil company, SOCAR, would be about to bid for the North-South pipeline, which ships Russian gas from Mozdok to Yerevan through Georgia. Such a move would give Baku control over 10-15 percent of the pipeline that delivers 80 percent of the Armenian gas imports, hence giving it new leverage over Yerevan. It especially sheds light into the new strategy of Azerbaijan regarding the Nagorno-Karabakh conflict. While the shootouts have been increasing lately, Baku intends to use gas development to exert more pressure over Armenia.*

**BACKGROUND:** At the collapse of the Soviet Union, Azerbaijan was a poor and weak country that had little except oil to attract the interest of international actors and great powers. President Abulfaz Elchibey and subsequently President Heydar Aliyev quickly acknowledged this situation, hence defining oil development as a foreign policy tool. The composition of the Azerbaijan International Operating Company, which extracts oil from the Azeri-Chirag-Guneshli oilfields, perfectly fit into this strategy. The United States (thanks to Amoco, McDermott, Pennzoil, and Unocal) were notably represented within it, as well as Europe (BP, Statoil, and Ramco) and Russia (Lukoil).

However, the main hope was to relate oil development to the resolution of the Nagorno-Karabakh conflict. Since the ceasefire of May 1994, close to 20 percent of Azerbaijan's territory was occupied, including the Lachin corridor. Following an idea from the U.S. National Security Council, Unocal pledged in early 1995 to build a "peace pipeline" that would cross Nagorno-Karabakh and Armenia into Turkey. In the meantime, Heydar Aliyev proposed to his Armenian counterpart Levon Ter-Petrossian to link Azerbaijani oil exports to

the Armenian withdrawal from the occupied territories.

Neither proposal produced any result. While waiting for Yerevan's answer to his proposal, Heydar Aliyev committed to a dual export option for Azerbaijani oil, one pipeline going north through Russia and another going west through Georgia. Moreover, leading international companies – Amoco and BP – firmly rejected the possibility that oil export would be tied up to the resolution of the Nagorno-Karabakh conflict. Both companies considered the instability of this region to pose a serious risk to the export routes.

This failure caused a reconsideration of the diplomatic impact of oil. Baku then perceived it as a tool for obtaining aid from international financial institutions and to gain international political support in the resolution of the Nagorno-Karabakh conflict. Azerbaijan hoped that the rising European and U.S. interests in its hydrocarbon resources would play in its favor on this issue. It also asked the U.S. companies to lobby in Washington for the suspension of Section 907 of the Freedom Support Act, which bans U.S. support to Azerbaijan. While Section 907 was finally softened in October 2001, this strategy has so far been a failure. Neither the European Union, nor



the United States have increased their support for Baku in the negotiations on the Nagorno-Karabakh conflict.

**IMPLICATIONS:** When he came to power in late 2003, Ilham Aliyev decided to reconsider this energy strategy for the Azerbaijani-Armenian conflict. He first decided to unify the Azerbaijani energy sector so as to further intertwine hydrocarbons development with foreign policy. He appointed young and reliable people to key positions, providing him with unambiguous control over the country's energy policy. SOCAR progressively became the leading company in this sector, notably merging with Azerigaz in 2009 and with Azerkimya in 2010. Presently, it is the strongest actor on the Azerbaijani energy market, controlling the production, transportation and sale of Azerbaijani hydrocarbons resources.

Once SOCAR had strengthened its position in Azerbaijan, it started investing in the neighborhood, mainly in Georgia and Turkey. In the former, it rapidly turned into the largest foreign investor (having invested around US\$ 470 million so far), controlling the Georgian gas market thanks to SOCAR Energy Georgia. This helped foster cooperation between Baku and Tbilisi, giving Azerbaijan more influence over Georgian regional policy. Since the Georgian Parliament approved the bill in early June, allowing for the privatization of the Georgian portion of the North-South pipeline, SOCAR has been considered as the favorite candidate – despite

competition from Gazprom and KazMunaiGas – to take control of the pipeline due to its preferential relationship with the Georgian government. SOCAR is now the largest energy actor in Georgia and there is no economic reason not to invest in the Georgian hydrocarbons transportation sector.

In the meantime, Baku took advantage of the European and Turkish hunger for its gas resources to influence politics in the South Caucasus. First, it has linked its support for the European-driven Southern Corridor project to the Turkish-Armenian rapprochement. While the Obama administration was pushing the negotiations between Ankara and Yerevan forward, Brussels remained relatively passive. Baku made it clear to the European Commission, especially to Directorate General

for Energy, that explicit support for this initiative would heavily undermine Azerbaijan's commitment to the Southern Corridor. The DG Energy then lobbied the Directorate General for External Relations as well as Javier Solana's Cabinet (which was then on the verge of being replaced by Catherine Ashton) to soften their support for the Turkish-Armenian dialogue. The increasing gas sales to Russia (up to 2 billion cubic meters a year in 2011) were a reminder to Brussels that Azerbaijan has alternatives for its gas exports.

Baku also linked the issue of Azerbaijani gas transit through Turkey to the Turkish-Armenian rapprochement. A political agreement on gas transit was signed only after the rapprochement collapsed. Now, as technical negotiations are ongoing between the Turkish pipeline company, BOTAS, and the Shah Deniz consortium led by SOCAR, Baku has made it clear that no deal can be found if there is a reset in this rapprochement. The opening of the Turkish-Armenian border is one of the few leverages Azerbaijan has over Armenia and it is not prepared to give it up. In addition, the rapid development of the Azerbaijan-Georgia-Romania gas Interconnector (AGRI) project, for which a political declaration was signed on September 14 2010, is here to remind Ankara that Baku has other gas transit alternatives.

**CONCLUSIONS:** The resolution of the Nagorno-Karabakh conflict has reached a deadlock. Despite hopes on mediation by the Kazakhstani OSCE presidency, the Almaty conference in June 2010 was a failure. The situation is even worsening on the ground, with shootouts increasing at the contact line between the two armies. While a military solution

cannot seriously be considered due to international pressures, Azerbaijan is looking for alternative strategies to influence Armenia.

The Azerbaijani gas leverage may not last forever. While unconventional gas is developing in Europe, the European hunger for gas is less and less stringent, at least before 2020. In the meantime, the Armenian Diaspora in the United States is still powerful, as the difficult nominating process of Matthew Bryza for the post of U.S. Ambassador in Azerbaijan illustrates. The takeover of the Georgian portion of the North-South pipeline would provide Baku with new leverage over Armenia. The latter would find itself in a very unusual and unexpected situation, with its enemy sharing the control of a huge share of its gas imports.

This is likely to increase tensions in the South Caucasus. Firstly, Yerevan could be tempted to aggressive responses to such a predicament. Secondly, the relationship between Armenia and Georgia may worsen after what Yerevan would consider a betrayal by the Saakashvili government. Once again, the stability of the South Caucasus may be at stake. Fear and resentment do not create a positive climate for peace negotiations. The United States, and above all the EU, must engage further with the region to decrease tensions and rebuild some confidence, in order to finally move forward with the resolution of the Nagorno-Karabakh conflict.

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## VOLATILE COMMODITY PRICES: HOW KAZAKHSTAN MANAGES RISK

Tony Pizur

*During the global economic slowdown, commodity prices have both soared and plummeted. As gold's value recently reached all-time highs, journalists discussed gold-bar-dispensing ATM's in Abu Dhabi, and investment experts proffered dire warnings of a crash. Industrial commodities, in contrast, suffered deep contractions in demand. Just as individual investors faced increased risk, the government of Kazakhstan saw its tax revenue stream swing with the vicissitudes of the world's commodity markets. To enhance stability in the private and public sectors, new transfer pricing regulations were introduced in July. The goals were to increase transparency, smooth out price fluctuations, and conform to accepted international standards.*

**BACKGROUND:** Kazakhstan has struggled to enact equitable tax regulations for multinational firms carrying out business within its borders. When a company exports a partially produced product from its Kazakh division to another subsidiary, that economic activity is taxed based on a set of rules known as transfer pricing. Ideally, the transfer price will be an “arm’s length transaction”, or the price as if the divisions had been independent and unrelated. Various methods for transfer price calculation exist, but Kazakhstan has faltered in creating a transparent methodology. A fair and correct transfer price implies that tax liabilities are accurately assessed.

In its first attempt at transfer price legislation, Kazakhstan fundamentally misapplied rules in direct opposition to OECD standards and recommendations. In its initial 2001 law, tax authorities were allowed to set prices between any two parties, even in some exclusively domestic transactions between unrelated firms, if there was a substantial (over 10 percent) differential between the contract and published market price. This policy was murky because prices were published only after the contract was signed. Thus, firms were unable to

guarantee an arm’s length transaction. An amended 2009 law still did not address these issues and in some cases led to double taxation on foreign-owned companies.

Notwithstanding this regulatory framework, the geography of the region plays a role. Kazakhstan is the ninth largest country in the world; transportation is time consuming and expensive. The lag between production and delivery can be upwards of a month, barring backlogs in the rail transport network. Under the amended 2009 rules, a transfer price was set on the date of dispatch, but significant price fluctuations occurred during transit. For periods of rising prices, firms benefited from date-of-dispatch rules, but the government undercollected tax revenue. As commodities weakened, companies were taxed on much higher prices than they realized at final delivery. In theory, firms could have applied for tax relief, but the administrative mechanisms to do so were insufficient in most cases. This brought about widespread frustration with the system.

Because of Kazakhstan’s numerous cross border projects, the entire region has been affected by its transfer pricing rules. Whether it is joint



uranium production with Russian firms, gold and copper exploration ventures in Kyrgyzstan, or Chinese investments in rare metals, Kazakh laws have influenced competitiveness. Unclear regulations have increased uncertainty, but access to strategic resources remains enticing.

**IMPLICATIONS:** Kazakhstan's economy is closely tied to commodity production and its subsequent taxation. Although gold has experienced dramatic price increases, it only plays a minor role in the national economy. Industrial metals – zinc, chrome, copper, iron, uranium – along with energy reserves of coal, gas and oil constitute the lion's share of exports. In concert with the global slowdown, tax receipts fell 13 percent from July 2008 to 2009 only to rebound by 16 percent in 2010.

The markets for Kazakhstan's rare earth and industrial metals are fairly illiquid, making price spikes and plunges likely. Market prices

move instantaneously, but the actual sale and transfer of the bulky and heavy underlying products is measured in weeks. To address this issue, the government instituted changes in its price calculation methodology in July. Specifically, firms can now use an arithmetic average of published prices over a circumscribed time period to calculate transfer prices. For oil, the quotation period is five days before and after transfer of ownership; for all other commodities, thirty days. In other words, the new regulations use a form of dollar cost averaging, the same strategy used by long term stock and mutual fund investors to limit risk in volatile markets. The new law was made retroactive to January 2009 so that existing producers could apply for tax relief. During periods of rising prices, the government will be able to increase its revenue through the average price formula. Smoothing out the price changes

will bring stability to the economic sector as a whole, and these improvements have been well received in the business and investment communities.

The new average price formula more accurately reflects the country's published tax schedule. The government's old policy of under-collecting revenues and rebating taxes amounted to stealth subsidies. The net result reduced effective tax rates and created favorable terms of trade for key industries. Since Kazakhstan's neighbors produce similar raw materials, domestic production could flourish at the expense of foreign suppliers. The motivation for giving up this advantage is driven by the desire to ascend to the World Trade Organization. Kazakhstan is close to completing the WTO's membership process and is currently in the fifth year of bilateral negotiations with major trade partners. One of the few remaining points of contention is with the European Union Trade Commission's demand for transparent and equitable taxes and duties on commodities. Kazakhstan's Minister of Economic Development and Trade met with the EU Trade Commission in mid-July. Although the recently adopted price regulations should address many of the EU's concerns, Kazakhstan's recent reintroduction of export duties and tariffs remains at issue. Nevertheless, Kazakh negotiators expect to conclude bilateral negotiations in September or October and seek final approval by the WTO General Council by the end of the year.

The July 2010 law has increased the transparency of tax policies in a number of other ways. Transfer pricing rules are now limited to the sale of goods and services directly interconnected to an international transaction. By better defining how to create an arm's length transaction, the regulations eliminate

double taxation and create a "safe harbor" for liability protection. A clear method for calculating tax liabilities reduces corruption and capricious assessments. Overall, the improved regulations reduce systemic financial and fiscal stress and create a more level playing field for the region.

**CONCLUSIONS:** The new transfer pricing rules develop a stronger regulatory framework for international investments and transactions. Uncertainty is endemic to the global commodity markets, and the new regulations create a more stable pricing regime for the government and private sector. By using a range of prices over an appropriate period of time, a familiar dollar cost averaging approach reduces extremes of price variation. The improved methodological changes account for the transit time of commodities across an expansive landlocked country and provide augmented legal protection to multinational firms.

The motivation for transfer pricing reform has a broader context than revenue and economic stability, however. Transparency is one of the five guiding principles on the path to WTO ascension, and the new legislation brings Kazakhstan closer to its goal of full membership by the end of the year. However, these regulatory changes must be followed up with fair enforcement and reasonable administrative policies. Should Kazakhstan's bid to join the WTO prove successful, then it would join Kyrgyzstan as the only other member from post-Soviet Central Asia.

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## FIELD REPORTS

### TERRORIST ACTS THREATEN TO DESTABILIZE TAJIKISTAN

*Suhrob Majidov*

On September 3, a heavy explosion occurred in an administrative building of Tajikistan's Ministry of Internal Affairs in the northern city of Khujand. A suicide bomber drove a car into the building of the Regional Department against Organized Crime in the city of Khujand, which is the administrative centre of Tajikistan's Sughd province. This was Tajikistan's first experience of a terrorist act committed by a suicide bomber.

The act of terror was committed early morning on September 3, when two ministerial cars were entering the area of the department. Unexpectedly, another car followed them and stormed into the court of the department, hit the building and exploded. According to official data from the Ministry of Internal Affairs, 26 law-enforcement officers, department staff members, and two civilians were injured. At least two officers died. The suicide bomber is also among the dead, and his identity has not yet been established. According to unofficial data, there were two suicide bombers and more than two dead persons among the law-enforcement officers.

Preliminary information on the terrorist act suggests it was prepared and implemented by the Islamic Movement of Uzbekistan (IMU), a terrorist group active in the Central Asian region. However, there are several other versions. Representatives of the Ministry of Internal Affairs state that the terrorist act was prepared by an organized crime group either as an attempt to impede investigative actions or as an act of revenge.

Meanwhile, local experts warn about a worsened security situation in Tajikistan due to several destabilizing events in a short period of time. The suicide bomber attack in Khujand occurred just a week after twenty five high-profile convicts escaped from a high-security detention centre in Dushanbe.

Up to now, only four fugitives have been captured. The other fugitives are still free and have attacked several security points of the Ministry of Defense in the south of Tajikistan.

Furthermore, another explosion occurred on September 5, in a Dushanbe night club. This time, a small explosive device injured seven civilians. According to the official statement of the law-enforcement authorities, the primary lead suggests it was a terrorist act. Based on preliminary action, two persons suspected of preparing the explosion were detained.

Although there is no proven connection between all these incidents, experts believe that there are some logical connections between the prison break of twenty five high-profile convicts and the terrorist act in Khujand. Independent expert Sulon Hamadov claims that the first incident caused the second one. Hamadov believes that the prison break revealed the weaknesses of the law enforcement apparatus in Tajikistan and, thus, certain groups interested in destabilizing Tajikistan became more active. It should be noted that the majority of analysts agree that last week's incidents display the inability of Tajikistan's authorities to manage the critical situation.

Some other experts go even further, claiming a risk of future similar incidents, since a majority of the population is dissatisfied with the current government. One local expert, Parviz Mullojanov, states the reasons for such dissatisfaction are "a high level of corruption, the inefficiency of economic reforms, and a disastrous situation in agricultural sector". According to him, if the government will not learn its lesson from the recent incidents, all these problems may worsen.

Another widespread opinion among experts is that the current destabilization in Tajikistan is encouraged by external factors. Abdugani Mamadazimov, another expert, claims that some “external forces” use the current internal dissatisfaction among the population, social tension and mistakes made by the government in order to destabilize the situation in Tajikistan. This point is supported, he claims, by the fact that the Khujand attack was committed by a suicide bomber, a method which was not used in Tajikistan even during the civil war in the 1990s, when terror was a common occurrence. Thus, Mamadazimov claims

that the “shahid” method “was imported from without”.

In the current situation, the Tajik Government is under serious pressure to bring the situation in Tajikistan back to security and stability. As a response to recent incidents, Tajikistan’s President Emomali Rahmon decided to replace representatives at all the leading positions, including the head, of Tajikistan’s State Committee for National Security. However, it is yet unclear whether this is an adequate move in a situation when rapid and timely response of this state body is needed.

## BERDIMUHAMMEDOV REACHES NEW AGREEMENTS ON CONSTRUCTING THE TAPI GAS PIPELINE

*Tavus Rejepova*

The past two weeks in Turkmenistan were marked with President Berdimuhammedov’s calls for expediting the intergovernmental negotiation process over the construction of the long-delayed Turkmenistan-Afghanistan-Pakistan and India (TAPI) gas pipeline. Following his conversation with Afghanistan’s President Hamid Karzai two weeks ago and the signature of the bilateral Turkmen-Afghan inter-governmental agreement over the construction of the pipeline in Kabul on August 30, Berdimuhammedov spoke with Pakistan’s President Asif Ali Zardari on September 9.

First proposed in 1995 as the Trans-Afghanistan Pipeline (TAP), the Turkmenistan-Afghanistan-Pakistan and India (TAPI) gas pipeline gained new momentum under Berdimuhammedov’s administration. The pipeline, stretching about 1,680 kilometers from Turkmenistan’s major Dovletabad gas field and also drawn from the South Yoloten gas deposit, will deliver natural gas to Quetta in Pakistan’s and Fazilka in India, crossing Afghanistan’s Kandahar province. The exact volumes of gas to be delivered to each of these

countries is to be determined and announced at the high level ministerial meeting of the four countries in Ashgabat later this month.

The total construction cost of the project is estimated to be close to US\$ 7,5 billion with an annual supply capacity of about 33 billion cubic meters of blue fuel. Turkmenistan, the fourth largest holder of gas reserves in the world, is currently selling gas to Russia, China and Iran. Berdimuhammedov has been seeking to diversify Turkmenistan’s energy export routes and the construction of this major pipeline is expected to open up a new market for Turkmenistan and to break Russia’s stranglehold on its gas and oil export routes.

Afghan President Karzai and his counterpart Berdimuhammedov are expected to meet and discuss the further bilateral details of the project at the 65th UN General Assembly meeting in New York this week. A meeting of a panel of technical experts from the four countries is also planned for September 18-19 in Ashgabat, followed by a meeting of their energy sector ministers. Earlier this year, President Berdimuhammedov set a year-end deadline

to finalize all negotiations and sign a final agreement in December with the participation of all heads of governments including India's Prime Minister Manmohan Singh and government delegations from Pakistan and Afghanistan.

Despite the increasing level of insurgency and instability in Afghanistan, the U.S. government has welcomed the construction of the pipeline, saying that it will bring significant economic as well as political benefits for the region. India and Pakistan estimate that the expected gas deliveries from Turkmenistan will sufficiently meet their current energy deficits. The Asian Development Bank, the main sponsor of this multilateral pipeline project, conducted a feasibility study in 2005 and also designated a special delegation, which is currently participating in the four-side intergovernmental negotiation processes.

Amidst the growing security concerns around the construction of the TAPI pipeline, President Berdimuhammedov has also been seeking UN support in this process. It is noteworthy that at the 64th session of the UN General Assembly last year, Berdimuhammedov also initiated a General Assembly Resolution on "Reliable and Stable Transit of Energy and its Role in Ensuring Sustainable Development and International Cooperation", which was co-sponsored by 58 countries and adopted by a full consensus. According to the report from turkmenistan.ru from August 14, the UN headquarters in New York hosted a meeting on establishing an expert group to

develop an international legal mechanism to ensure the reliability and stability of energy transit. It was reported that the meeting was attended by a delegation from Turkmenistan, senior officials of the UN Department of Economic and Social Affairs, the United Nations Economic Commission for Europe, diplomats from the permanent missions of a number of UN member states, representatives of the U.S. Department of Energy, Columbia University (U.S.), and international energy companies.

Turkmenistan's state television and media outlets reported last week's negotiations with India and the signature of an agreement with Afghanistan in Kabul as a major foreign policy success of Berdimuhammedov. The official government reports said that the construction of the pipeline is also expected to create thousands of new jobs, generate extra revenues and contribute to building peace and stability especially in neighboring Afghanistan's border areas. According to a statement by the Ministry of Foreign Affairs on August 16, Turkmenistan is also ready to help to rebuild the transportation and communication network by supplying electricity, constructing hospitals and schools in neighboring Afghanistan. Considering Berdimuhammedov's enthusiasm to expedite the final agreement and the international support for the project, the TAPI appears to be a viable and geopolitically significant project.

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## PRESIDENT OTUNBAEVA OFFERS AMNESTY TO OFFICIALS OF PREVIOUS REGIME

*Joldosh Osmonov*

The Kyrgyz government offers an amnesty to former high officials of Bakiyev's regime, suspected of embezzlement. While some claim this is a desperate attempt to relieve the state budget deficit, others see it as a way of neutralizing political

opponents in advance of the October parliamentary elections.

On September 6, Kyrgyz President Roza Otunbaeva signed an unprecedented decree "On amnesty to those who have committed economic crimes".

According to the decree, suspected embezzlers who served in former president Kurmanbek Bakiev's regime over the last five years are able to avoid criminal prosecution by repaying all embezzled funds. Moreover, the suspects must agree to refrain from taking positions in the state service and politics for the next five years. The deadline of the one-time amnesty campaign is October 1, 2010, and submitting to it is claimed to be voluntary. The "black list" includes 159 former high officials, including ex-representatives of the cabinet of ministers, local officials and state bankers. However, the names on the list have not been publicly announced.

President Otunbaeva described the initiative as necessary, saying in a cabinet meeting that the measure offers "a way of returning funds that were stolen from the state". She added that the decree "will allow the return of money that belongs to the people of Kyrgyzstan".

A special state commission consisting of 14 members was formed to determine the amount of losses to the state as a result of these crimes. The commission possesses broad powers, including the ability to suspend court cases. Busurmankul Tabaldiev, the head of the commission, stated that the commission will investigate and determine the amount of money each amnesty participant owes to the state. The charges against the amnesty applicant will be dropped if he agrees to return this amount. "In case of refusal to repay the embezzled funds, the criminal case will be handed to the court, and most likely the suspected embezzlers will end up in prison", Tabaldiev concluded.

Some politicians and experts supported the initiative, claiming it can have a positive outcome. "The announced amnesty is a necessary measure and it might bring positive results", stated the Transparency International Special Envoy in Kyrgyzstan, Miklosh Marshal. Some experts referred to similar practices in other states, such as neighboring Kazakhstan where a similar amnesty campaign returned around US\$ 1.5 billion to the

state budget. Despite optimism from supporters of the decree, Tabaldiev stated that no one can guarantee that the amnesty initiative will be successful.

Meanwhile, the amnesty initiative is being widely discussed. Many consider the campaign as "betraying and immoral", claiming that the only place for former allies of ex-President Bakiev and his family is jail.

Two opposing opinions prevail among political experts and analysts as to why such an unpopular decision was made. Some pointed to the significant shortfall in the state budget, which is estimated to 28 billion soms (around US\$ 600 million) as the main reason for the amnesty campaign. Others feel that the decree has more to do with the upcoming parliamentary elections in a month. Ajdar Kurtov, an expert with the Russian Institute of Strategic Research, claims that the authorities are trying to restrain their political opponents from participating in the October parliamentary elections. "By offering a deal, the Kyrgyz authorities hope that their opponents will agree to their terms", concluded Kurtov.

Most of the former officials are leading or have joined opposition political parties that are running for parliament. There is a strong possibility that the decreasing popularity of the government and pro-governmental political parties gives the opposing parties a chance to win a significant portion of the seats in parliament, making the authorities uneasy.

Despite the optimistic views of the decree shared by some, at least one potential amnesty applicant, former Bishkek Mayor Nariman Tuleev, has refused the opportunity. As his lawyer, Sultan Baratov, claims, the former Mayor was detained by police at the airport and refused to admit his guilt, seeing no reason to make a "deal" with the government in spite of pressure by the authorities to sign the amnesty agreement. Tuleev was included in the list of candidates for the "Ata Jurt" opposition political party.

**UNGA ENDORSES THE RIGHTS OF IDPS**

## FROM ABKHAZIA AND SOUTH OSSETIA

*Eka Janashia*

On September 7, the United Nations General Assembly adopted the Georgian-backed resolution “The status of IDPs and Refugees from Abkhazia, Georgia and Tskhinvali Region/South Ossetia, Georgia”.

By a vote of 50 in favor to 17 against, with 86 abstentions, the document re-approved the rights of all Internally Displaced Persons, Refugees and their descendants from breakaway regions to return to their homes. Moscow called the document “counterproductive” whereas Tbilisi celebrated the victory of Georgian diplomacy.

A similar resolution gained only 14 votes in favor to 11 against and 105 abstentions, in 2008. The Georgian side organized better support in 2009 when the resolution was passed by 48 votes against 19 with 78 abstentions. This year two more countries were added to the list of supporters of Georgia, matched by a decrease in the number of opponent countries voting against the resolution.

Official Tbilisi hails the resolution, stating that apart from recognizing the right of displaced persons to return to their homes, it is “mindful of the urgent need to find a solution to the problems related to forced displacements in Georgia” and concerns over “forced demographic changes” and the “humanitarian situation” caused by the armed conflicts. Moreover, it acknowledges the property rights of all IDPs and calls on any party “to refrain from obtaining properties in violation of those rights.”

Further, the resolution expands the geographic scope of the Assembly’s engagement to IDPs of the Tskhinvali region/South Ossetia, saying that “unimpeded” humanitarian access should be ensured to all the IDPs, refugees and peoples residing in the war-affected regions, Georgia’s Permanent Representative to the United Nations Kakha Lomaia said.

His Russian counterpart, however, argued that the resolution did not have humanitarian aims; rather it was fully imbued with political motivations. The resolution is “outside the context of realities prevailing in the regions”, according to a statement released by the Russian Federation’s Ministry of Foreign Affairs.

Before the resolution had been passed, Russia even introduced a no-action motion to take the issue off the agenda. The initiative was defeated by a vote of 67 against to 32 in favor, with 54 abstentions though.

Moscow argued that early and unconditional return of refugees and internally displaced persons did not reckon the 2009 report of the Secretary-General report, including the timetable for IDP return. Adoption of the “odious” text would harm the confidence building process under the Geneva talks, the Russian side proclaimed.

The tangible achievement of the document, from a Georgian point of view, is that it explicitly voiced the issues of “occupied territories” and status of IDPs at the international level. In spite of Moscow’s attempt to isolate the small country and deprive it of an effective mechanism to speak out on IDP problems internationally, Georgia has managed to increase its number of supporters year by year. After Russia contributed to the closing of the OSCE mission in Georgia and used its veto at the UN Security Council, the General Assembly has become the largest international body where Georgia can promote the rights of displaced persons.

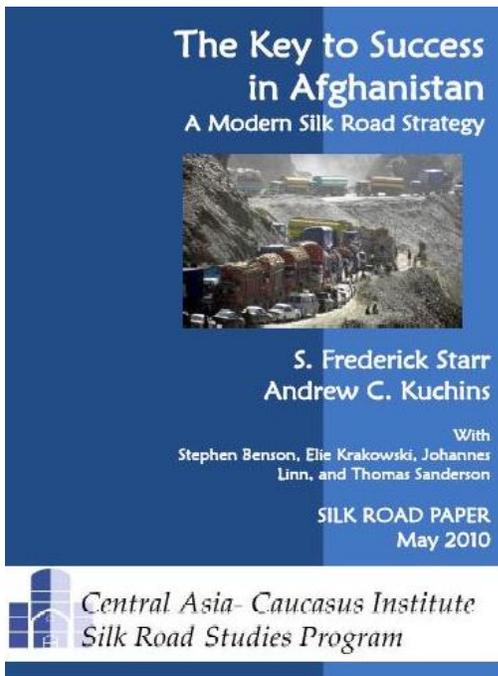
With these meager diplomatic tools, Tbilisi tries to create a favorable environment for a “voluntary, safe, dignified and unhindered return of all IDPs and refugees”.

For these purposes, Georgian diplomacy seeks to strengthen the moral pressure on Moscow, forcing it to reject purely humanitarian issues such as the return of exiled people to their houses. As President

Mikheil Saakashvili put it “If Russia is not supporting it [the return of IDPs], then about what else can we talk with the current Russian leadership?”

Whereas such an approach may prove successful in discrediting Russian policies in Georgia’s breakaway regions, more rigid measures should be taken to ensure higher international involvement in the

settlement of IDP related issues, and the mere support of Western countries is not sufficient to meet this goal. Georgia needs to make a tremendous effort to win over the countries which abstained from voting this year. However, it can be assumed that countries displaying less hostile relations with Russia may lack the motivation to help Georgia on these issues.



New Silk Road Paper:

***The Key to Success in Afghanistan: A Modern  
Silk Road Strategy***

**By S. Frederick Starr and Andrew C.  
Kuchins**

This Silk Road Paper examines the prospects for trade and infrastructure development as key features of U.S. and NATO strategy in Afghanistan.

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

## NEWS DIGEST

### SCO ANTI-TERROR EXERCISE IN KAZAKHSTAN

**3 September**

Russia is sending ground forces to Kazakhstan to participate in a joint anti-terrorist exercise. The exercise, "Peace Mission-2010," is being conducted under the auspices of the Shanghai Cooperation Organization, of which both countries are members, Itar-Tass reported Friday. A representative of the Russian Ministry of Defense press service and information department told journalists: "The first military echelon left the Totskoye railway terminal in the Orenburg Region on Friday. It will deliver to Kazakhstan by Sept. 7 some 250 men and 70 pieces of military hardware." The Russian military will eventually deploy four military echelons totaling 1,000 troops along with their equipment. Kazakhstan and China will send 1,000 troops along with their equipment to participate in the Peace Mission-2010 anti-terrorist exercise, with full deployment of forces occurring by Sept. 12. Tajikistan and Kyrgyzstan are also sending forces. The Peace Mission-2010 anti-terrorist exercise is scheduled for Sept. 9-25 on Kazakhstan's Matybulak testing grounds in Zhambyl Oblast. (UPI)

### KAZAKH OPPOSITION PARTIES WANT REFERENDUM ON IMPEACHING PRESIDENT

**3 September**

Kazakhstan's Algha (Forward) and Communist parties have discussed their joint efforts to hold a national referendum on impeaching President Nursultan Nazarbaev, RFE/RL's Kazakh Service reports. Algha leader Vladimir Kozlov and Qadyr Qoshqarov, chairman of the Kazakh Communist Party's Almaty city committee, said on September 2 that the two parties plan to gather on September 25 to discuss how to organize the referendum. Kozlov said the idea of holding such a referendum came after the Kazakh Constitution was amended earlier this year to designate Nazarbaev the "leader of the nation." He said Nazarbaev, 70, should step down

because of his age and because he is responsible for the bad situation faced by millions of pensioners. Kozlov added that according to the new constitutional amendments, any offense against Nazarbaev, any move or deed deemed to damage his personal honor and dignity, as well as any attempt to impede his activities, was considered a crime. Taking that into account, Kozlov said that on July 28 he sent a query to the Prosecutor-General's Office and the president's office asking them if the rally planned for September 25 qualifies as an offense against Nazarbaev's honor or dignity. Kozlov said he had not received a response. The Prosecutor-General's Office insists it mailed a reply to Kozlov's query on August 3. Kozlov said the Prosecutor-General's Office found itself in a difficult situation because if it officially issues a document confirming that such a gathering is not an insult to the Kazakhstan's leader, then the Communist Party and Algha will have a written mandate protecting them from any possible lawsuits after publicly discussing Nazarbaev's impeachment. But Kozlov said if the Prosecutor-General's Office officially issued a letter saying that such a gathering could be considered an insult to the president's honor, then the office would tacitly concede that the constitution was "raped" when it was amended to designate Nazarbaev "untouchable." Ualikhan Qalizhan, a member of the pro-presidential Nur-Otan party, told RFE/RL that since Algha is unregistered it cannot position itself as a political party or "discuss or comment" on the idea of holding a referendum on impeaching Nazarbaev. Alikhan Baimenov, the leader of the pro-government Ak-Zhol (Bright Path) party, told RFE/RL that "real" political parties should engage in concrete programs supported by the majority of the population. Bolat Abilov, co-chairman of the opposition Azat (Free) Social Democratic Party, told RFE/RL that in the current political circumstances it is impossible to hold such a referendum. He noted that his party's attempts to

hold referendums on other issues were blocked by the authorities.(RFE/RL)

## **DISABLED KAZAKHS PRESS FOR ACCESS IN ALMATY**

**4 September**

Several nongovernmental organizations representing physically disabled people in Almaty have launched a campaign to bring attention to their problems in Kazakhstan's largest city, RFE/RL's Kazakh Service reports. The action, which organizers stressed was nonpolitical, will last for several days, during which participants will visit various public places and buildings in Almaty to chronicle obstacles for disabled people and seek ways to better deal with them. Seyitzhan Kenzheuly, a member of the organization Zhiger (Persistence) who is legally blind, told RFE/RL that by locating all possible barriers to access in public places, the disabled were asserting their right to be treated as full-fledged members of society. Campaign coordinator Almas Myrzabekov said that, for example, there was no way for blind citizens to find the doors of shops or to get information about what items are on sale. University students have volunteered to help the participants, some of whom are in wheelchairs or on crutches. Some 100 disabled people intended to take part in the campaign, but the Almaty city administration gave permission for only 70. The staff of the district prosecutor's office observed the participants as they started their action on September 3 from Almaty's Old Square. According to official statistics, some 3 percent of Kazakhstan's population of 16 million are physically disabled. (RFE/RL)

## **TURKMENISTAN LAUNCHES CAMPAIGN TO JUSTIFY \$1.9 BILLION 'OLYMPIC CITY'**

**7 September**

The Turkmen government has launched a mass campaign in support of its recent plan to spend \$1.9 billion on building a new "Olympic City" sports complex in Ashgabat, RFE/RL's Turkmen Service reports. An RFE/RL correspondent in Turkmenistan's eastern Lebap Province reports that a day after the plan was announced by state media on September 4, ministries, state committees, schools, universities, state and private enterprises, and civic organizations started to host meetings "to show support for the government's huge investment plan for sports facilities." A bank official who talked to RFE/RL's correspondent on condition of

anonymity said the rushed meetings prove the government's sensitivity to potential negative reaction in foreign media. According to Turkmen media, the Turkish construction company Polimeks will build the complex. Polimeks has recently completed construction of a new medical university in Turkmenistan, including a general hospital that cost \$59 million. The new project is to include 30 sports facilities and a football stadium with a capacity of 60,000 people. State news agency TDH has described the government's plan as further proof of the state's concern for individual citizens. But one Lebap resident, who gave his name as Seyitnazar, said, "It is just a waste of money." Turkmenistan has competed in four Summer Olympic Games but has never won an Olympic medal. (RFE/RL)

## **FM: GEORGIA COMMITTED TO AFGHAN OPERATION**

**7 September**

Georgia, which has suffered its first casualty in Afghanistan since joining the NATO-led forces there, will not suspend or reduce its military presence in Afghanistan, Grigol Vashadze, the Georgian foreign minister said on September 7. "Georgia will change nothing in its commitments undertaken as a partner [to the coalition forces]," Vashadze said, while speaking at a joint news conference with his visiting Estonian counterpart Urmas Paet. "Unlike other European states, we are [geographically] closer to Afghanistan and presence of our hero soldiers in Afghanistan first and foremost serves to Georgia's national interests. This is a tragic loss, but it can not serve as a reason to suspend our mission to Afghanistan," he said. Company commander from the 31st infantry battalion, first lieutenant Mukhran Shukvani, 28, died and another Georgian soldier was badly wounded while on mission as a result of explosion of improvised explosive device, the Georgian Ministry of Defense said on September 5. No other details of the incident were reported. Georgia sent its 31st infantry battalion to Afghanistan in April, 2010 to serve under the U.S. command in the province of Helmand. With this deployment Georgia increased its military presence in Afghanistan about 950 soldiers. Georgia first deployed a company-sized unit in Afghanistan under the French command in November, 2009. According to the NATO-led mission, International Security Assistance Force (ISAF), the 31st battalion stationed in Camp Delaram II in Helmand province, along with two U.S. Marine battalions and British Royal Marine 40

Commando, is conducting counterinsurgency operations throughout the Nimruz and Helmand provinces. The Estonian Foreign Minister, who expressed condolences over death of the Georgian soldier, said that Georgia's contribution to Afghan mission was "absolutely important for international security point of view." "[Georgia's contribution] is also a very clear political signal from the Georgian society... and Estonia, as a member state of NATO, is very grateful that Georgia is participating in ISAF mission in Afghanistan," Urmas Paet said. (Civil Georgia)

### **GULNARA KARIMOVA, FIRST DAUGHTER OF UZBEKISTAN, TO SHOW FASHION COLLECTION IN NEW YORK**

**9 September**

Gulnara Karimova is already well-known as the somewhat-controversial first daughter of Uzbekistan, but she'll try to make a name for herself in New York City's style circles by presenting a collection at Mercedes-Benz Fashion Week. Karimova already has an established brand, Guli, in Europe--she's even shown in Milan--and has previously partnered on a jewelry collection with Chopard, but this is the first time she'll bring her designs stateside. (huffingtonpost.com)

### **TWO PROTESTERS REPORTEDLY DIE IN AFGHAN PROTEST**

**12 September**

Reports from eastern Afghanistan say two people have died after clashes with security forces. The two protesters were shot and killed during angry demonstrations in the Baraki Barak district of Logar Province over plans, which have been canceled, of a U.S. pastor to burn copies of the Koran on September 11. A crowd of about 500 people chanted slogans like "Death to America" and "Death to puppet government." Some Afghan soldiers were injured by stones, prompting others to fire into the protesters. (RFE/RL)

### **ARMENIA BEGINS IMPORTING IRANIAN WHEAT**

**12 September**

Armenia begins importing wheat and other grains from Iran after Russia halted its wheat exports to Armenia because of the drought that devastated crops in parts of the country. "Some Armenian companies started importing wheat from Iran since the past month," IRIB quoted Armenian Agriculture Minister Gerasim Alaverdyan as saying

on Friday. The report added that the Armenian companies have imported around 10,000 tons of wheat from Iran during the period. Armenia consumes 700,000 tons of wheat annually, while it produces only 200,000 tons of that in the country. Armenia is considering Iran as a potential market to meet its wheat imports after Russia imposed a ban on its wheat products following a drought season and wildfires affecting many parts of the country. Russia's decision caused international grain prices to spike as markets forecasted that without shipments from one of the world's leading exporters, global supplies would be restricted. (presstv.ir)

### **PETRAEUS WORRIED ABOUT AFGHAN CONTRACTS**

**13 September**

Improper oversight into international funds supporting the war effort in Afghanistan risks undermining the overall strategy, the top military commander said. Afghan President Hamid Karzai has complained that international contracts for work in his country do very little to help everyday Afghans. U.S. Army Gen. David Petraeus, the top military commander in Afghanistan, issued a series of new guidelines outlining how contracting should work in the country, The New York Times reports. Petraeus in his unclassified two-page memo said that the Afghan economy could develop substantially if contracted programs are monitored effectively. "If, however, we spend large quantities of international contracting funds quickly and with insufficient oversight it can fuel corruption, finance insurgent operations, strengthen criminal patronage networks and undermine our efforts in Afghanistan," he warned. The new guidelines, the Times suggests, show that the money from NATO contracts have on occasion wound up in the hands of Afghan warlords to the detriment of public trust. The Times said U.S.-led military operations in Afghanistan consumes about \$14 billion in contracting work per year. (RFE/RL)

### **KAZAKH LEADERS FROM THE OSCE KICKED OFF A 2-DAY MEETING IN LITHUANIA TO HIGHLIGHT THE ROLE ENERGY HAS IN NATIONAL SECURITY, REPRESENTATIVES SAID MONDAY**

**13 September**

Akan Rakhmetullin, Kazakhstan's deputy envoy to the Organization for Security and Co-operation in Europe, briefed delegates at the meeting in Vilnius on the importance of energy security. "Consistent

and sustainable development of the economies of the OSCE participating states depends on the stability and steadiness of the energy supply," he said. The international community is struggling for ways to diversify energy resources as greenhouse gas emissions and the dangers of oil exploration take center stage. Europe is scrambling to break the Russian grip on the regional energy sector, which is vulnerable to geopolitical disputes between Moscow and Kiev. Lithuanian Deputy Foreign Minister Evaldas Ignatavicius, whose country takes over the rotating chairmanship of the OSCE in 2011, said international and domestic efforts are vital for global energy security. "The key factors for our future common action are supply diversification, energy sources diversity, development of energy infrastructure, fair competition and more effective use of current resources promoting low carbon energy," he stressed. (UPI)

### **SAAKASHVILI ON GEORGIA'S AFGHAN MISSION**

**13 September**

Georgia is part of NATO-led mission in Afghanistan to gain combat experience and to become further integrated with its western allies, President Saakashvili said on September 13. Speaking at a newly re-established school of cadets in Kutaisi, Georgia's second largest city in Imereti region, Saakashvili said, that "the fact that there are so many problems in Afghanistan, is very bad for Georgia," because it distracts international attention from those issues, which were source of concern for Georgia. NATO-led operation in Afghanistan, he said, "is our straggle" too. "Of course someone may say: 'we have so many problems, our territories are occupied and there is no time now for going somewhere else to fight'. But because of these very same problems that we have, we need a huge combat experience my friends and that's [Afghan mission] is unique combat and war school. Georgia is not in a situation of Norway, Denmark, or Australia. Take a look at our situation, our challenges and threats – can we say no to our armed forces and can we say no to a war school? This is an opportunity to become integrated to the world's best armies, to see the most advanced [military] equipment and achievements," Saakashvili said. "I am grateful to our soldiers and their families, who have not complained even once, who participate in [the Afghan operation] with full awareness of their mission," he added. Company commander from the 31st infantry battalion, first lieutenant Mukhran

Shukvani, 28, who was killed while on mission in the province of Helmand more than week ago, became Georgia's first casualty since the country joined the coalition forces in Afghanistan in November, 2009. (Civil Georgia)

### **PETRAEUS FORESEES LONG HAUL IN AFGHANISTAN**

**14 September**

The U.S. war in Afghanistan is nine years old but the top U.S. commander there says it may be another decade before the insurgency is fully quashed. U.S. Army Gen. David Petraeus, asked by ABC News whether success over the insurgency could be another nine or 10 years away, answered, "Yeah, again, in some respects, I'd say obviously what took place up until this point has been of enormous importance. "But it is just at this point that we feel that we do have the organizations that we learned in Iraq and from history are necessary for the conduct of this kind of campaign," he said. "We got the leaders in place, the big ideas and so forth with our Afghan partners. And now very much the resources." With an additional 30,000 U.S. troops fully deployed in Afghanistan, Petraeus' charge is to turn the war around by July when the Obama administration hopes to be able to start winding down U.S. involvement there. "July 2011 is the date when a process begins, the pace of which is determined by conditions on the ground," Petraeus said. "And that process consists of two elements. One is transition of tasks to Afghan forces and elements of institutions because [of] its functions, not just geographic areas. And the other is the beginning of a responsible drawdown of our surge forces." Petraeus described the hoped-for transition as a "thinning out" of forces, rather than a "hand off" of areas. "You do a little bit less and the Afghans do a little bit more instead of saying, 'Tag, you're it. You take the ball and run with it. We're out of here.' And we think that's the logical approach to this," he said. (UPI)

### **KAZAKHSTAN EXTRADITES KYRGYZ CITIZEN TO UZBEKISTAN**

**14 September**

Kazakh officials have extradited a Kyrgyz citizen of Uzbek origin to Uzbekistan, RFE/RL's Kazakh Service reports. Tashkenbai Aubakirov, a senior aide to the Almaty city prosecutor, told RFE/RL that Khurshid Kamilov was wanted in Uzbekistan for alleged involvement in the murder of two Uzbek police and participation in extremist and terrorist

activities. Kamilov was detained during Almaty police's "Migrant" operation in June to locate illegal immigrants. His extradition took place last week. No comment was immediately available from Kyrgyz officials. Meanwhile, 29 Uzbek citizens detained by Kazakh authorities as illegal immigrants have been held in Kazakhstan's National Security Committee jail since mid-June. Many of their wives came on September 13 to the Almaty City Prosecutor's Office to demand their husbands' immediate release. According to Kazakh law, they say their husbands can be held in pretrial detention for only three months. One of the Uzbek women, Rano Jalalkhonova, told RFE/RL that her husband and his comrades have been on a hunger strike in jail since September 9. Another Uzbek woman, Mutavar Suleimanova, told RFE/RL that if her husband is extradited to Uzbekistan he might be sentenced to death or life in prison for being a devoted Muslim. "We have nothing to do with religious extremism. We are ordinary Muslims, praying five times a day," she said. "If Kazakhstan does not want to have us as refugees, we will seek asylum in another country." Aubakirov, who met with the women in front of the Almaty City Prosecutor's Office, told them that on August 31 the United Nations' High Commissioner's Office in Almaty annulled its decision to provide the detained Uzbek nationals with refugee status and therefore the Kazakh Prosecutor-General's Office has decided to extradite all of them to Uzbekistan. Denis Dzhivaga, an official at the Almaty-based Kazakh Bureau for Human Rights, told RFE/RL that the lawyers of the 29 detained Uzbek citizens have not been able to visit their clients during the three months. Kazakhstan currently holds the chairmanship of the Organization for Security and Cooperation in Europe. (RFE/RL)

## **WATCHDOG SLAMS LACK OF KAZAKHSTAN'S MEDIA FREEDOM**

**14 September**

Kazakhstan's failure to improve media freedom has damaged its international standing and the situation is getting worse, not better, a media advocacy group said in a report Tuesday. The New York-based Committee to Protect Journalists said that restrictions on the press have tightened even though Kazakhstan assumed the chairmanship of a prominent trans-Atlantic security and rights organization earlier this year. Kazakhstan won the right to chair the Organization for Security and Cooperation in Europe amid pledges that it would

grant more freedom to the media. "Not only did the government renege on promises to decriminalize libel, President Nursultan Nazarbayev signed into law a restrictive new measure governing the Internet," CPJ said. Criticism of the government and the president in oil-rich Kazakhstan remains largely off-limits, while most major media outlets are controlled by the state or the pro-government Nur Otan party. Kazakh Foreign Ministry spokesman Askar Abdrakhmanov said the report was unjustified and that Kazakhstan was open to discussion on freedom of the press. "We don't believe that repeated criticism is constructive," he said. CPJ said at least one journalist, Ramazan Yesergepov, as well as a human rights activist, Yevgeny Zhovtis, have been jailed in retaliation for their work over the past two years. CPJ also criticized Kazakh authorities for their attempt to muzzle Internet content, blocking access to several critical Web sites and popular blogging platform Livejournal. Although Internet penetration still remains fairly low in Kazakhstan at an estimated 15 percent of the population, authorities clearly intend to restrict access to material critical of the government, CPJ said. "In addition to censoring domestic content, the new and vaguely worded Internet law also allows for the blocking of international Web sites if those are found in violation of Kazakh law," the report said. CPJ said politicized libel suits have also become a favored method of silencing independent media outlets. A court in January last year ordered Kazakh-language weekly Tazhargan and one of its reporters to pay \$20,000 to a member of parliament for slandering him in an article about rising food prices. The court later increased the damages tenfold. Tazhargan publisher Yermurat Bapi was subsequently jailed for five days for failing to pay the damages. Despite widespread concerns over Kazakhstan's reluctance to implement democratic reforms, OSCE members have agreed for the former Soviet nation to host a summit later this year bringing together the organization's heads of state. Abdrakhmanov said although the agenda for the summit has not yet been finalized, the Kazakh government believes all issues covered by the OSCE, which include media freedom, would be discussed at the event. (AP)

## **FOREIGN TALIBAN FIGHTER CAPTURED IN N. AFGHANISTAN**

**15 September**

Afghan and NATO-led troops captured several Taliban insurgents in a joint operation, including a

foreign fighter in Chardara district of Afghanistan's northern Kunduz province on Tuesday, the military alliance said in a press release on Wednesday. "Afghan and coalition forces detained several insurgents in Kunduz province Tuesday, including an Uzbek of Islamic Movement of Uzbekistan foreign fighter facilitator operating in Chardara district," the press release added. Without giving more details the press release added that the arrested commander "maintains ties to local Taliban." It also stressed that there were no casualties on civilians including women and children during the operation. Hours before, the governor of Chardara district Abdul Wahid Omarikhil in talks with Xinhua emphasized that "Soldiers of NATO- led forces raided a house in Ainulmajar village of Chardara district last night and arrested former member of provincial council Mawlawi Abadullah along with two of his brothers and three others on charge of having link with Taliban militants." Chardara district has been regarded as the stronghold of Taliban militants in Kunduz province from where the militants have expanded their activities to the neighboring Baghlan province and adjoining areas. (Xinhua)

## **PAKISTAN, AFGHANISTAN LEADERS VOW TO FIGHT TERROR**

**15 September**

Afghan President Hamid Karzai and his Pakistani counterpart Asif Ali Zardari have discussed ways of tackling terrorism and expanding bilateral ties. Karzai arrived in Islamabad at the helm of a high-ranking delegation on Wednesday for the second time in less than six months. "We discussed how to find ways of tackling sanctuaries, training grounds, ideologies and financial resources of terrorists," said Karzai in a joint news conference with Zardari. The Afghan president added that the two neighboring states "have to be frank and open to find a way out together." "The reality is that both the countries are suffering at the hands of terrorists," AFP quoted Karzai as saying. The two leaders also held talks on leaked Pentagon documents accusing Islamabad of being in contact with Taliban in Afghanistan. Pakistan rejects the charge. After the release of the document in July, Afghanistan's National Security Adviser Rangeen Dadfar Spanta, in a letter, urged Western states to reconsider their approach toward Pakistan. "What the national security adviser said in the letter that he wrote is exactly what we were discussing today in Pakistan," Karzai added. Karzai also reiterated his government's openness to hold

talks "with the Taliban who are not part of al-Qaeda or any other terrorist network... who abide by the Afghan constitution." Zardari, for his part, stressed that his country will continue its efforts in fighting terrorism. "I reiterate that Pakistan stands against terrorism," he said. "Pakistan is the part of the solution and not the problem," Zardari added. Karzai's visit to Islamabad comes as the two neighbor countries are facing rising violent attacks organized by Taliban and other militant groups. (presstv.ir)

## **DETENTION SPARKS PROTEST RALLY IN SOUTHERN KYRGYZ CITY**

**15 September**

Officials in the southern Kyrgyz city of Uzgen say a crowd of several hundred people rallied today to demand the release of a local man detained on suspicion of illegal arms possession, RFE/RL's Kyrgyz Service reports. Local police chief Bakyt Matmusaev told RFE/RL that security forces had detained the man after acting on information he had weapons in his home. District head Alisher Bakyshev told RFE/RL that around 300 people had gathered, though Matmusaev put the number closer to 2,000. Bakyshev said a crowd initially gathered during the raid in a mainly Uzbek neighborhood, with some shouting that security forces had come to attack them. He said police fired shots in the air to disperse them. Bakyshev said people then gathered at the local police building to demand the man's release. He said the crowd was mainly made up of ethnic Uzbeks, and that the demonstrators later dispersed. It's not clear if the man is still in custody or if any weapons were found in the raid. Uzgen is near Osh, site of much of the interethnic violence that left nearly 400 people dead in June. Uzgen was quiet during the June violence, but was the site of deadly clashes between ethnic Uzbeks and Kyrgyz in 1990. (RFE/RL)

## **RIGHTS DEFENDER SENTENCED TO LIFE IN PRISON IN KYRGYZSTAN**

**15 September**

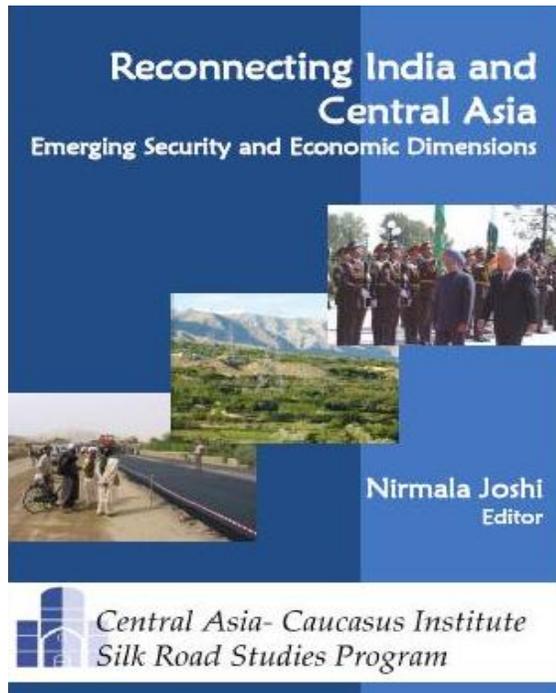
A well-known ethnic Uzbek human rights activist has been sentenced to life in prison for involvement in the killing of a Kyrgyz policeman, RFE/RL's Kyrgyz Service reports. Azimjan Askarov and seven other ethnic Uzbeks were found guilty of murdering Myktybek Sulaimanov in June during violent clashes between ethnic Uzbeks and Kyrgyz in the village of Bazar-Korgon. The defendants were given the chance to give their final testimonies before the

verdict today. All pleaded not guilty, some of them reversing earlier guilty pleas. Four of Askarov's co-defendants were also sentenced to life in prison with confiscation of their property, two were sentenced to 20 years in jail, and one person was sentenced to nine years in prison. Kyrgyz Ombudsman Tursunbek Akun told RFE/RL that the verdict was politically motivated, adding that his office had held an alternative investigation into Sulaimanov's killing and came to the conclusion that Askarov is not guilty. (RFE/RL)

## ARMENIA HOSTS ITS FIRST NATO EXERCISE

15 September

Armenia is hosting its first NATO exercise with more than twenty alliance and partner countries involved. Over a thousand people will take part in a scenario designed to improve reaction and response to emergency situations. The one week event is being held 20 kilometres north of the country's capital Yerevan. Ten observers from neighbouring Turkey will watch the action unfold. An imaginary earthquake of 7.2 on the Richter scale is at the heart of the scenario devastating the area. Cars crash, buildings are set on fire and the emergency services are tested having to deal with 12,000 dead and 17,000 injured. Turkey had agreed to open a small corridor across their border for the scenario but backed down a few days before the exercise began. (euronews.net)



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