Despite all the gloomy predictions, the CIS integration associations are gaining strength thanks to the efforts of its members. Eight CIS countries signed the Free Trade Area Agreement, paving the way for more advanced forms of integration based on CIS foundations. Moreover, the CIS countries are negotiating agreements on regulating mutual access to national currency markets for the CIS resident banks and on key principles of currency regulation and control in the CIS member states. Observers have commented on Ukraine’s increased participation in the CIS integration processes in 2011. Regional cooperation in transport is progressing, and all eleven CIS countries have introduced unified technical standards, rules for exchanging rail cars, and a common tariff policy.

On July 1, 2011 the Customs Union became fully operational and customs controls were duly transferred from the borders between participating countries to the CU’s external border. Since July, there has been a significant reduction in the number of preferential duty rates for certain goods applicable in Kazakhstan. These preferential arrangements had been implemented to protect Kazakhstan’s markets from competing goods, and therefore their existence had hindered the full-scale launch of the CU. Discussions are now under way on unifying passport and visa controls in the CU member states. The CU Commission has approved a draft agreement on transporting goods by pipelines and power lines across
the customs border. The ratios for redistributing import duties between the CU states may be adjusted in favour of Belarus and Kazakhstan. Problems with VAT calculations (because the rates of this tax differ), the absence of unified technical regulations and different customs requirements specified in CU member-state legislation, are all added burdens for entrepreneurs. Moreover, concerns have been raised over the rate at which Russian businesses are moving into Kazakhstan to take advantage of lower taxes.

In April 2011 the government of Kyrgyzstan approved the country’s accession to the CU and the Single Economic Space of Belarus, Kazakhstan and Russia. Tajikistan also intends to join the CU. Discussions are continuing in Ukraine about the potential benefits for the country of joining the CU.

The Single Economic Space has become an economic reality. The Presidents of Russia, Kazakhstan and Belarus signed the Declaration on Eurasian Economic Integration, the Agreement establishing the Eurasian Economic Commission (EEC, the Customs Union’s supreme body) and its procedural rules, and the Agreement on the Single Economic Space. Thanks to this preparatory work in 2011, on January 1, 2012, the SES between Russia, Kazakhstan and Belarus will start functioning, replacing the CU. The systematisation of its legal framework is now a priority, with the codification of documents being the first step towards this goal. To date, there are 104 documents, which together constitute the unified regulations of the CU and the SES; some of these were signed in the mid-1990s. The parties have decided to amalgamate them into a single document similar to the Treaty of Rome. Should Russia, Belarus and Kazakhstan succeed in harmonising their legislation by 2015, the countries will unite in the Eurasian Economic Union.

Russia’s accession to the WTO has been a matter of extreme importance, not only in the last year. Russia now faces a large-scale revision of its protectionist foreign trade practices and a struggle against barriers to Russian exports. In addition, around one-third of the tariff rates introduced under the Russian Federation’s WTO commitments are higher than those applied within the CU, so Russia, Kazakhstan and Belarus will have to decide what rates should be applied.

Last year Belarus faced the official devaluation of its national currency. The one-off devaluation of the Belarusian rouble on May 24, 2011 reduced the value of the currency by 53%, or by over 70% compared to its quoted value in January 2011. The sharp devaluation of the currency led to an economic recession in the country, accompanied by, inter alia, a temporary suspension of electricity supplies to Belarus from Russia and Ukraine. A loan agreement with the EurAsEC Anti-Crisis Fund (ACF) has mitigated tension in the Belarusian foreign exchange market. In mid-June, the Eurasian Development Bank transferred to Belarus the first $800 million tranche of the $3 billion loan from the EurAsEC Anti-Crisis Fund.
There was also some integration in the oil and gas sector in 2011. Kazakhstan’s KazMunayGas National Oil Company (KMG) expressed an interest in joint projects in Russia with OJSC Gazprom Neft. Ukraine’s Naftogaz discussed possible joint ventures with TNK-BP and LUKOIL on the Black and Azov Sea shelves.

Nevertheless, 2011 did not see an end to conflict over the terms of Russian energy supplies. The latest in a series of interruptions in Russian oil supplies to Belarus took place in early 2011 and was only resolved by the signing of new contracts with Russian oil companies.

Despite the early success of integration in the context of the CU, bilateral relations between some of the former Soviet countries deteriorated considerably during the year, most notably affecting relations between Russia and Ukraine. Last year saw the signing of a landmark agreement between Moscow and Kyiv, but in the middle of 2011 the President of Ukraine, Viktor Yanukovych, asked for Russian gas prices to be revised, effectively bringing Kyiv into open conflict with Moscow. The dispute is yet to be resolved: Gazprom says it has no intention of lowering its prices, while Kyiv is refusing to negotiate on Ukraine entering the CU and placing its gas transportation system under Russian control. Because of the price advantage of imported oil products over the output from Ukraine’s own refineries, Russia’s LUKOIL and TNK-BP have idled their refining capacity in Ukraine. Russia has also faced problems in trying to develop cooperation in nuclear energy with Belarus and Ukraine.

Integration initiatives in other sectors included the establishment of a joint venture between Russia and Kazakhstan in grain transportation and Russia’s entry into Kazakhstan’s terminal operations and freight-handling market, which may eventually lead to a unified freight railway infrastructure. Kazakhstan and Russia’s RUSAL agreed to create a joint venture to manufacture railcars, while another joint venture plans to produce UAZ automobiles in the Kazakh city of Kostanay. Kazakhstan and Russia ratified an agreement to build a third power unit at the Ekibastuz GRES-2, the other two units of which currently account for 12% of all electricity generated in Kazakhstan. As for the financial and banking sector, VTB Kazakhstan, a subsidiary of Russia’s state-owned VTB Bank, became a member of Kazakhstan Stock Exchange (KASE) currency market, paving way for further financial integration.

The year ended with the adoption of measures to facilitate the Collective Security Treaty Organisation’s (CSTO) transition to a fully-fledged military and political bloc, whose members must take each other’s, as well as their own, interests into account. From now on, no foreign military facilities can be deployed in any of the CSTO countries without the sanction of all CSTO member states. These changes have also affected the function of the Collective Rapid Reaction Force (CRRF), which may now be deployed to protect the constitution in any of the CSTO member states.
Ukraine has participated actively in military and political cooperation. The Russian Defence Ministry announced plans to purchase Russian-Ukrainian AN-70 aircraft, Ukraine stated its intention to join in with Russian-Belarusian Union Shield-2011 large-scale drills, and Russia and Ukraine negotiated the controversial issue of the Black Sea Fleet stationed in Crimea.

REGIONAL ORGANISATIONS

CIS

CIS Economic Court to settle Customs Union disputes

January 18, 2011

Disputes within the Customs Union of Belarus, Russia and Kazakhstan are to be settled by the Economic Court of the Commonwealth of Independent States. The protocol amending the agreement between the CIS and the Eurasian Economic Community (EurAsEC), which transfers the functions of the EurAsEC Court to the CIS Economic Court, was signed in Moscow on January 17, 2011.

Under this agreement, the Court will oversee compliance of CU documents with the international agreements governing the CU, and will interpret international agreements and official Customs Union documents. The CIS Economic Court will settle disputes between the Customs Union Commission and its member states.

The agreement also states that other disputes, which must be resolved according to international agreements applicable to EurAsEC and the CU, will also come into the remit of the CIS Economic Court.

The document was signed by the Chairman of the CIS Economic Court Fayzullo Abdullayev and EurAsEC Secretary General Tair Mansurov.

CIS Economic Council Approves Free Trade Area Draft Agreement

April 15, 2011

The CIS Economic Council approved a draft Agreement on a Free Trade Area that would bring the goal of liberalised trade a step closer for most of the former Soviet republics. CIS heads of government are meeting to discuss the document in May 2011 in Minsk.

The Free Trade Area Agreement is due to replace the current system that exists between CIS member states and is expected to decrease the number of goods that are subject to import duties.
May 19, 2011

The CIS Heads of Governments Council requested a revision of the draft Free Trade Area Agreement because a number of its provisions needed to be harmonised.

**Note:**

The Free Trade Area Agreement was originally drafted by the Ministry of Economic Development of Russian Federation in 2008. The CIS member states’ amendments to the agreement were drafted by the special working group and completed by February 2011. The Economic Commission of the CIS Economic Council approved the amended draft of the agreement in March.

Ukraine’s Foreign Minister, Konstantin Gryshchenko, stated in April that Ukraine had been active in improving the document and would sign the agreement on the CIS Free Trade Area in the near future.

**RIA Novosti**

Marchenko: creation of CIS supranational currency is possible within 8-10 years

October 18, 2011

The chairman of the National Bank of the Republic of Kazakhstan, Grigory Marchenko, believes that it may be possible to establish a single supranational currency in the CIS within the next 8–10 years, if there is concerted action on this from all countries in the region.

Marchenko believes that the world should have multiple reserve currencies, but that it will take time for the predominance of the dollar as the currency of choice for international transactions to wane. For the rouble to attain the status of reserve currency, Russian companies should use the Russian rouble for their own settlements. Marchenko said one of the impediments in positioning the rouble as a reserve currency was Gazprom’s reluctance to accept rouble payments from Moldova and Ukraine for 15 years. Marchenko noted the situation had changed, but not sufficiently.

The creation of a supranational currency within the Single Economic Space (Russia, Kazakhstan, Belarus) is still in the planning phase. According to Marchenko, following the EU example was the best way forward; participants should agree on the macroeconomic parameters that should be observed, without exception, and harmonise fiscal policy, as had been achieved in Europe.

The lack of a unified fiscal policy was reflected in the volatility of the rouble against the dollar in recent years, with fluctuations of up to 20% in Russia and 2% in Kazakhstan.
It was also necessary, he said, to learn from the EU’s mistakes, and try to do better.

*Finam.ru*

**CIS Heads of Government sign Free Trade Area Agreement**

*October 18, 2011*

Eight CIS Prime Ministers signed the Free Trade Area Agreement in St. Petersburg. Azerbaijan, Uzbekistan and Turkmenistan have declined for the time being. They will consider joining the treaty by the end of 2011.

In 1994, the CIS countries had signed a similar free trade area agreement; however it was never implemented because the parties were unable to secure unanimous ratification due to discrepancies that have mostly been eliminated this time around. The agreement may reconfigure trade and economic ties in the post-soviet space.

According to Russian Prime Minister, Vladimir Putin, the free trade agreement is another step towards the successful integration of neighbouring states, which is essential to boosting trade and economic growth.

Putin noted that trade turnover between the CIS countries increased by around 50% in January-June 2011, exceeding $134 billion and almost reaching the pre-crisis level.

The agreement will abolish export and import duties on several groups of commodities; however, the restrictions on free trade in gas, oil and sugar will remain.

In addition, the CIS heads of governments signed a further 28 documents, including an agreement on currency regulation and control in the CIS member states, and a draft plan for rail transport in the CIS to 2020.

*Expert*

**EurAsEC, CSTO and CIS coordinate their activities to regulate migration, strengthen international security and improve response to emergencies**

*November 22, 2011*

Moscow hosted a meeting of top EurAsEC, CSTO and CIS officials to improve how the three organisations’ Secretariats operate with regard to strengthening integration between the member states.

The organisations’ executive agencies discussed the implementation of migration policy, and the legal basis for international cooperation to regulate the migration process. Delegates at the meeting were briefed on the most important issues identified in the field of migration, and heard proposals to boost the efficiency of the EurAsEC, CSTO and CIS agencies working together on projects.
In addition, participants reviewed approaches to international security and stability, and new challenges and threats emerging in 2012-2013. Interaction in the wake of natural disasters or man-made emergencies was also high on the agenda for discussion.

*CIS Executive Committee*

**EurAsEC**

**Customs Union**

**Distribution of customs duties within Customs Union may benefit Belarus and Kazakhstan**

*February 25, 2011*

According to the head of the Russian Federal Customs Service (FCS), Andrei Belyaninov, the redistribution of import customs duties between the CU states may favour Belarus and Kazakhstan. Belyaninov drew attention to errors of calculation, and said “the numbers speak in favour of Belarus and Kazakhstan”. From a practical point of view, the receipt and redistribution of customs payments did not cause concern. According to Belyaninov, the adjusted coefficients have been defined; however the Ministry of Finance of Russia still needs to make a decision.

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**Note:**

*The procedure for receiving and redistributing customs duties came into effect on September 1, 2010. According to the trilateral agreements between the CU member states, import duties are transferred to a shared account and then distributed on a pro-rata basis between the CU member states with 87.97% of the total import duties going to Russia, 7.33% to Kazakhstan and 4.7% to Belarus.*

*RIA Novosti, IA Novosti-Kazakhstan*

**Customs Union and Ukraine discuss accession**

*March 16, 2011*

Summarising the meeting of the EurAsEC Interstate Council, Russian Prime Minister Vladimir Putin noted that Ukraine’s accession to the Customs Union or the Single Economic Space would “enrich the integration processes”. According to Putin, Ukraine’s participation in the CU would “increase the country’s benefits” in international negotiations.

Russia is somewhat concerned by Ukraine’s plans to establish a free trade area with the EU. As Putin noted, “Russia will be forced to close the customs border with Ukraine if the country creates a free trade area with the EU, and sensitive items will be delivered to the Russian market bypassing the established level of tariff protection”. The tariff levels set by Ukraine during negotiations with the
EU are less than half the existing customs tariff in Russia. Russia also plans to establish a free trade area with the EU in future. Ukraine has not yet announced any restrictions on trade with Russia it may consider if this comes to fruition.

On June 6, 2011 Ukrainian President Viktor Yanukovych established a special working group on boosting cooperation with the Customs Union of Russia, Belarus and Kazakhstan. Within two months the working group will draft a strategy of interaction between the CU and Ukraine on a 3+1 basis. Ukraine plans to sign a free trade area agreement with the EU by the end of 2011. Russia invited Ukraine to join the CU, and Kyiv expressed its readiness to cooperate with the CU, but only on a 3+1 basis.

Belarus streamlines border controls with Russia

April 1, 2011

Transport checks on the Belarusian-Russian border ceased from April 1, allowing cars to cross the border without stopping and without the need for special documents. From now on transport control will be performed only at the external border of the Union State. More than half of the 11 transport checkpoints have been shut down and the five remaining points are equipped only with weighing systems.

Russia and Belarus have agreed that Belarusian specialists will check carriers’ special permits for entry into Russia, for transportation of dangerous goods and for heavy-duty and large vehicles, in accordance with Russian standards.

The decision to eliminate transport controls between the two countries was taken during a meeting of the Customs Union Commission on March 14, 2011.

Kazakhstan and Russia have also agreed to transfer all transport checks to the external border of the CU by July 1, 2011.

Kyrgyz Government welcomes country’s accession to Customs Union

April 11, 2011

The government of Kyrgyzstan decided to launch the process of accession to the CU and the SES of Belarus, Kazakhstan and Russia. On April 11, the government set up a commission to negotiate the accession process taking into account Kyrgyzstan’s sensitive products and economic sectors. Meeting delegates noted that integration with countries of the Eurasian Economic Community was a priority for Kyrgyzstan. Belarus, Kazakhstan and Russia reportedly account for 44.9% of Kyrgyzstan’s foreign trade. The Kyrgyz government is to file a membership application with the EurAsEC Interstate Council.
October 17, 2011

According to the acting Prime Minister of Kyrgyzstan, Omurbek Babanov, his country would not be ready to join the Customs Union of Russia, Belarus and Kazakhstan by early 2012. The government filed a membership application and established a working group to discuss the details of Kyrgyzstan’s accession with “the working group that should have been established for this purpose by the CU”, Babanov said. The working groups have many issues to discuss as a priority, including any grace period granted to Kyrgyzstan’s certain economic sectors as it enters the CU.

November 23, 2011

The Executive Secretary of the Customs Union Commission, Sergei Glazyev, noted that all the necessary technical work on the Kyrgyzstan’s accession to the CU could be completed within the next year. According to Glazyev, the legal systems of Kyrgyzstan and the CU were similar enough to ensure the process would not be prolonged. Technical equipment at Kyrgyzstan’s border checkpoints and information exchange are currently two of the major problems.

Kyrgyzstan’s accession to the CU will boost the development of the country’s agribusiness and energy system, which could become part of the common energy market, allowing for the construction of new hydropower plants and the development of associated industries, Glazyev said, adding that Kyrgyzstan’s accession to the CU would encourage growth of the republic’s economic potential by at least 20-25%, and boost its attractiveness to investors.

www.tsouz.ru, Expert Online

Customs control between Customs Union member states to be eliminated from July 1

May 20, 2011

Kazakhstan assured Russia and Belarus that it will protect both states from goods being imported cheaply into Kazakhstan. Therefore, customs control between the three states will be abolished from July 1, 2011.

Russia’s Federal Customs Service drafted a presidential decree on the transfer of controls on the Russian-Belarusian and Russian-Kazakh borders to the external border of the CU starting July 1, and on the dissolution of 16 customs organisations.

Border transfer will eliminate customs controls between Russia, Kazakhstan and Belarus, as foreseen in the Customs Union founding documents. Customs clearance within the CU was abolished in July 2010, though the countries agreed several temporary exclusions from the common customs territory, the
majority of which will be valid until 2015. Kazakhstan may lower customs
duty rates on over 400 goods, including cars, sugar, medicines, plastics, paper,
aluminium goods and electronics. Belarus too will pay reduced car import
duties. However, an additional fee is applied to these goods as they cross the
Russian border to balance the total payment to the common tariff.

Vedomosti

Customs Union states unify rail tariffs

May 23, 2011

In mid May Kazakhstan’s Majilis (the Lower Chamber of Kazakhstan’s
Parliament) ratified the agreement on regulating access to rail transport services,
including pricing policies. The agreement had been signed by Russia, Belarus
and Kazakhstan in December 2010. It foresees the use of one unified tariff
instead of three – export, import and intrastate – from January 1, 2013. The
tariffs will be determined in accordance with the national legislation of each
country with potential differentials based on the nature of freight, type of cars,
distance and railcar loading level.

The essence of unification is that the parties voluntarily waive protectionist
practices in the field of rail transport; however, each country defines its own
unified tariff to protect national interests and reduce the tariff burden on domestic
consignors. For instance, if a Kazakh entrepreneur plans to work with OJSC
Russian Railways (RZD), he will be offered the same conditions that are offered
to Russian businessmen, from provision of rolling stock to the tariff level.

Tariff unification would reduce the cost of freight transport for many but not all
businesses. Thus, for example, Russian mineral fertilizer producers, Silvinit and
Uralkali, may find their transport costs increase under the unified tariff, because
rebates for certain export routes will be abolished, affecting return journeys of
empty railcars. According to experts, tariff unification bears potential risk for
Kazakhstan, since the main flow of commodities is from Russia to Kazakhstan
but not vice versa.

Nevertheless, tariff unification brings great potential benefits. Among other
things, it will guarantee equal access to infrastructure as a step towards securing
equal conditions for all carriers from January 1, 2015. Regulations on equal
access to infrastructure will be drafted by January 1, 2013.

Expert Kazakhstan

Kazakhstan in the Customs Union

May 23, 2011

From January 1, 2010 Russia, Kazakhstan and Belarus have operated a unified
customs policy regulated by eight international agreements, a unified customs
tariff and a shared list of goods subject to the same non-tariff rates. The CU member states turned their attention to harmonising trade regimes with CIS countries and special protective and antidumping measures in the CU. A protocol on exemptions came into force along with the Customs Code. The protocol retains customs clearance procedures for “transition period” goods and commodities that are not subject to unified terms of trade, and protective and antidumping measures. In particular, Kazakhstan has negotiated a preferential tariff for cars imported by private individuals, valid till July 1, 2010. Special terms for other imported items remain valid for longer. For instance, Kazakhstan’s sugar refineries have been granted the right to import raw cane sugar duty-free for 10 years, and Belarusian and Kazakh airlines are exempt from import duties on aircraft till July 1, 2014. The duty-free import of aircraft spare parts has no time limit. In addition, Kazakhstan has negotiated a preferential tariff for imports of medicines, medical equipment, railcars, greenhouses, and raw materials for the light industry, chemical, and woodworking industries until 2014.

According to Zhanar Aitzhanova, Minister of Economic Integration of Kazakhstan, since the introduction of the CU in 2010 Kazakhstan’s foreign trade has increased by 26% due to price increases for Kazakhstan’s exported oil and metals. The structure of exports and imports has not changed in qualitative terms. The CU member states, the EU and China remain Kazakhstan’s major trading partners.

Russian direct investment in Kazakhstan’s economy has increased by 0.5% since the introduction of the CU and 400 Russian enterprises are now registered in Kazakhstan, Aitzhanova said.

**Customs Union abolishes border control**

*July 1, 2011*

From July 1, the CU begins to operate fully with customs controls being entirely transferred to the external borders of the Union. Russian customs officers will have observer status on the Belarusian-Russian and Kazakh-Russian borders. Border guards will remain at the Kazakh border while migration and other types of legislation are harmonised.

Control over certain types of goods imported from Kazakhstan will be retained on a temporary basis: from July 1 Kazakhstan introduces import duties on the majority of goods in line with the common customs tariff, with exemptions on 88 items (mostly medicines and medical equipment).

In future the CU member states will enter into shared trade regimes with other countries. The CU has begun negotiating free trade agreements with the European Free Trade Association (EFTA) and New Zealand, and has established
working groups to study the feasibility of similar agreements with Syria, Vietnam, Mongolia and Egypt. The establishment of a Single Economic Space from January 1, 2012 will be the next step towards integration. It is expected that the Customs Union Commission will be granted more authority to enable it to be more effective. From January 1, 2012 the Customs Union Commission is invested with 90 new powers relating to tariffs, subsidies, foreign trade and competition policy.

**RBK Daily**

**No work permits for migrant workers from Russia, Belarus and Kazakhstan**

*July 4, 2011*

Russia’s State Duma ratified an agreement on the legal status of migrant workers from the CU member states, which streamlines the bureaucracy involved in staying and working in Russia, Belarus and Kazakhstan. Under the new agreement, migrant workers do not need work permits to work legally within the CU member states. Moreover, migrant workers from Russia, Belarus and Kazakhstan and their family members have 30 days after entering the country to register with the competent authorities there. The length of their stay will depend on the duration of the work contract. Should the employment contract be terminated migrant workers will have 15 days to find another job. However, migrant workers are prohibited from working in strategically important economic sectors, public order and healthcare services.

These agreements represent the CU member states’ efforts to ease the movement of manufacturing resources, including labour.

**Expert Kazakhstan**

**Bar code tracking introduced in grain market**

*July 6, 2011*

Experts drafting technical legislation “On Safety of Grain” in the CU have proposed a system for monitoring grain as it moves from the field to end consumer. The Russian Ministry of Economic Development reports that a system of assigning a bar code to every grain market participant is being considered. Starting July 5, the Ministry began negotiations on this proposal, with Kazakhstan being responsible for the relevant draft technical regulations. The draft will be based on similar technical regulations adopted by the EurAsEC, with a new section on ensuring grain traceability. The added section stipulates that unsafe grain should be withdrawn from circulation immediately and its origins traced, which would be possible as long as all participants in the grain market (at every stage of the supply chain) have registered with their relevant CU authority and received from them a special identification number (bar code). The bar code will carry information, such as where the grain was produced, the
field number, crop code, the address of the transport company that moved it, and the grain depot or store. Individual numbers have to be assigned to every producer, transporter, warehouseman and individual or legal entity engaged in grain transactions. Together with the bar code each grain market participant will receive a document confirming the name and address of the participant, their type of activity and coordinates of the local supervisory authority. The draft technical regulation is scheduled to be enacted on July 1, 2012, according to an explanatory note.

**Kommersant**

**Customs Union member states to create special ministry**

*September 16, 2011*

Russia, Belarus and Kazakhstan intend to establish a special CU ministry responsible for ratifying ordinary and strategic decisions and approving draft international agreements. Viktor Khrystenko will be appointed head of the ministry. The draft agreement on the Customs Union Commission will be reviewed during the Commission’s regular meeting on September 22-23 in Almaty. If the agreement is ratified, the current management structure – via the supervising Deputy Prime Ministers – will be superseded by a two-tier management structure consisting of the Commission Council (a ten-member strategic body) and the Commission Board, which would become a separate supranational government operating on a professional, rather than a national level.

A chairman will be appointed from among the ministers or commissioners on the Board. It is assumed that the Deputy Prime Ministers of Belarus, Kazakhstan and Russia will become members of the Commission Council (currently these are Sergey Rumas in Belarus, Umirzak Shukeev in Kazakhstan and Igor Shuvalov in Russia). Russia will receive 57% of votes in the Council, Belarus and Kazakhstan – 21.5% each. The countries will take turns in presiding over the Council. The Commission’s decisions will become legislation, which, along with international agreements, will constitute the contractual and legal framework of the Single Economic Space. The Commission’s operations will be financed by contributions from the parties proportional to their number of votes. According to preliminary estimates, the budget may amount to $50-$60 million. The Commission will be based in Moscow.

*Vedomosti, Kursiv.kz*

**Controversies over Customs Union technical regulations**

*October 3, 2011*

The CU has been functioning for almost two years since January 1, 2010. Borders are open and goods move freely between Kazakhstan, Russia and...
Belarus following unified rules. However, while a de jure customs union is in place, de facto there are still several issues to be resolved. The CU agreement on technical regulation was signed in November 2010, yet Kazakhstan, Russia and Belarus have not yet established unified technical regulation and control, and have not adopted common technical regulations.

The members speeded up their work drafting common technical regulations, and granted 46 drafts top-priority status for 2011. Of these 46, eight were drafted by Belarus, 13 by Kazakhstan and 25 by Russia.

A unified quality mark will be introduced for goods entering the markets in the three member countries. During the transition period, manufacturers will have the right to choose from a list of goods which are subject to mandatory conformity evaluation confirmed by documentation recognised in all three countries. “Transit” certificates, or declarations of conformity that are recognised in all the CU member states, are already available for products that are not included in the list (over 200 items). The list of goods is constantly growing.

Consensus is vital for the ratification of CU technical regulations. However, disagreements do arise in the negotiations between the CU member states. For instance, Kazakhstan refused to discuss the draft technical regulations on tobacco products agreed by Russia and Belarus. The decision to ban the collection and recycling of glass containers that have contained alcohol and infant food from July 2012 has also led to disputes. In some instances, European norms are used as the benchmark, to help the parties to reach consensus. The majority of CU technical regulations are based on the national technical regulations of Russia that were harmonised with EU directives.

*Businessmen assess first results of Customs Union*

*October 17, 2011*

Businessmen have given their initial assessment of the effects of the Customs Union of Russia, Belarus and Kazakhstan.

Research carried out jointly by RBK Daily and Kelly Services recruitment agency suggests that businesses are facing longer queues at the customs, excessive bureaucracy, and a backlog of tax legislation. According to a survey carried out among Russian transport and logistics companies, 69% of respondents believe that the CU has simplified their dealings with Belarus and Kazakhstan, and 54% of respondents claim that the law “On Customs Regulation” that replaced the Customs Code in November last year has had a positive impact on their operations.

Problems with VAT calculations (the difference in tax rates), the failure to unify technical regulations thus far and different customs requirements are
problems for entrepreneurs. Currently each state may establish different rules and regulations on such matters. Nevertheless, a complex legal system is the root of all problems because at present the CU legislation has not been codified – simultaneously there exist the Customs Code and numerous decisions by the Customs Union Commission. In expert opinion, the correlation between them is complicated.

**RBK Daily**

**Customs Union comes under the jurisdiction of the Single Economic Space**

*October 31, 2011*

The Eurasian Economic Commission (EEC) will replace the Customs Union Commission from July 1, 2012, according to a Eurasian Economic Union draft agreement. The EEC is modelled on the European Commission. The EEC’s authority will expand and its staff increase from 150 to 1,200.

According to the draft agreement, the EEC will also be responsible for negotiating and establishing trade partnerships with third countries; it will draft currency, macroeconomic, energy and competition policies; regulate state monopolies and industrial and agricultural subsidies; and be responsible for public procurement, transport, migration, financial markets and other areas.

It is assumed that the EEC decisions will be based on the votes of the Council or Board members (every Board or Council member has one vote). Each country will delegate one Deputy Prime Minister to the Council and three representatives to the Board.

The Prime Ministers of Russia, Kazakhstan and Belarus approved the draft agreement on the EEC on October 19, 2011. The Customs Union Commission declined to comment on the agreement and noted that the CU is now being transferred to the jurisdiction of the SES.

**Expert Online**

**ESTABLISHMENT OF THE SINGLE ECONOMIC SPACE**

**International agreements on the Single Economic Space enter into force**

*April 7, 2011*

Moscow hosted the 26th session of the Customs Union Commission. The Commission members discussed the common customs territory and the contractual and legal foundations of the Single Economic Space within the framework of the EurAsEC.

The Commission discussed uniform export monitoring procedure for CU member states and approved Customs Union Commission legislation, including
a revised version of the list of goods that are subject to mandatory conformity evaluation confirmed by documentation recognised in all three countries; and a draft provision on standardised checking of conformity to CU technical regulations.

The Commission reviewed customs administration and customs tariff and non-tariff regulations. Members decided to amend the unified commodity nomenclature and the CU’s Common Customs Tariff on cast iron and cast steel components for hydraulic turbines; and to adjust import duties on monofilament yarn used in producing filters.

Note:

During the Almaty informal summit in December 2009, the Presidents of Belarus, Kazakhstan and Russia adopted the 2010-2011 Action Plan for the SES. The Plan foresaw the signing of a package of international agreements by January 1, 2012. However, by as early as December 9, 2010 the sides had signed 17 agreements on establishing the SES. The governments were instructed to ratify all the documents by July 1, 2011 and to ensure they entered into force by January 1, 2012.

Belarus ratified the whole package of documents on the SES on December 28, 2010. Kazakhstan and Russia completed all procedures necessary to ratify the documents before the deadline.

The EurAsEC Interstate Council (the CU supreme body) approved the Action Plan for the implementation of agreements on the SES on March 15, 2011 (decision No.77). The Plan comprises 111 elements, 75 of which must be implemented by the governments and authorised agencies of the three states. The remaining 36 items relating to eight agreements come under the remit of the Customs Union Commission. To realise the Action Plan, a schedule for the preparation of documents implementing Agreements on the SES foresees the development of 13 international agreements and 42 other documents (protocols, procedures, methodologies, criteria, schemes, action plans). The Customs Union Commission approved the schedule on April 7, 2011.

SES principles extended to agriculture

June 9, 2011

Kazakhstan, Russia and Belarus plan to adopt similar approaches to agricultural subsidies within the framework of the Single Economic Space. Kazakhstan’s Majilis ratified and referred this decision to the Senate.

According to the Executive Secretary of the Kazakh Ministry of Agriculture, the agreement on state support to agriculture was drafted by Belarus and signed by the heads of the CU member states on December 9, 2010 in Moscow. The agreement establishes the maximum level of state support that can be granted at 10% of the gross value of agricultural production. Currently, subsidies amount to around 18% of the gross value of agricultural production in Belarus, up to 6% in Russia, and about 4% in Kazakhstan, putting Russian and Kazakh producers at a disadvantage compared to Belarus.
State support for agriculture in Kazakhstan will not be limited since an additional 6% would be allowed before it hits the maximum level. Additional state support may be used to encourage local production and increase its competitiveness. Moreover, Kazakhstan will benefit from an additional mechanism for preventing unfair competition and protecting its domestic markets from its main trading partners. The agreement will cease to be effective as soon as the parties join the World Trade Organisation (WTO).

Kursiv.kz

Kazakhstan, Russia sign up to coordinated exchange policy within the SES

July 21, 2011

So far, only Kazakhstan and Russia have ratified an agreement on coordinated principles of foreign exchange within the Single Economic Space. According to experts, the agreement allows for the creation of a common, gradually unified area to streamline cooperation in capital markets, labour migration and mutual trade. A single currency space may be established in the long term.

The agreement defines how the SES member states will implement foreign exchange policy. It foresees a gradual harmonisation of foreign policy, creation of the legal and organisational foundations for currency integration, and an economic policy focused on boosting confidence in the national currencies of the member states.

The SES countries should pursue economic policies aimed at increasing confidence in the national currencies of its member countries, both on their domestic and on international currency markets. The parties pledge not to intervene in the currency sphere in a way that may adversely affect integration processes, but where forced to act the member states must seek to minimise the consequences of such actions.

The tasks listed in the agreement fall into two categories. Firstly, the approximation of legislation and coordination of foreign exchange policy are necessary to provide equal opportunities for economic entities, including financial institutions, which do not discriminate between residents and non-resident entities. Secondly, the agreement calls for coordinated measures to improve the competitiveness and stability of all three economies within the global economy and global financial markets through the convergence of SES currency markets, national foreign exchange markets, and foreign exchange transactions.

www.tsouz.ru
New integration milestone reached and Eurasian Economic Union moves ahead

November 18, 2011

The Presidents of Russia, Kazakhstan and Belarus signed the Declaration on Eurasian Economic Integration, and the Agreement on a Eurasian Economic Commission and its functions. These documents should result in the establishment of Eurasian Economic Union by 2015. Simplified regulation of the free movement of goods, services, capital, and labour that will be in force within the Eurasian Economic Union is expected to increase trade flows and lead to a coherent currency and macroeconomic policy.

The Declaration states that the transition to the next stage of integration – the Single Economic Space – will begin on January 1, 2012. The Union will be established by 2015, when the existing legal base of the CU and SES will be fully codified, the Declaration says. The EEC, which will operate from January 1, 2012, will be responsible for the codification process. All the executive bodies will be headquartered in Moscow for the first four years; Russian Industry Minister Viktor Khristenko will head the EEC Board. The location of the executive bodies will be reviewed once the Eurasian Economic Union is established. The EEC will take over from the Customs Union Commission on July 1, 2012. The EEC will become the supranational authority managing integration within the CU and SES. It will have a two-tier structure with the Council (the upper tier), comprised of the three countries’ Deputy Prime Ministers, being responsible for resolving disagreements between members of the Board (the lower tier). The Board will become the EEC’s key executive power, responsible for setting duties, establishing sanitary, veterinary and migration controls and monitoring the distribution of industrial and agricultural subsidies.

Some businesses have not waited for the establishment of the Eurasian Economic Union to execute their integration plans. For example, Russia’s EuroChem is actively working towards the full-scale implementation of a $2 billion project in Kazakhstan. LUKOIL plans to commission a large gas-processing complex in Aktobe in Kazakhstan.

Vedomosti, RBK Daily, Expert Online

EurAsEC ANTI-CRISIS FUND

EurAsEC ACF considers loan to Armenia

June 16, 2011

The EurAsEC Anti-Crisis Fund is studying the prospects for restructuring Armenia’s gas and chemical industries. The Armenian government is pursuing a strategy to restore these industries’ positions in world markets, and hopes to attract financing from the ACF to implement the programme. Recently
the Chairman of the ACF Council, Russian Finance Minister Aleksei Kudrin, announced that the ACF was considering providing credit to Yerevan.

A number of independent consultants are working on the issue together with the Eurasian Development Bank. The ACF Council may take a decision on lending to Armenia during its next meeting.

**Note:**

Kudrin first mentioned extending ACF credit of about $400 million to Armenia at the ACF Council meeting on June 4, 2011 in Kyiv.

**Belarus receives first tranche of EurAsEC ACF loan**

*June 21, 2011*

Belarus received the first $800 million tranche of a loan provided by the EurAsEC Anti-Crisis Fund. The next five tranches each totalling $440 million will be disbursed to Belarus in 2012-2013, while the government programme for stabilising the Belarusian balance of payments and improving its economic competitiveness is being implemented. The programme foresees measures to curb the credit financing of the country’s economy, strengthen fiscal discipline, and replenish international reserves to an economically secure level.

**Note:**

On June 4, 2011 the ACF Council approved a $3 billion loan to the Republic of Belarus. The Eurasian Development Bank, the manager of the ACF resources, and the government of Belarus signed a loan agreement on June 9. Belarusian President Alexander Lukashenko ratified the agreement and put it into effect on June 15.

*The credit is extended for 10 years, including a three-year grace period, during which only the interest is being paid. Capital repayments will begin in the second half of 2014.*

*The terms of the loan meet the standard terms and conditions approved by the ACF Council for middle-income member countries. The floating interest rate is tied to the price of Russian funding in international markets (currently around 4.3% per annum) and will be reviewed every three months.*

**Belarus to receive second tranche of EurAsEC ACF loan**

*November 28, 2011*

The Council of the EurAsEC Anti-Crisis Fund approved a second $440 million tranche of the loan to Belarus pending clarification of components of the country’s anti-crisis programme.
The agreement to extend a $3 billion loan to Belarus from the EurAsEC ACF resources foresees the allocation of several tranches over three years: $1.24 billion in 2011; around $800 million in 2012; and $1 billion in 2013. The ACF funding is expected to help Belarus overcome the foreign exchange crisis that hit the country in spring 2011, and the overall economic crisis triggered by an upsurge in prices and depreciation of currency.

**Expert Online**

**EDB**

**Ukraine may join EDB**

August 19, 2011

Ukraine may accede to the EDB Foundation Agreement. The Ukrainian government approved the relevant presidential resolution at a meeting on August 17. The government has authorised first Deputy Prime Minister and Economic Minister Andrei Klyuev to address the EDB. Ukraine’s contribution to the EDB charter capital may amount to around $15 million with Kyiv estimating the need for EDB investment at $2.5 billion. Ukraine’s joining the bank will bring economic benefits to the country, help attract additional financial resources for investment projects and enhance cooperation with EDB member states.

**Note:**

The Eurasian Development Bank is an international financial organisation established by Russia and Kazakhstan in 2006 to promote the economic growth of its member states, the expansion of trade and economic ties between its members and the development of integration in Eurasia. The Bank’s charter capital exceeds $1.5 billion and its member states are Russia, Kazakhstan, Armenia, Tajikistan and Belarus.

**Kursiv.kz**

**Kyrgyzstan pays its contribution to EDB charter capital**

August 26, 2011

Kyrgyzstan has paid its $100,000 contribution to the charter capital of the EDB, thus completing the procedures required for joining the EDB. It has become the sixth full member of the Bank along with Russia, Kazakhstan, Armenia, Tajikistan and Belarus.

**Kursiv.kz**

**CSTO**

**CSTO limits Western influence on post-soviet space**

December 21, 2011

Moscow hosted the summits of two major post-soviet integration structures – the Collective Security Treaty Organisation and the CIS.
The CSTO summit adopted measures to limit Western influence on the territory of the former USSR. Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan agreed new rules for foreign military forces deployed at military bases on the territory of CSTO member states. From now on, no foreign military facilities can be deployed in any of the CSTO countries without the sanction of all CSTO member states. This measure will facilitate the CSTO’s transition to a fully-fledged military and political bloc, whose participants are focused on the interests of their partners as well as their own financial benefits.

The CSTO countries’ leaders approved measures for managing information security in the CSTO member states.

The purpose of the Collective Rapid Reaction Force (CRRF) has been changed to focus on preventing destabilisation of CSTO countries. Initially, the CRRF responded to military aggression from the exterior, and counteracted international terrorism, organised crime, drug trafficking and the effects of disasters. From now on, the CRRF may also be engaged in protecting the constitutional position of CSTO member states. The summit agreed that the CSTO’s role will be to counteract real and virtual threats from the West and from the South – the Presidents discussed a plan of action in case the security situation in Afghanistan deteriorates after the withdrawal of NATO troops in 2014.

_Vital SCO development issues_

_June 16, 2011_

Over the ten-year history of the Shanghai Cooperation Organisation (SCO), the organisation’s balance of authority has shifted towards Beijing. China has demonstrated its commitment to large-scale penetration of SCO member country economies. As a result, Russia finds itself bound up with China’s strategy, being able only to observe the process but not significantly to influence it. One way to stabilise Russia’s position in the SCO, according to analysts, is to create a free trade area in the post-soviet space and gradually expand into the SCO. This idea was voiced by the Russian delegation during 2011 Astana summit. Moreover, Russian President Dmitry Medvedev proposed that the SCO should draw up a “road map” for multilateral trade and industrial cooperation by the end of 2011.

Opening doors to new members may become a turning point in the integration processes within the SCO. The SCO is on the cusp of expected expansion. In recent years, many powerful states have expressed their intention of becoming full members of the organisation. Some of these countries are, however, burdened with complex problems. Discussion of Iran’s potential membership of
the SCO was suspended in late 2009, when Russia stated that countries placed under UN sanctions on security grounds could not be admitted to the SCO. Meanwhile, Moscow welcomes India’s declared intention of joining the SCO, since the latter can act as a counterweight to the influence of Beijing. However, because of the serious competition between India and China – the two major powers of Eurasia – this step is quite difficult to realise. The summit showed that Afghanistan appears to be another preoccupation of those wishing to further SCO expansion. As the US withdrawal from Afghanistan becomes inevitable, and Hamid Karzai’s administration is actively taking over control, the SCO is obliged to take into consideration the future of the Afghan state.

Kazakh President Nursultan Nazarbayev put forward a number of initiatives during the anniversary summit of the SCO in Astana, including a proposal to establish a common energy space in SCO member states.

The delegates also returned to the question of establishing an SCO Special Account, the resources of which could be used for the technical and economic evaluation of large-scale projects. The SCO Special Account should become a “liquidity cushion” for projects that have great integration potential. However, creating such a fund is part of a broader plan to establish a joint fund to finance projects within the SCO, and its authorised body. So far the SCO member states have failed to reach consensus on the structure of this body. Beijing insists on creating a separate structure, while Moscow has suggested it should be based on the Eurasian Development Bank, the majority of which is owned by Russia and Kazakhstan.

China has taken the lead in granting loans to SCO member states. Chinese President Hu Jintao reminded the summit that in 2009 China pledged to provide $10 billion in concessional loans to SCO member states. However, the country has significantly exceeded its obligations. Kazakhstan has received $15 billion in credits from China in the last two years. At the peak of the economic crisis, Russian companies Rosneft and Transneft borrowed $25 billion from China Development Bank.

Russia does not view these developments as a threat to Russian interests in Central Asia, claiming rather that China’s greater flexibility in the SCO and proposed financial instruments merit comprehension and support.

TRADE AND INVESTMENTS

Russian enterprises move to Kazakhstan

April 4, 2011

Boris Titov, head of the Business Russia organisation, claims production costs in Russia are too high, especially in industries bearing the cost of
growing tariffs of natural monopolies. Over the last five years production costs have increased threefold owing to rising tariffs and inflation rates, he says.

In 2010, industrial growth recovered, but slumped again after the uniform social tax increase in 2011 and another round of tariff increases. Loans are exceedingly expensive while long-term credit facilities do not exist at all, Titov claims. Manufacturers with a long production cycle have a slower turnover rate. As a result, only 22% of manufacturers are financed by borrowing, while the rest invest from their own resources.

In contrast, Kazakhstan’s producers have a lighter tax burden and tariff increases are limited by the authorities. The interest rate is lower and long-term credit facilities are more widely available.

Therefore, Russian industrial enterprises began relocating to Kazakhstan after the establishment of the CU and the introduction of agreements regulating industrial activity. A plant cannot be moved within a couple of days, of course, so this is a slow process taking place over several years. The CU makes it more profitable to produce in Kazakhstan and sell in Russia because customs duties have been abolished and Russian demand and prices are higher. If the situation remains unchanged, the relocation of production to Kazakhstan will accelerate.

**Kommersant**

**Customs Union protective measures**

*June 6, 2011*

The policy of the CU is becoming more protectionist. The CU’s most recent measures have been directed against Ukraine. The Customs Union Commission has decided to apply antidumping and special protective measures in Russia, Belarus and Kazakhstan against Ukrainian steel pipes, fibreglass, and engineering fasteners and fittings.

Russia’s Ministry of Economic Development and the Ministry of Economy of Ukraine signed an agreement regulating the supply of certain types of steel pipes. Russia’s Ministry of Industry and Trade proposed extending the validity of duties on over-quota imports of steel pipes from Ukraine for five years from January 31, 2011, and increasing the current duty rate.

Previously, on December 30, 2010, Ukraine and Russia had signed an agreement to increase quotas for duty-free imports of Ukrainian pipes to Russia to 300,000 tonnes in 2011. If CU member states sign relevant agreements with Ukraine, this measure will be valid throughout the Union.

*Expert Online*
Belarus introduces export restrictions

June 13, 2011

Belarus has introduced restrictions on the export of food products and banned the export of some other commodities. The government introduced these trade measures to protect domestic market.

Special charges equivalent to double their average price have been imposed on exports of pork and poultry meat; sugar; flour; rennet cheese; butter; tobacco products manufactured in Belarus; canned meat and dairy products.

A temporary ban has also been imposed on individual exports of household refrigerators and freezers manufactured by JSC Atlant; gas cookers (manufactured by the Belarusian-Russian joint venture Brestgazoapparat), cement (produced by JSC Krasnoselskstroymaterialy, RUE Belarusian Cement Plant, Krichevcementnoshifer Ltd.), detergents (JSC Barhim), cereals (various) and all pasta, regardless of manufacturer.

From June 11 Belarus is also restricting exports of motor fuel. Exporting such fuel more than once every five days requires the exporter to submit a customs declaration and pay customs duties. Restrictions and bans are valid only when goods are exported outside the CU – trade terms with Russia and Kazakhstan remain unchanged.

Bottlenecks remain on Russian-Kazakh border

June 16, 2011

So far there has been no resolution of the problem of goods entering Kazakhstan under preferential customs duty rates, then being taken into Russia. Russia is very concerned about this emerging “window” through which imports of cheap cars, gasoline, medicines, cigarettes and alcohol from Kazakhstan could be channelled.

The abolition of customs checks at the Russian-Kazakh border from July 1, 2011 was announced a year ago when the common customs territory between Russia, Belarus and Kazakhstan came into effect. A year-long transition period was allowed because of the perceived permeability of Kazakhstan’s borders with other countries, primarily China.

Kazakhstan imports 70% of the goods its economy requires. Kazakhstan negotiated special conditions when it joined the CU, including lower duty on cars imported by individuals (until July 1, 2011), a zero rate on raw cane sugar (until 2020), a zero rate on aircraft (until July 1, 2014) and aircraft spare parts (unlimited).
The EurAsEC Interstate Council also approved Kazakhstan’s list of lower-duty imports (compared to the common customs tariff) on 409 goods, including medicines, medical equipment, cars, raw materials for chemical, light and woodworking industries, aluminium, paper, etc. The validity period of these rates vary, none going beyond the year 2015.

The Russian authorities granted these concessions in 2009 to ensure Kazakhstan signed certain key CU documents; however, Russia is now concerned that goods imported into Kazakhstan from other countries at lowered duty rates will appear on the Russian market once the customs barrier is removed.

During a meeting of the EurAsEC Interstate Council in Minsk on May 19, 2011, Kazakhstan pledged to introduce state control over the “privileged” products by July 1, 2011 and made assurances that such goods would not be brought to Russia.

*Kommersant*

**Russia’s accession to WTO: Perspective from Tbilisi**

*November 7, 2011*

As part of negotiations on WTO accession, Russia and Georgia have solved the problem of monitoring cargo on the Russian border with Abkhazia and South Ossetia. Georgia refused to agree to Russia’s accession to the WTO unless Russia submitted information on products coming in to the two republics. On November 3, 2011 the head of the Russian Delegation at the WTO accession negotiations Maxim Medvedkov announced that Russia has approved a compromise agreement with Georgia, proposed by Switzerland. Georgia approved the compromise on October 27.

The issue of observers was a problematic one during the Swiss-mediated negotiations. The parties agreed to select a special company that will be responsible for acquisition of data on cargoes at the checkpoints and transferring the data to Georgia in electronic form. The mechanism and criteria for selecting an operator were not disclosed, but a company is shortly to be selected by Switzerland. Under the agreement, Georgia will receive information on goods transported via three trade corridors. The first corridor will run from the river Psou on the border with Abkhazia to Zugdidi in the west of Georgia. The second will lie on the border with South Ossetia from the north side of the Roki Tunnel to Gori in Georgia. The third will be at the Kazbegi-Upper Lars checkpoint, the only official crossing on the land border between Georgia and Russia.

This transfer of border controls to a private company is unique. The US Congress is considering transferring the authority to control the US border with Mexico to a private operator.

*Vedomosti*
Russia accedes to the WTO

November 10, 2011

The WTO Working Party has approved Russia’s accession to the WTO. A formal decision on Russia’s WTO membership will be adopted at the WTO Ministerial Conference on December 15-17. According to Maxim Medvedkov, head of the Russian Delegation at the WTO accession negotiations, Russia will have six months to ratify the WTO membership agreement, which comes into force one month after the ratification date, so Russia will become a full WTO member in summer 2012.

According to information on the WTO website, the average import duty in Russia will decline from 10% to 7.8% by 2020: from 13.2% to 10.8% for agricultural products, from 9.5% to 7.3% for industrial goods, from 19.8% to 14.9% for dairy products, and from 15.1% to 10% for cereal crops. Duties on cars will be reduced from 15.5% to 12%, on electric vehicles – from 8.4% to 6.2%, and on wooden and paper products – from 13.4% to 8%.

Duties will be reduced gradually. First of all Russia will have to bring down its anti-recessionary duties (e.g., on chemicals and metals), and as soon as Russia becomes a WTO member, duties on new motor cars will be reduced from 30% currently to 25%, and further to 15% within the next seven years.

Officials believe Russia is joining the WTO on advantageous terms. Lower duties on foodstuffs are unlikely to seriously affect the domestic market, while higher duties on motor vehicles will be in place until the year 2018. Moreover, Russia has undertaken to reduce federal subsidies to the agricultural sector from $9 billion in 2012 to $4.4 billion in 2018.

Contrary to expectations, there will be no reform of the gas market. Under WTO terms and conditions, the government is allowed to regulate domestic gas prices as long as they bring profits to the national gas utility, Gazprom. Moreover, the gas giant will remain a monopoly in terms of gas exports.

With regard to the banking sector, Russia’s WTO membership terms state that foreign banks are allowed to operate via their subsidiaries but may not open branch offices and foreign capital in the Russian banking sector may not exceed 50%. Foreign insurers will be allowed to open branch offices nine years after Russia’s accession to the WTO.

Russia has promised to lift all restrictions on foreign capital investment in its telecommunications sector by 2015. This industry is listed as strategic and companies taking a controlling stakes in telecommunications companies in Russia must have their investments approved by the government.
December 16, 2011

WTO trade ministers accepted Russia’s bid to join the WTO. The accession protocol was signed by Russian Economic Development Minister Elvira Nabiullina and WTO Director General Pascal Lamy.

Russian Deputy Prime Minister Igor Shuvalov, President of the Swiss Confederation Micheline Calmy-Rey, and WTO ministers attended the accession signing ceremony.

Earlier the WTO ministerial conference had approved all documents relating to Russia’s accession to the organisation including commitments on market access for goods and services. Russia has been working towards joining the WTO since 1993.

Russia’s membership in the WTO marks an important milestone in its history, but there is hard work still to be done.

First of all Russia will have to determine the rules of its international trade, including the trade regime with the US. The Jackson-Vanik amendment, which limits trade with Russia and which is an obstacle to the application of WTO rules between the two countries, would have to be revoked. Failure to do so would allow Russia to deny the United States preferential access to its markets, and WTO rules will not apply to trade between Russia and the US before it is repealed.

Moreover, during the next six months the Russian government must decide terms of access to Russian markets for goods and services, which give the country room for manoeuvre. Russia needs to define its strategy in many areas, particularly in the services sector and with regard to systemic issues. According to the Ministry of Economy, the government and the Central Bank must first decide whether or not to introduce a 50% quota for foreign bank control of the aggregate capital of Russia’s banking system.

In addition, around one-third of tariff rates under the Russian Federation’s WTO commitments are higher than those applied within the framework of the CU, so Russia, Kazakhstan and Belarus will have to decide what rates to apply.

Meanwhile, Russian businessmen will have to explore a new instrument – the WTO dispute settlement system, a mediation mechanism aimed at reducing barriers to trade which was unavailable to Russia before the official accession. Maxim Medvedkov, director of the Trade Negotiations at the Ministry for Economic Development, who has led the negotiations on Russia’s WTO accession for the last 11 years, believes that Russia should raise grievances over at least 120 trade barriers imposed by its trade partners. He cites the EU’s reluctance to accept Russian energy prices, especially on gas, when estimating the cost of Russian products. Moreover, WTO membership gives Russia an
opportunity to use the WTO dispute resolution mechanisms in trade with China. Prior to this, Russia had no formal grounds for asking China to reduce barriers to Russian goods.

The government will also have to learn to offer state support in ways that conform to WTO rules prohibiting direct subsidies that affect the pricing of goods. However, the Ministry of Economy is confident that the existing structure of state support demonstrates a 99% compliance with WTO rules.

Vedomosti, Expert Online, RIA Novosti, Kommersant, Finam.ru

BILATERAL RELATIONS

Transport, space and other aspects of Russian-Ukrainian cooperation

April 13, 2011

Russian Prime Minister Vladimir Putin visited Kyiv and met with his Ukrainian counterpart Nikolay Azarov to discuss a new gas contract and Ukraine’s accession to the CU.

Talks on Ukraine’s possible entry into the CU began about a year ago. The scope of economic cooperation between Russia and Ukraine is larger than between Russia and the other two member states of the CU. Businesses in Ukraine and Russia want to simplify customs procedures. In addition, if Ukraine joins the CU it could benefit from a significant discount on Russian gas prices. In early April, the Ukrainian authorities announced that the country may accede to the Protocol establishing the CU as early as June 2011. According to the President of Ukraine, Viktor Yanukovich, the country is ready to cooperate with the CU on a 3 + 1 basis, meaning Ukraine’s accession to selected CU agreements only.

Putin also noted that Ukraine’s accession to the CU would make it easier for the country to negotiate a free trade area with the EU. In recent years Ukraine’s policy makers have been in search of a formula that will allow them to cooperate both with the EU and the alliance of Russia, Belarus and Kazakhstan.

Nikolay Azarov reminded his Russian counterpart that if Ukraine joins the CU, Moscow would have to cut the cost of its energy resources significantly. Ukraine’s Prime Minister also noted that Kyiv needs firm guarantees from Moscow on the volumes of gas flowing to Europe, and hoped Russian companies would participate in the reconstruction of the Ukrainian gas transit system.

Azarov stated that Russia and Ukraine should, in the short term, finalise preparations for a feasibility study on a transport crossing over the Kerch Strait.

He also noted that Ukraine would be ready to sign up to the provision of a high-speed rail link between Kyiv and Moscow in the near future and invited Russia to simplify customs controls as soon as possible.
In addition, Ukraine’s Prime Minister said that the Russian-Ukrainian joint venture between Ukraine’s state aircraft manufacturer and Russia’s United Aircraft Corporation (UAC) needed to be finalised. In March, UAC and Antonov signed an agreement to purchase and sell a 50% stake in the UAC-Civil Aircraft Management Company, on which the joint Russian-Ukrainian company UAC-Antonov would be based. The joint venture will be engaged in mass production of AN-140, AN-148 and AN-158 passenger aircraft, as well as AN-70 and AN-124 transport aircraft. The two countries may also launch joint production of aircraft engines.

Potential cooperation between Ukraine and Russia in other aerospace projects was also discussed. Vladimir Putin invited Ukraine to participate in the construction of the new Vostochny spaceport, which is being built in Russia’s Far East. The spaceport will give Russia its own independent launch pad into space. At present, all manned flights are launched from the Baikonur spaceport in Kazakhstan, which Russia leases. Construction of the Vostochny spaceport is due to begin in summer 2011; the first rocket launch will take place in 2015, and construction of the whole complex is due to be completed in 2016. The launch of manned spaceflights from Vostochny is expected in 2018.

*RIA Novosti, Expert Online*

**Russian and Tajik Presidents discuss labour migration**

*September 2, 2011*

During an official visit to Tajikistan, Russian President Dmitry Medvedev met with his Tajik counterpart Emomali Rahmon to discuss the problems migrant workers are facing in Russia. Both heads of states underlined the importance of creating decent conditions for Tajik labour migrants in Russia, including their pre-migration vocational training, and of reinforcing these conditions in law. In their joint statement the Tajik President acknowledges that Tajik migrants must abide by the laws of the host country. Both countries condemned manifestations of nationalism and xenophobia, including incitement to hatred and violence against citizens of another ethnicity. They also noted the importance of adopting laws to prevent such manifestations. Cooperation between law enforcement and immigration authorities in the two countries must be improved to that end, they said.

*Expert Online*

**Armenian President visits Russia**

*October 25, 2011*

Armenian President Serzh Sargsyan made a three-day state visit to Moscow on October 23-25. Currently Armenia is Russia’s sole ally in the South Caucasian region. Yerevan is building relations with Moscow, Tehran,
Washington, Brussels and Tbilisi. Armenian policymakers are cooperating with all these states and complying with international commitments. Russia is playing an important role in ensuring the security of the Armenian state, which is sandwiched between Turkey and Azerbaijan.

During the visit various documents were signed, including an agreement on cooperation in humanitarian work; leasing of real estate in Armenia and Russia in order to set up diplomatic missions; a memorandum of cooperation on combating infectious diseases; and a memorandum of cooperation between the Foreign Ministries of Armenia and Russia. Armenia and Russia also signed an agreement on removing double taxation on income and property, which both parties agree will boost cooperation between the two countries.

Fostering trade and economic cooperation with Russia is an important task for Armenia. Today Russia is a major investor in the Armenian economy. Russian companies provide Armenia with consistent natural gas supplies, and are active in the electricity industry. A fifth unit at the Hrazdan thermal power plant is soon to be commissioned. According to Russian President Dmitry Medvedev, Russian investment in Armenia’s economy already exceeds $2.8 billion.

**Somersault in Russian-Tajik relations**

**November 22, 2011**

**November 8, 2011** – A Tajik court has sentenced Russian pilot Vladimir Sadonvichy and his Estonian colleague Alexei Rudenko, who were working for the Rolkan Investments Airline, to eight and a half years in prison each for border violations and smuggling. The two ANTONOV AN-72 transport aircraft they had been flying were confiscated.

**November 11, 2011** – The case of the two convicted Russian airline pilots was discussed at interparliamentary level. Tajik President Emomali Rahmon assured the Russian Ambassador to Tajikistan of his readiness to help Moscow resolve the situation. The pilots’ lawyers, in turn, filed a cassation appeal.

**November 12, 2011** – Tajik President Emomali Rahmon took the case under his personal control.

**November 14, 2011** – Russian President Dmitry Medvedev urged Tajik authorities to reconsider the case against the Russian and Estonian pilots.

**November 15, 2011** – The head of Rospotrebnadzor, Russia’s chief medical officer Gennady Onishchenko, stated that HIV and tuberculosis infection rates are high among migrants from Tajikistan, and suggested that Russia should consider a ban on migrant workers from Tajikistan until the country
can establish satisfactory public health standards. The Federal Migration Service began authorising the detention of illegal migrant workers from Tajikistan. As at November 14, Russian law enforcement agencies have detained 297 migrants.

November 15, 2011 – The Prosecutor’s Office in Tajikistan’s Khatlon region has made an official protest against the conviction of pilots Vladimir Sadovinichy and Alexei Rudenko, sentenced to 8.5 years each in a maximum security penitentiary.

November 22, 2011 – The Cassation Committee of the Khatlon Regional Court overturned the verdict handed down on November 8 and both pilots were released by the court. The Prosecutor’s Office in Khatlon, Tajikistan, stated that a criminal case against the chief executive of the company Rolkam Investmens Ltd., Sergei Poluyanov, has been suspended and will be transferred to Tajikistan’s law enforcement agencies, Afghanistan’s special services and Russia’s Federal Security Service.

*RIA Novosti, Rossiyskaya Gazeta, Vedomosti*

**Kazakhstan, Kyrgyzstan address reservoir problem**

November 28, 2011

The dangers posed by aging dams have prompted greater cooperation between Kazakhstan and Kyrgyzstan as they seek to ensure uninterrupted water supplies and prevent catastrophic flooding.

Relevant authorities in both countries are negotiating the allocation of funding by Kazakhstan to repair Kyrgyz reservoirs vital to both countries. Experts have stressed the need for the two countries to resume relations that were ended by the Soviet Union’s collapse.

The South Kazakhstan and Zhambyl oblasts in Kazakhstan suffer from irregular water supplies; they are also at risk of flooding because of the dilapidation of reservoirs and canals along the border with Kyrgyzstan. Officials of both countries are striving to improve the situation.

In October 2011 Kazakhstan offered Kyrgyzstan $500,000 (73.9 million tenge or 23.4 million Kyrgyz som) to fix reservoirs that, according to Bishkek officials, are vital in providing uninterrupted drinking and irrigation water supplies to Kazakhstan.

Most of the reservoirs’ infrastructure was built in the 1970s to increase substantially the amount of water available to irrigate farmland in the Zhambyl and South Kazakhstan oblasts. The infrastructure has an estimated life span of 100 years.

*centralasiaonline.com*
**ECONOMIC SECTORS**

**OIL AND GAS**

**Belarus**

**Belarus raises tariffs for transit of Russian oil**

*January 11, 2011*

Belarus will increase tariffs for the transit of Russian oil to Europe by 12.5% from February 1, the Belarus Ministry of Economy said. The decision was taken under an agreement between Belarus and Russia on setting tariffs on oil-product transportation via the trunk pipelines of Belarus.

From February 1, tariffs on oil transported through the Gomeltransneft Druzhba and Polotsktransneft Druzhba pipelines in Belarus will also increase by 12.5% compared to 2010.

According to the Belarusian Ministry of Economy, the tariff increase was necessitated by a change in economic conditions surrounding oil supplied by Russia and transported through oil pipelines in Belarus.

*Finam.ru, RBK daily*

**Problems with Russian oil supplies to Belarus**

*January 21, 2011*

In December 2010 the Presidents of Russia and Belarus, Dmitry Medvedev and Alexander Lukashenko, agreed that all export duties on Russian oil processed in Belarus would be transferred in full to the Russian budget. In turn, Moscow would supply oil to Belarus duty-free (the amount planned for 2011 was set at 21.7 million tonnes). These arrangements are valid under the Single Economic Space between Russia, Belarus and Kazakhstan.

However, Russian oil companies cut off oil supplies to Belarus on January 1, 2011 citing an absence of contracts for the year. To protect the profitability of oil deliveries to Belarus and other countries, the Russian oil companies intended to increase the price of oil supplied to Belarus by $45 per tonne. Belarus’ protest over this increase has led to nearly a month of negotiations while both sides tried to reach a solution. Crude reserves at Belarusian refineries have been gradually decreasing, their operations were threatened, and Russia has been redirecting oil meant for Belarus to the Russian ports of Primorsk and Novorossiysk, Gdansk in Poland, and to Russian and Ukrainian oil refineries. The largest deliveries of oil were due to be supplied to Belarus during the first quarter of 2011 by LUKOIL (1 million tonnes), Surgutneftegaz (1 million tonnes) and Rosneft (0.9 million tonnes).
January 25, 2011

Transneft resumed oil deliveries to Belarusian refineries after Minsk agreed to pay $46 per tonne of crude oil. 21.7 million tonnes of oil may be supplied to Belarus this year, including 18 million tonnes delivered by pipelines.

*RBK daily, Vedomosti*

**Agreement on paying customs duties on oil exported from Belarus beyond the Customs Union territory submitted to State Duma**

July 8, 2011

The President of Russia Dmitry Medvedev submitted the Agreement on Customs Duties (and Other Similar Duties, Taxes, and Levies) Payment and Deposit Procedures for Crude Oil and Certain Petroleum Products Exported from Belarus beyond the Customs Union Territory to the State Duma for ratification. The agreement was drafted under a resolution of the Customs Union Commission dated October 14, 2010, and was signed in Moscow on December 9, 2010.

The agreement sets out procedures for the collection and reimbursement of export duties (and other similar duties, taxes and levies) on oil and certain oil products exported from Belarus beyond the CU. It also regulates the collection and reimbursement of penalties for non-payment or partial payment of export duties in cases specified in CU law, the legislation of Belarus and the agreement. The agreement does not apply to the collection and reimbursement of export duties (and other similar duties, taxes and levies) on oil produced in Belarus and then exported beyond the CU.

According to the agreement, liability to pay export duties (and other similar duties, taxes and levies) is regulated by the Customs Code of the CU. Where goods are exported from Belarus beyond the CU, export duties shall be the same as those effective in the Russian Federation on the day the Belarusian customs authorities register the export declaration.

Article 5 of the Agreement stipulates that, given the technological and transport advantages of the republic’s oil refining industry, and the quality of oil, Belarus has the right to set an additional mandatory fee payable to the state budget over and above the export duties paid to the Russian government. Procedures for paying the additional duty and for transferring it to the state budget will be defined by Belarusian laws. Article 6 of the Agreement stipulates that export duties and penalties on goods Belarus exports outside the CU must be paid to Russia in US dollars. The agreement establishes rules additional to the Russian Federation’s laws, and therefore is subject to ratification pursuant to the Federal Law “On International Treaties of the Russian Federation”.

*Finam.ru*
Belarusian gas debt increases

November 15, 2011

Gazprom claims that in the third quarter of 2011 Belarus paid 12% less than the contract price for its gas deliveries. In February-April, and in July 2011, Beltransgaz “violated the terms of its contract” in paying for Russian gas, Gazprom claims. Beltransgaz asked Gazprom if it could defer payment for gas delivered in the third quarter of 2011 and pay $245 per 1,000 m$^3$ (the contract price for the second quarter of 2011). The contract price for the third quarter was supposed to be $279.16. With a total of 4.231 billion m$^3$ of gas delivered to Belarus during the third quarter of 2011, the underpayment is about $144.5 million.

If Belarus were to continue to pay $245 per 1,000 m$^3$ for gas in the fourth quarter, the country’s debt may top $490 million by year-end, given that Gazprom was due to supply Belarus with a total of 6 billion m$^3$ during the fourth quarter at a forecast price of $303 per 1,000 m$^3$ (based on the latest version of the company’s budget for 2011).

Note:

Gazprom and Beltransgaz dispute gas payment almost every year. The latest conflict began after Belarus continued to pay average 2009 gas prices during the first four months of 2010, instead of the higher contract price, which led to a debt of around $190 million. Gazprom threatened to cut supplies and Minsk brought up the issue of Gazprom’s debts for gas transit. Gazprom carried out its threat to cut gas supplies to Belarus for a few days, which meant Europe also faced a reduction in its gas supplies. Fortunately, the conflict was resolved before the EU was affected. This year’s difficulties have not triggered an open conflict between the states. By February, Beltransgaz owed Gazprom $70 million but it paid the debt in April, Gazprom stated in its report for the second quarter of 2011.

Vedomosti

Belarus sells Beltransgaz to Gazprom

November 25, 2011

Intergovernmental agreements on Gazprom’s acquisition of a second 50% stake in Beltransgaz for $2.5 billion were signed during the session of the Supreme State Council of the Union State of Russia and Belarus at the Gorky residence near Moscow. Gazprom purchased the first 50% stake in Beltransgaz back in 2007 for the same price. Along with $2.5 billion payment for Beltransgaz, Belarus was granted a substantial discount on gas prices (in 2012 Belarus will purchase gas at $166 per 1,000 m$^3$ compared to the current $250) and a loan of $10 billion for 15 years for the construction of a nuclear power plant. The deal amounted to a total of $12.5 billion, and with the gas discounts Belarus will be able to reduce its current account deficit from $7 billion to $4 billion per year.

Kommersant, Expert Online, Vedomosti
Russia, Belarus agree upon oil deliveries

December 24, 2011

Russian and Belarusian oil companies agreed terms for Russian oil deliveries to Belarus for refining and subsequent export of oil products outside the CU in 2012-2015. While in 2011 Russia supplied oil to Belarus at a premium of $46 per tonne (Rotterdam netback), in 2012 a discount of $3.7 per tonne will be applied. Moreover, Russian oil companies acquire the right to refine up to 50% of pipelined oil based on contracts with the owners of Belarusian refineries.

Under the CU and SES agreements signed by Belarus, zero-duty deliveries of Russian oil were to begin on January 1, 2011, on condition that 100% of export duties on oil products exported from Belarus outside the CU territory are paid to the Russian budget. The overall loss to the Russian budget is estimated at $2.2 billion. Another 6-8 million tonnes of oil products produced from Russian oil were consumed in Belarus and not subject to export duties. However, Belarus did not receive Russian oil in early 2011. The subsequent export of oil products gave Belarusian refineries extra revenue of over $100 per tonne and Russian companies demanded their share either in the form of a quota on oil refining in Belarus for independent exports of oil products or an additional premium on the oil price. Eventually, the sides shared the extra income equally, agreeing on a premium for Russian companies, which amounted to around $46 per tonne.

However, from October 1, 2011 Russia introduced a new tax regime for the oil industry, the so-called “60-66” regime, which reduces export duties on crude by around 7% and increases duties on oil products from 55% to 66% of the export duty on crude oil with the simultaneous harmonisation of export duty rates for light and heavy refined products.

The gap between the duties on crude oil and oil products contracted significantly, as did the profitability of Belarusian refineries, giving Russian companies the opportunity to snap up processing quotas. By recycling half of the oil they supply to Belarusian refineries, Russian companies will collect the difference between the export duties on oil and petroleum products. However, in monetary terms, it makes virtually no difference.

Ukraine

Russian oil companies bear losses in Ukraine

February 1, 2011

Russian oil companies have suspended their refining operations in Ukraine. LUKOIL closed its Odessa Refinery for reconstruction in autumn 2010, and TNK-BP decided to suspend operations at its Lisichansk Refinery for at least
the first quarter of 2011. In January-September 2010 TNK-BP’s Ukrainian companies (Lisichansk refinery and TNK-BP Commerce) made losses totalling approximately $60 million. If current trends on the Ukrainian oil refining market continue, the company’s losses in Ukraine will amount to $150 million in 2011. The investment programme for 2011 (about $160 million) is currently frozen.

TNK-BP owns Lisichansk oil refinery (the second largest in Ukraine), 150 petrol stations, and around 275 independent petrol stations which are operating under the company’s name.

According to the Ukrainian Ministry of Fuel and Energy, imports of oil products to Ukraine grew from 3.8 million to 4.5 million tonnes in 2010, accounting for about half the market. Because of the “preferential pricing of raw materials”, imported oil products have a cost advantage of more than $100 per tonne over Ukrainian production. Imports from Belarus to Ukraine, thus, grew by 17% during 2010.

The inception of the Single Economic Space and zero-duty Russian oil deliveries to Kazakhstan and Belarus will make imports of oil products to Ukraine even more profitable, exacerbating the Ukrainian refineries’ situation. The smuggling of oil products into Ukraine is increasing and individual companies are taking increasing advantage of tax optimisation schemes. Ukraine must solve the problem by investigating imports of oil products, preventing smuggling and “back-door” trading, and by imposing import duty on oil products. The Ukrainian authorities have already mentioned the possibility of imposing duties, but no final decision was taken. Although such duties would help refiners, they would also trigger further increases in the price of oil products.

Kommersant

New arguments to support Gazprom and Naftogaz merger

February 21, 2011

Gazprom is trying to persuade Ukraine of the feasibility of its merger with Naftogaz. According to Gazprom, the average gas price for Ukraine will reach $280 per 1,000 m³ in 2011 ($264 in the first quarter and $275 in the second quarter of that year), and around $300 per 1,000 m³ in 2012. Meanwhile, gas transit through Ukraine will cost Gazprom $2.7-2.75 billion in 2011, or $100 million more than in 2010. Gas supplies will increase by 9.7% to 40 billion m³. The head of Gazprom, Alexei Miller, stated that the company has no plans to revise the stated contract price downwards.

However, Miller noted that if Ukraine’s state energy company Naftogaz merges with the Russian gas giant, gas supplied to Ukraine will be priced the same as domestic Russian supplies to households and industry. Russian Prime Minister Vladimir Putin first proposed the idea of a merger between Gazprom and Naftogaz in early May 2009.
Moreover, Gazprom CEO said that Russia would make maximum use of Ukraine’s pipeline capacity. The current loading level stands at around 95 billion m$^3$ per year, but with investment the capacity of Ukraine gas transportation system could increase to 125 billion m$^3$ per year. According to Miller, the system could potentially carry up to 140 billion m$^3$ of gas annually.

Miller said that Ukraine’s gas transportation infrastructure requires serious investment over the medium term and that the country should decide how to develop the industry. In 2010 Ukraine allocated $212 million to the modernisation of its gas transportation system and plans to allocate $300 million more in 2011.

**Note:**

Russian Prime Minister Vladimir Putin suggested merging Gazprom and Naftogaz at a Ukrainian Interstate Commission economic cooperation meeting in April 2010 in Sochi. In December 2010 Gazprom head Alexei Miller and Ukraine’s Minister for Energy and the Coal Industry Yuri Boiko agreed to establish two joint ventures, one to produce coal-bed gas in Ukraine and the other to develop the Pallas gas field in the Black Sea. Gazprom and Naftogaz also signed a memorandum of understanding on the production of methane from coal seams. Gazprom’s Board of Directors instructed the company’s executives to continue working with Ukraine on establishing hydrocarbon joint ventures.

*Kommerzent, RIA Novosti*

**Gazprom: Ukraine may benefit from pricing within Customs Union**

April 7, 2011

According to Gazprom estimates, Ukraine could save around $8 billion annually if it joined and benefited from the price regime in the CU. Ukraine currently receives gas priced according to a European price formula.

Whether or not Ukraine will join the CU depends on the country’s negotiations on a free trade area with the EU.

The Ukrainian authorities have repeatedly said Gazprom’s prices are unaffordable for the country’s economy and demanded revision of existing gas contracts. Although Kyiv has already received a discount of $100 per 1,000 m$^3$ of gas, the Government of Ukraine believes the cost is still too high. Ten-year contracts for Russian gas supply to Ukraine and its transit through the country were signed by Gazprom and Naftogaz in January 2009. The gas contract allows for quarterly price changes, which are calculated according to the generally accepted European formula.

In April 2010 the two sides agreed a 30% discount on the gas price for Ukraine with a maximum discount of $100 per 1,000 m$^3$. In return, Ukraine extended the lease allowing Russia’s Black Sea Fleet to be stationed in Crimea.
In 2010 Ukraine imported 36.5 billion m³ of gas from Russia and plans to import around 40 billion m³ in 2011. During the first half of 2011 Ukraine purchased about 27 billion m³ of Russian gas. According to the summer contract between Naftogaz and Gazprom, the gas price is reviewed on a quarterly basis based on an oil price matrix. Thus, the gas price for Ukraine may increase to $354 per 1,000 m³ in the third quarter of 2011 and $388 per 1,000 m³ in the fourth quarter (prices are $264 per 1,000 m³ in the first and $297 per 1,000 m³ in the second quarter of 2011). Ukraine has repeatedly asked for the contract terms to be changed and for the gas price to be tied to coal prices.

*Expert Online, RBK daily, top.rbc.ru*

**Note:**

Gas issue burdens Ukrainian-Russian relations

July 11, 2011

Ukrainian President Viktor Yanukovich has declared there will be no merger between Gazprom and Naftogaz of Ukraine. Gas prices remain a major problem for Kyiv. However, Gazprom chief executive Alexei Miller explicitly linked the possibility of lowering Russian gas prices for Ukraine with the merger of Gazprom and Naftogaz. Thus, the parties have come to a deadlock in negotiations, which will be very difficult to work through.

The merger with Naftogaz could enable Gazprom to influence the Ukrainian gas transportation system (GTS), and thus significantly reduce the export risk on this route. However, its sole participation in modernising the GTS is no longer attractive. Belarus ceded control over its pipeline to Gazprom in exchange for lower gas prices. Ukraine’s reluctance to follow suit is politically motivated.

Raising tariffs for gas transit and becoming embroiled in gas conflicts will eventually lead to a further increase in the capacity of alternative transit routes. Moreover, Ukraine is unable to provide the substantial investment required to modernise the GTS. Kyiv’s insistence on a guaranteed loading level for its gas pipeline appears to be the stumbling block in negotiations on a Gazprom-Naftogaz merger. Given the large-scale transport projects that are aimed at reducing the volumes of gas transiting through Ukraine, Gazprom cannot give such guarantees. However, the conflict of interests may possibly be resolved by Gazprom’s acquisition of a stake in Naftogaz, following the Ukrainian President’s efforts to restructure Naftogaz and prepare the company for initial public offering (IPO). According to Yanukovich, the company is overburdened and does not always function efficiently. He believes its structure should be divided up (Naftogaz incorporates 11 subsidiaries) and the different parts developed individually. Those individual companies should register on world stock exchanges and hold IPOs, he says.

*RBK daily*
Ukraine ready to help LUKOIL in launching Odessa Refinery

July 18, 2011

Ukrainian authorities are ready to help Russian oil major LUKOIL re-launch the Odessa Refinery, which has been idle for nine months. Ukraine’s First Deputy Prime Minister Andrei Klyuyev instructed the Ministry of Energy and the Coal Industry to hold talks with the management of LUKOIL on launching the refinery operations.

Note:

Due to current conditions in the Ukrainian market for petroleum products it has become uneconomic to operate the Odessa refinery. LUKOIL has therefore decided to shift the scheduled maintenance at the refinery from the first quarter of 2011 to the fourth quarter of 2010. Oil refining in Ukraine is uneconomic because Ukraine imports large amounts of oil products from Belarus at dumping prices. Kremenchug and Lisichansk refineries are also making losses due to Belarusian imports. Furthermore the Odessa refinery lost its main oil supply route after the Odessa-Brody pipeline switched to transporting Azeri oil to Belarus.

Russian-Ukrainian gas conflict nearing resolution

September 27, 2011

The gas conflict between Russia and Ukraine reached its height in late summer 2011. On September 1, Ukraine’s Energy Minister announced that from 2012 Ukraine intends to drastically curtail Russian gas purchases to 27 billion m$^3$ (compared to a planned purchases of 41.6 billion m$^3$ 2011) and to submit an appeal to the Court of Arbitration in Stockholm to have the gas contract amended.

On September 2, Ukraine resumed negotiations with Gazprom on curtailing gas deliveries. In addition, Kyiv proposed amending gas transit terms for 2012. By September 5 relations between the two countries had deteriorated further. If talks over the current gas contract fail, it is very likely that Ukraine will liquidate its national energy company Naftogaz, which will force a review of gas contracts between Russia and Ukraine.

On September 17, the Ukrainian authorities expressed their readiness to make concessions on Russian gas supplies in the context of Gazprom’s legally binding agreement with its partners to build the South Stream pipeline, which by passes Ukraine. On September 26, Yanukovich visited Moscow to discuss the possible establishment of a gas consortium, and finally the parties reached a truce. Following talks between the Presidents of Russia and Ukraine, also attended by Russian Prime Minister Vladimir Putin, Russia dropped its insistence on Ukraine acceding to the CU and was prepared to discuss a trilateral gas consortium with the EU on the basis of Ukraine’s gas transportation system. On September 27,
Ukraine announced new terms for Russian gas deliveries. Kyiv is bringing down the price for gas transit in exchange for gas price discounts for consumers in the public and social sectors. The parties’ mutual concessions total $1.5 billion.

*Kommersant, Expert Online, RBK daily*

**MISCELLANEOUS**

**Russia abolishes duties on exports of oil products to Kyrgyzstan**

*January 21, 2011*

From January 1, 2011, Russia lifted duties on oil products exported to Kyrgyzstan. The verbal agreement followed a meeting between Russian Prime Minister Vladimir Putin and his newly appointed Kyrgyz counterpart, Almazbek Atambayev. Kyrgyzstan and Russia have been in talks on introducing preferential duties on exports since mid 2010. Bishkek was keen to reduce vehicle fuel prices. Light oil products supplied to Kyrgyzstan became liable to customs duties from April 1, 2010, resulting in a price increase of over 30%. Kyrgyzstan hoped to cut the purchase price for oil products from the current $550-600 to $400 per tonne.

Russia supplied over 900,000 tonnes of oil products to Kyrgyzstan in 2010, with Gazprom Neft being Russia’s primary vendor, accounting for around 500,000 tonnes of the total supplied.

*RBK daily*

**Belarus ratifies oil transportation agreement with Ukraine**

*April 4, 2011*

Belarus has ratified an intergovernmental agreement with Ukraine on oil transit. According to the Deputy Chairman of Belneftekhim Vladimir Volkov the intergovernmental agreement on cooperation in oil transportation through Ukraine to Belarus, signed in July 2010, was adopted with the aim of diversifying oil supplies to the Republic of Belarus. The agreement allows Belarus to significantly cut the cost of oil transportation by using Ukraine’s oil transportation infrastructure. The cost of transporting oil by rail has decreased from $66 to $42.5 per tonne, while the cost of transporting oil by pipeline has gone down to $15 per tonne.

As part of the agreement, Belarus undertakes to import 4 million tonnes of crude oil from Venezuela by April 2011, using Ukraine’s oil pipeline and rail transportation system. This figure will increase to 10 million tonnes subsequently.

The agreement sets the tariff for oil transportation through both countries by rail at $0.27 per tonne per 10 km, which is $22 per tonne lower than the
previous tariff. Before November 1 the parties are due to agree upon the volume and tariffs of oil transportation through the territory of Ukraine in subsequent years.

**RIA Novosti**

**LUKOIL to raise funds for projects in Uzbekistan**

*June 7, 2011*

LUKOIL, Russia’s largest oil company, intends to raise $500 million to finance investment in the Kandym and Khauzak-Shady oilfields in Uzbekistan.

The consortium of lenders is expected to include international financial organisations, the Asian Development Bank, the Islamic Development Bank and commercial banks: BNP Paribas (Suisse) SA; Korea Development Bank; Crédit Agricole CIB; and UniCredit Group. The commercial loans will be underwritten by the ADB and the Multilateral Investment Guarantee Agency (MIGA).

The project is still subject to approval from the Republic of Uzbekistan. It is expected that financing will be secured by the third quarter of 2011.

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**Note:**

*The agreement on the Khauzak-Shady-Kandym project was signed on June 16, 2004. The Khauzak gas field was commissioned in November 2007. Production is estimated to reach 12 billion m$^3$ of gas per year.*

**Kursiv.kz**

**KMG interested in joint work with Gazprom Neft**

*June 9, 2011*

KazMunayGaz, Kazakhstan’s national oil company, has requested talks with Gazprom Neft on implementing joint projects with Russia. Boris Zilbermints, Gazprom Neft’s Deputy General Director for Exploration and Production, said that Gazprom Neft may offer KMG not only its own assets but third party assets as well.

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**Note:**

*KazMunayGaz, Kazakhstan’s National Oil Company, is owned by Samruk-Kazyna National Welfare Fund. Gazprom Neft (formerly Sibneft) is the oil arm of Gazprom, which owns over 95% of Gazprom Neft’s shares. As of 2010, Gazprom Neft’s consolidated oil production totalled around 52 million tonnes. The company plans to increase its oil production to 100 million tonnes by 2020 under a $70 billion oil business development strategy.*

**RIA Novosti, Kursiv.kz**
Kazakhstan, Russia agree to abolish oil duties

July 18, 2011

Russian President Dmitry Medvedev has signed a federal law “On Ratification of the Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on Trade and Economic Cooperation in Oil and Oil Product Supplies to the Republic of Kazakhstan”.

The document bans the application of export duties and other similar duties, taxes and levies to oil and oil products traded between the two countries.

According to the new law, the relevant authorities of Russia and Kazakhstan will negotiate to balance output, consumption, supply, imports and exports of oil and oil products in both states. The countries will also coordinate volumes of oil delivered by Russia and Kazakhstan to Belarus, and deliveries of crude oil and derivative products between all three states (indicative balance).

Supply of fuels to Kyrgyzstan to be resumed

July 20, 2011

Kyrgyz Prime Minister Almazbek Atambayev visited Moscow to discuss the resumption of Russian oil product supplies to Kyrgyzstan. Omsk Refinery, the main supplier of Russian fuel to Kyrgyzstan, halted deliveries of high-octane AI-92 and AI-95 gasoline to Kyrgyzstan in early July, forcing many petrol stations to close, which led to panic buying, petrol queues and price hikes of 20-25%.

Experts believe that the petrol crisis has political roots. Should the fuel and lubricant crisis be successfully resolved before the elections on October 30, it will considerably improve Atambayev’s chances of winning another term in office.

Note:

Gazprom Neft Asia, which controls around 90% of gas stations in Kyrgyzstan, made an official statement on July 19, saying that the shortages of high-octane gasoline was a result of Russia’s new regulations that tightened quality requirements on goods for Russia’s domestic consumption. As a result, Omsk Refinery, which produces Euro-3 standard high-octane petrol, appeared to be overloaded with domestic product while deliveries to other countries suffered. Gazprom Neft Asia secured supplies of high-octane petrol from other Russian refineries, including the Kuibyshev, Salavat and Astrakhan Refineries. The refineries dispatched the petrol in time for a first shipment on July 21.
**Bishkek may sell its oil and gas industry to Gazprom**

*September 8, 2011*

Gazprom CEO Alexei Miller met with Kyrgyz Prime Minister Almazbek Atambaev to discuss Gazprom’s work in Kyrgyzstan. Miller announced that his company plans to spend 3 billion roubles on oil and gas exploration in Kyrgyzstan. Miller indicated that Gazprom and the Kyrgyz government were working out the final details of Gazprom’s purchase of majority stakes in Kyrgyzgaz and Kyrgyzneftegaz, which together control almost the entire oil and gas industry in Kyrgyzstan.

Kyrgyzneftegaz is the only Kyrgyz company involved in exploring and developing oil and gas fields, transporting and refining oil and selling oil products. Kyrgyzgaz retails gas to domestic consumers and is involved in the transit of Kazakh and Uzbek gas.

Kyrgyzstan’s proven natural gas reserves are very limited and amount to a mere 6 billion m$^3$. Investment in exploration has been insignificant up to now, and it is possible that the country’s reserves could be substantially higher, experts believe. Rough terrain and poor infrastructure have hindered exploration. Annual average gas production of 30 million m$^3$ in Kyrgyzstan is significantly below consumption, which amounts to some 750 million m$^3$.

*RBK daily*

**Kazakhstan to supply gas to Kyrgyzstan**

*September 29, 2011*

KazTransGaz is to sell 300 billion m$^3$ of gas to Kyrgyzgaz as the government of Kazakhstan moves to help its neighbour following Kyrgyzstan’s failure to negotiate gas supplies with Uzbekistan. According to the contract, Kazakhstan will sell the gas at a price of $295 per 1,000 m$^3$, which is $15 per 1,000 m$^3$ lower than the price offered by Uztransgaz for the fourth quarter of 2011. According to Kyrgyz Energy Minister, Askarbek Shadiyev, Uzbekistan sold gas to Kyrgyzstan for $278 per 1,000 m$^3$ in the third quarter of 2011, but raised the price to $310 in the fourth quarter.

In early 2011 Uzbekistan’s actions caused gas shortages in southern Kazakhstan. Reduced gas supplies from Uzbekistan and illegal siphoning off of gas in Kyrgyzstan led to a gas deficit in the southern regions of Kazakhstan. The state managed to make up the shortfall by buying Turkmen gas, delivered through the Turkmenistan-Kazakhstan-China gas pipeline. Potential gas shortages in southern Kazakhstan over winter will be averted by using gas from the Kazakhstan-China trunk line.

*Kursiv.kz*
Turkmenistan boosts gas deliveries to China

November 24, 2011

China signed an agreement with the Central Asian nation of Turkmenistan to boost its future annual natural gas purchases by 25 billion m³. The deal means Turkmenistan’s annual gas sales to China will eventually reach 65 billion m³, equivalent to more than half China’s entire natural gas consumption last year.

The parties did not specify the start date for deliveries of additional volumes of gas. However, gas deliveries will probably not begin before construction of the third Central Asia-China pipeline is completed. The pipeline has a capacity of 60 billion m³ of gas per year, and is due on stream in late 2015. Turkmenistan currently exports just over 12 billion m³ of gas to China annually (based on January-October figures).

A new agreement with Turkmenistan may once again complicate the negotiations between China and Russia’s Gazprom, which have been dragging on for several years without any successful outcome.

Note:

Until recently Russia was the principle buyer of Turkmen gas. However, relations between the two states were strained after an accident on the Central Asia-Centre-4 (CAC-4) gas pipeline in Turkmenistan in April 2009. Although the pipeline was repaired, deliveries of Turkmen gas to Russia were not resumed. Russia began importing again only in early 2010, lifting 10 billion m³ of Turkmen gas per year, down 80% from the pre-accident level (50 billion m³ annually). Turkmenistan had to search for other markets. According to the Bank of Moscow, Turkmenistan exported 21 billion m³ of gas in 2010, including 10 billion m³ to Russia, 7 billion m³ to Iran and 4 billion m³ to China.

RBK daily

ENERGY

Kazakhstan ratifies Kazakh-Russian agreement on construction of third unit of Ekibastuz GRES-2

January 17, 2011

The President of Kazakhstan Nursultan Nazarbayev signed the law “On Ratification of the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on Construction and Operation of the Third Power Unit of the Ekibastuz GRES-2 Power Plant”. The agreement was signed in July 2010. Project costs are estimated at $700 million.

At present the installed capacity of Ekibastuz GRES-2 is 1,000 MW with its two power units accounting for 12% of all electricity produced in Kazakhstan. The construction of the third power unit will increase the installed capacity of the
power plant by 50%. Ekibastuz GRES-2 Station JSC is owned jointly by Russian and Kazakh shareholders (half each by Inter RAO UES and Samruk-Kazyna).

The two countries also signed an agreement on integration and cooperation on the peaceful use of nuclear energy and a Joint Statement by Rosatom, Russia’s State Nuclear Energy Corporation, and Kazatomprom, Kazakhstan’s National Atomic Company.

IA Novosti-Kazakhstan

Russia to invest in Afghanistan’s electricity system

January 21, 2011

Russia’s state-controlled energy trader Inter RAO is to invest $500 million in a project to supply electricity to Afghanistan, Prime Minister Vladimir Putin said during a meeting with Afghan leader Hamid Karzai. The $680 million CASA-1000 project involves the construction of power transmission lines from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan.

Putin said that if Inter RAO bid successfully to be the project’s operator, the Russian company could take an active part in the construction of high-voltage electric power lines as part of the CASA-1000 project, bringing Russian investment to a total of $500 million.

Finam.ru

Nuclear integration

April 4, 2011

Russia and Kazakhstan have signed an agreement on the peaceful use of nuclear energy, which foresees inter alia the construction of a nuclear power plant in Aktau, the first two reactors of which would be commissioned in 2016.

One of the flagship joint projects is a new uranium enrichment centre at the Uralsk Electrochemical Plant. Back in 2007 Russia and Kazakhstan had agreed to construct the International Uranium Enrichment Centre (IUEC) on the basis of the Angarsk Electrolysis Chemical Complex. The IUEC is currently engaged in storing enriched uranium. In the longer term it will also recycle spent fuel from abroad. However, during the EurAsEC summit in 2010 in Astana Russian atomic specialists put forward an alternative proposal for another uranium enrichment centre (UEC) at the Uralsk Electrochemical Plant in Novouralsk.

Russia and Kazakhstan will have an equal stake in the project. Rosatom’s subsidiary, TVEL Fuel Company, purchased 50% of shares in UEC on March 25. The remaining 50% is owned by Kazatomprom. The parties have not yet disclosed any information about the cost of Kazakhstan’s share in the joint venture, the date construction will begin or the investment required.
Kazatomprom has become one of the leading uranium handling companies; however it is unable to perform the enrichment stage of the nuclear fuel cycle. Under certain agreements with Russia, Kazakhstan may become a co-owner of Novouralsk Chemical Plant, gaining access to a guaranteed share of its production and the right to use the plant as it requires. In return Russia will receive a 50% stake in several companies in Southern Kazakhstan, giving the country access to Kazakh raw materials.

Expert Kazakhstan, Expert

Inter RAO resumes electricity supplies to Belarus

July 4, 2011

Russia’s electricity supplier Inter RAO UES has resumed electricity supplies to Belarus after the latter transferred the third and final tranche of its debt in the amount of 611 million roubles. The second tranche of debt was repaid on June 29. Belarus borrowed from BPS-Bank (a subsidiary of Sberbank) to repay its debts for Russian electricity amounting to a total of 1.5 billion roubles.

Chronology of conflict:

Inter RAO UES first announced that Belarus had run into debt for electricity on June 8, 2011. Russia’s electricity supplier warned that it would halt deliveries; however the parties managed to negotiate a delay in payment until July 5. The debt was to be repaid in several tranches. The first tranche of 600 million roubles was transferred within the period stipulated. However, Belarus failed to make the second payment by the June 20 deadline, and Inter RAO UES threatened to discontinue electricity deliveries on June 22. Following talks, the parties agreed to postpone the second payment for another week. However, Belarus once again defaulted and power supplies were cut off on June 29, leading to another crisis in relations between Russia and Belarus.

Unlike gas supply disruptions, power cuts are not critical for Belarus since it produces enough electricity power to cover 90% of its domestic consumption and imports the remaining 10%. Because Belarus uses Russian gas to produce electricity, the cost of domestically produced energy is 30% higher than that of imported power. HPPs produce a small proportion of the country’s energy, and a nuclear power plant is currently in the design phase. At present Belarus is working on importing electricity from Ukraine. Minsk has tried to reach an agreement with Gazprom on freezing gas prices in 2011 and anticipates a price cut in 2012. Belarus is keen to secure pricing identical to Russia’s domestic tariff, since Russia and Belarus will be part of the Single Economic Space from January 2012. But prices for Belarus are currently more than twice as high: in the second quarter of 2011 Belarus was paying $245 per 1,000 m³ of gas and prices are about to rise to $300-$305 per 1,000 m³ by year end. Smolensk region, Belarus’ reference point, buys gas for $106-$117 per 1,000 m³. The conflict continues to escalate. On July 1 Belarus tried to raise tariffs for the transit of oil products by 15.9% to $1.9 per tonne per 100 km. The decision was approved by Belarusian Energy Ministry. However, the head of Gazprom stated that “price conditions of the operating contract for gas deliveries are not liable to variation”. According to experts, Moscow is acting tactically to force Minsk to sell the remaining part of Beltransgaz, the operator of its national gas transportation system.

Kommersant, RBK daily, Expert
Belarus

Moscow, Minsk resume energy cooperation

January 25, 2011

Rosatom chief Sergei Kiriyenko met with Belarusian Prime Minister Mikhail Myasnikovich to plan the timetable for drafting agreements on the construction of Belarus Nuclear Power Plant and a methodology for costing the project. The parties plan to sign intergovernmental agreements on the NPP and parallel operation of power grids in February-March 2011. A master contract for the NPP construction will be signed by September. The first reactor is due to be commissioned by 2017. According to Kiriyenko, the cost of the dual reactor NPP with a total capacity of 2.4 GW should amount to $6-7 billion, or $2,500-2,900 per kW of installed capacity.

Moscow and Minsk have been in talks since 2009 on constructing the first nuclear power plant in Belarus. Negotiations focused on the amount that Russia would lend for the project and on creating a joint venture to sell the electricity produced. Minsk insisted that Russia should finance the construction of the NPP and its infrastructure, and requested a total of around $9 billion. In August 2010, when the foundations of the joint venture were in place, Belarus suddenly pulled out of establishing the company. Now the parties have agreed credit terms and the loan agreement may be signed in June 2011.

A joint venture between Belenergo and Inter RAO UES will sell and distribute power. Both sides signed the agreement necessary to operate their power grids in parallel. The agreement states that electricity produced by the first reactor of the Belarus NPP will be directed to the Belarusian domestic market, while the second unit will produce for export. Resolving the issues relating to the NPP and sales of its output has helped to ease tension in energy relations between Russia and Belarus. Moreover, the agreement specifies the resumption of interstate cross-flows, which were halted by Belarus in early 2010.

Kommersant

Belarus NPP construction faces difficulties

June 29, 2011

The licence to construct a Russian-designed nuclear power plant in the Grodno region of Belarus should be granted by October 2011, head of the Belarusian Energy Ministry’s Nuclear Energy Department Nikolai Grusha said. He added that Belarus would go ahead with excavating ground for the foundations of the NPP in the fourth quarter of 2011 despite the temporary lack of a licence. The senior managers of Atomenergoproekt (a member of the Rosatom group of companies), the lead design company for the Belarus NPP, announced that the initial construction work (i.e., the plant’s foundations)
would begin in autumn 2012, after the technical design had been approved and a construction licence issued. The design of the Belarus NPP is identical to nuclear power plants being built in the Leningrad and Kaliningrad regions of Russia, except for the water supply system.

Despite stiff opposition from neighbouring Lithuania and occasional disagreements between Russia and Belarus on economic issues, preparations for the construction of the Belarus NPP, which will reduce Belarusian consumption of Russian gas by 25%, are under way. Belarus has simultaneously proposed cooperation with the Republic of Korea in the field of nuclear energy. Belarus is keen to train nuclear power specialists, and to share Korean technology for constructing and maintaining nuclear power plants, and protecting personnel from radiation exposure.

Note:
The proposal to build a nuclear plant in Belarus was made by the country’s President Alexander Lukashenko in April 2007 when his country was facing the inevitable rise in prices for Russian gas (95% of Belarusian power plants are gas-fired) and Lithuania’s plans to decommission the Ignalina Nuclear Power Plant, its largest source of electricity, in late 2009. At the time it was decided that the first Belarusian nuclear power station would be constructed by Russia’s Atomstroyexport (part of the Rosatom State Corporation and a leading engineering company with expertise in constructing nuclear power facilities abroad). In addition, Russia was to supply fuel to the power plant for its whole lifetime, evacuate the plant’s nuclear waste back to Russian territory, and provide a loan of $7 billion for its construction. Belarusian contractors were to do most of the construction work. In return Belarus agreed to trade in the electricity output of the NPP jointly with Russia. Russia pledged to grant Belarus a loan for building the two NPP reactor units of Russian AES-2006 design with a total capacity of 2.4 GW. The reactors may be commissioned in 2016-2018.

Ukraine

Russia, Ukraine agree upon joint nuclear fuel production

February 3, 2011

In late January the Ukrainian state-run Nuclear Fuel group of companies and TVEL Fuel Company of Russia drafted a joint venture agreement to produce nuclear fuel for Ukrainian nuclear power plants.

In autumn 2010 TVEL won a tender to build a nuclear fuel plant and signed the agreement on October 27, giving TVEL a 50% minus one share in the joint venture, while Ukrainian Nuclear Fuel will retain the controlling stake. The parties have also resumed technical and economic feasibility studies for the plant, which were suspended after the administration of the then President of Ukraine Viktor Yushchenko switched to partner with Westinghouse. Rosatom and TVEL worked very hard to negotiate the construction of a nuclear fuel plant and long-term fuel supply contracts for the country’s four nuclear power
stations (15 reactors of Soviet designed VVER type) before the current Ukrainian President Viktor Yanukovich came to power.

The parties have not specified any date for signing the agreement and starting construction. It was announced earlier that the plant could start operating in 2012. However, even the location of the plant is still unclear. Ukraine is currently considering four sites, including the Eastern Mining and Processing Integrated Works and Pridneprovsk chemical plant in the Dnepropetrovsk region, and sites in the Sumy region.

_Ukraine may rival Russia in nuclear fuel production_

**September 15, 2011**

Ukraine’s state-run Nuclear Fuel group and Russia’s TVEL Fuel Company (part of Rosatom) have established a joint venture to construct a nuclear fuel plant in Ukraine’s Kirovograd region. The plant will supply fuel to Ukrainian nuclear power stations. The controlling interest in the joint venture belongs to Ukraine. Four Ukrainian nuclear power plants (Zaporozhye, South Ukraine, Rovno and Khmelnitsky) are the largest foreign consumers of nuclear fuel produced by Rosatom. In 2010 TVEL supplied nuclear fuel to Ukraine’s Energoatom National Nuclear Energy Generating Company for a total $608.1 million. As tensions between Russia and Ukraine eased, the states agreed that Russia would build the two new reactor units at Khmelnitsky NPP to cover the shortfall in generating capacity in the western regions of Ukraine. Russia will also grant a discount on the nuclear fuel price. It was also agreed that Russia would build a facility to help Ukraine develop full nuclear fuel cycle technologies, by licensing such technologies on a non-exclusive basis. There were also commitments from Russia to provide uranium enrichment services on a long-term basis and on favourable commercial terms. At the same time Ukraine is continuing to support Rosatom’s rival, Westinghouse, in its efforts to expand its business in the country. Under President Viktor Yushchenko Westinghouse signed an agreement with Energoatom on nuclear fuel supplies to the three reactors of the South Ukraine NPP in 2011-2015 with the prospect of supplying a further six reactors at other Ukrainian NPPs. These deals put Russia in a tricky situation. On the one hand, TVEL and Nuclear Fuel had made joint statements that the construction of a $370 million nuclear fuel production plant based on Russian technology was under way. Meanwhile, in early September Westinghouse’s fuel had already been delivered to the second reactor at the South Ukraine NPP and may be supplied to the Zaporozhye NPP by year-end. Moreover, in August the Ukrainian Energy Ministry published a draft Nuclear Code which states that, for energy security purposes, Ukraine should purchase nuclear fuel from two or more sources, while draft amendments to the Energy Strategy for Ukraine to 2030 suggest legislating for at least two nuclear fuel plants constructed by...
different engineering companies. According to Nuclear Fuel General Director Tatiana Amosova, the Russian-Ukrainian plant will not only cover Ukraine’s nuclear fuel requirements but will also allow Ukraine to export one third of the fuel it produces. So whilst Russia and Ukraine are due to commence construction of a nuclear plant in Ukraine and begin licensing nuclear fuel cycle technologies, Ukraine appears to be giving assurances to Russia whilst looking towards America and possibly considering a Chinese nuclear fuel supply. Thus, by building a nuclear fuel plant in Ukraine, Rosatom risks creating a rival for itself that will start selling nuclear fuel at dumping prices to other players which the Russian nuclear giant traditionally supplies.

FINANCE

Sberbank expands its activity in Kazakhstan

May 19, 2011

The Kazakh subsidiary of Russia’s Sberbank plans to be among the top three lending institutions in the country, Sberbank’s president German Gref said at the Foreign Investors’ Council on May 18 in Astana. Sberbank’s Kazakh arm plans to issue bonds totalling 100 billion tenge ($684 million) by the end of 2012. Currently Sberbank ranks ninth among Kazakhstan’s 39 banks in terms of assets.

During his visit to Astana Gref underlined that Kazakhstan remains an important market for Sberbank.

Earlier Sberbank said that the bank’s growth in Kazakhstan may involve the acquisition of the local BTA Bank. The final decision on this is still to be taken.

Note:

Samruk-Kazyna National Welfare Fund currently owns an 81% stake in BTA Bank.

Development Bank of Kazakhstan, Vnesheconombank sign credit agreement

June 15, 2011

Within the framework of the SCO Interbank Consortium Council meeting, the Development Bank of Kazakhstan and Russia’s Vnesheconombank signed an Addendum opening a $300 million credit facility to the Agreement on the General Terms of Opening a Credit Line concluded on September 22, 2008.

The parties intend to continue financing projects that will ultimately supply Russian products, including industrial goods, and services, to Kazakhstan.
Implementation of the agreements will help promote Russian industrial exports, enhance economic ties between Russia and Kazakhstan, and expand the use of Russian currency in servicing and funding foreign economic activity.

Kursiv.kz

**VTB Kazakhstan granted membership of KASE**

*July 1, 2011*

The Kazakhstan Stock Exchange Board of Directors admitted VTB Kazakhstan, the subsidiary of Russian state-owned VTB Bank, as a member of KASE foreign exchange market on June 30, 2011. The bank is now entitled to engage in trading at KASE.

VTB opened in Kazakhstan and has been offering a range of banking services to corporate and private clients since May 2009.

Kursiv.kz

**New participant on Kazakhstan’s banking market**

*August 4, 2011*

Promsvyazbank, one of Russia’s ten largest banks by assets, is considering opening a representative office in Kazakhstan. Promsvyazbank vice president Anna Belyaeva expressed the hope that Kazakhstan’s banking market would be a lucrative target for the bank’s foreign expansion and noted that the market in Kazakhstan is one of the most important in the CIS. For ten years, Promsvyazbank has been successfully developing interbank cooperation in the region, servicing trade flows between Russia and Kazakhstan.

Kursiv.kz

**Belaruskali to hold IPO**

*June 30, 2011*

Belarus will hold an initial public offering for the potash mining company Belaruskali which accounts for around 15% of global potash fertilizer production, First Deputy Prime Minister Vladimir Semashko announced. Belarus is prepared to place 10-15% of the shares in Belaruskali, Semashko announced. The company is currently 100% state-owned. However, the estimated IPO date and the stock value were not disclosed.

In June 2011 the President of Belarus Alexander Lukashenko valued Belaruskali at $30 billion. Previously, the Belarusian authorities had planned to sell up to 25% in Belaruskali for $6-7 billion. Sources subsequently revealed that the possible sale of a controlling stake in Belaruskali to Nafta Moskva investment
group for $15 billion was being planned. However, Uralkali, the Russian potash giant, was later thought to be the most likely buyer of Belaruskali. Nevertheless, Uralkali’s Director General Vladislav Baumgertner stated that although the acquisition of Belaruskali was of interest, it was highly unlikely a deal will be closed in the short term.

_Reuter_

**Belaruskali raises credit**

*August 15, 2011*

Russia’s Sberbank and Deutsche Bank AG agreed to lend $2.3 billion to Belarusian potash mining company Belaruskali. The loan will be secured against export contracts and a 35% stake in the company as collateral. Belaruskali’s annual revenues amount to around $3 billion, and according to analysts the 35% stake is worth around $5 billion, therefore the collateral would appear viable without the need to account for political risk.

Russia has considered different ways of helping Belarus tackle its financial crisis and dwindling gold and foreign currency reserves. Credit financing in partnership with western banks minimises political risk. The 35% collateral stake in Belaruskali would prevent Belarus selling those shares to companies in Asian countries which, as major consumers of potash fertilizers, are interested in securing stable deliveries and low prices.

_Expert, RBK daily_

**Belarus offers 51% of Naftan as loan collateral**

*September 21, 2011*

The Belarusian government and Sberbank of Russia are continuing to negotiate a $1 billion loan to Belarus, which is prepared to offer government guarantees and 51% of Naftan Refinery shares as collateral, Deputy Prime Minister of Belarus Sergei Rumas said at a press conference in Minsk. Belarus did not want to pledge the shares of Belaruskali, one of its most successful companies, Rumas said, therefore an agreement was reached with Sberbank that the loan would be secured by a government guarantee and shares of another enterprise as collateral.

**Note:**

Belarus had earlier rejected a $2 billion loan from Sberbank and Deutsche Bank on terms offered by the Russian bank including 35% of Belaruskali as collateral.

_Expert Online_
TRANSPORT AND LOGISTICS

Russia enters Kazakhstan’s terminal operations and cargo handling market

April 11, 2011

In mid March TransContainer, the Russian intermodal freight operator, acquired a 67% stake in JSC KedenTransService, a leading private cargo handling operator in Kazakhstan. KedenTransService operates 17 cargo handling terminals across Kazakhstan and owns a fleet of freight locomotives. Kazakhstan Temir Zholy (KTZh), the Kazakh state-owned railway company, will retain a 33% stake in KedenTransService.

The new business will bring cargo handling infrastructure and facilities under one banner, offering door-to-door cargo delivery services. Russia had considered the possibility of entering Kazakhstan’s terminal operations and cargo handling market in May 2009, when Russian Railways and KTZh signed a memorandum of cooperation.

The Kazakh government is aiming to develop railway infrastructure to boost the region’s transit potential (for example, through the construction of the Western China-Western Europe International Transit Corridor, development of the Khorgos International Centre for Boundary Cooperation, construction of the Khorgos-Zhetysu railway and active use of a new Shar-Ust-Kamenogorsk railway line).

Penetrating Kazakhstan’s market is part of a long-term plan by RZD, which, in late 2010, signed a package of documents in Beijing establishing a joint Russian-Chinese venture for railway container traffic.

RZD is simultaneously working on expanding its presence in Europe (for example, laying the 1,520 mm broad-gauge railway line to Vienna; entering the terminal operations market in Slovakia and, in the long term, Hungary, to develop container traffic between Russia and the Adriatic ports). Russia is also pursuing its goal of creating a transport corridor between the Asia-Pacific region and Europe, and Kazakhstan fits neatly into this global scheme.

Analysts predict cooperation between RZD and KTZh in cargo handling could eventually lead to the creation of a single company to manage the railway infrastructure of Russia and Kazakhstan. Another view is that the carriers’ cross-penetration in neighbouring infrastructure will be pursued as part of the CU; however, under current conditions, it would be almost impossible to unite rail infrastructure of both countries.

*Natalia Maqsimchook.* "Chronicle of Eurasian Regional Integration 2011"
Kazakhstan, Russia establish joint venture for grain transportation

June 1, 2011

Rusagrotrans, Russia’s largest transporter of grain by rail, and Kaztemirtrans (a subsidiary of Kazakhstan Temir Zholy) have signed a joint venture agreement on grain transportation. The agreement was signed on June 1 in Sochi, during the Strategic Partnership-1520 railway business forum. The venture will be one of the largest logistics and transport projects implemented in the CU.

Kazakhstan, a major grain producer and wheat exporter, faces an acute railcar fleet shortage. Current demand for railcars peaks at around 8,700, whereas Kaztemirtrans has only 5,200 cars at its disposal, which stand idle during less busy times. However, during the off-peak period, the grain cars could be used for transporting goods between Russia and Kazakhstan. The joint venture agreement targets a fleet of up to 10,000 grain cars. It will be established as a 50:50 partnership with a capitalisation of $90 million. Part of the JV’s registered capital will be paid up in the form of railcars.

Kazakhstan is one of the world’s largest wheat exporters (according to the US Agriculture Ministry, the country produced around 17 million tonnes and exported 7.87 million tonnes of wheat in 2009-2010); however the lack of grain cars limits the country’s export potential. By creating a joint venture exporters of Russian grain will gain an additional opportunity to enter Asian markets using Kazakhstan as a transit route.

Vedomosti, Kursiv.kz

KTZh, VGK agree on freight-car circulation in Kazakhstan

September 27, 2011

Russia’s Second Freight Company (VGK) and Kazakhstan Temir Zholy have agreed that VGK’s freight cars may now be used within Kazakhstan. The parties agreed that all VGK freight wagons listed in the automated fleet registration inventory system, which are leased out and circulate abroad, will be subject to unified tariffs and must carry all relevant documents of carriage when entering and travelling through Kazakhstan.

Note:

Russian Railways established the Second Freight Company (VGK) rail business in 2010. As of late 2011, the company’s total railcar fleet is around 180,000 wagons. VGK provides transport logistics and other services.

RIA Novosti, Kursiv.kz
MACHINE BUILDING INDUSTRY

Kazakhstan, RUSAL to create joint venture to produce railcars

June 10, 2011

Kazakh President Nursultan Nazarbayev has met with RUSAL CEO Oleg Deripaska. The parties discussed the signing of a letter of intent to create a joint venture to produce railcars. The parties agreed to launch an assembly line within 18 months of signing the letter of intent, and a full production cycle in the longer term. According to Deripaska, Russia and Kazakhstan have decided to upgrade facilities in order to increase production capacity by 20%. The parties have also introduced new technologies to reduce emissions from coal burning by around 40 times. Deripaska also briefed Nazarbayev on the performance of the Samruk Energy-RUSAL joint venture at the Bogatyr coal mine.

Note:

RUSAL is Russia’s largest aluminium producer and the world’s second largest producer of aluminium and aluminium oxide (as of 2009). The company was established in 2007. RUSAL’s total capacities are 4.4 million tonnes of aluminium and 12.3 million tonnes of aluminium oxide per year.

Kursiv.kz

Kostanay launches UAZ production project

June 10, 2011

A new plant to manufacture UAZ automobiles has been launched in Kostanay. The first 9,000 cars may be produced by 2015.

The plant is owned by the Sary-Arka Automotive Industry joint venture between Sollers of Russia and Kazakhstan’s Tobol Social and Entrepreneurial Corporation.

The project to mass-produce UAZ branded motor vehicles will cost $2.4 billion. Tobol is allocating 210 million tenge (around $1.4 million) from its own resources. It was initially thought that the Kazakh government would assist with financing, but this is yet undecided, slowing down implementation of the project.

Kursiv.kz

Ukrainian and Russian air companies resume merger talks

November 7, 2011

Ukraine’s largest aircraft manufacturer, ANTONOV, is seeking joint-venture partners to produce AN-148 and AN-158 aircraft. The joint venture may include Voronezh Aircraft Company (VASO, Russia) and Russian financial institutions.
Russia decided to consolidate aircraft manufacturing assets in 2010, but the merger was impossible at the time because the Ukrainian assets are state-owned, and their corporatisation would take at least two years. The two parties currently own a joint venture, which coordinates the production, marketing and sale of aircraft but they have not transferred assets to the joint venture.

According to ANTONOV officials, the aircraft manufacturing concern does not have the resources necessary to independently develop mass production of AN-148 and AN-158 aircraft. Ukraine and Russia have not yet met their declared target of producing 12 and 24 AN-148 aircraft per year respectively.

Experts believe that an aircraft manufacturing joint venture will face fewer difficulties in attracting funds. Nevertheless Ukrainian analysts expressed concern that, given its superior production capacity, Russia is primarily interested in Ukrainian technologies. As a result, some ANTONOV assets may remain unsold. A complete integration of air companies is more profitable to Ukraine.

AvtoVAZ to build assembly plant in Kazakhstan

November 11, 2011

AvtoVAZ, Russia’s largest car maker, has announced plans to build a $500 million assembly plant in Kazakhstan in 2015. The plant will focus on production of the next generation of Lada cars, as well as two models built on Renault-Nissan global platforms. The new plant will have a capacity of 120,000 cars per year and will be located in the East Kazakhstan region of the country.

AvtoVAZ signed a memorandum on strategic cooperation with Kazakhstan’s ASIA AUTO car assembly plant and Yertis Social and Entrepreneurial Corporation on November 10, 2011. The memorandum foresees the establishment of a full-cycle car production plant, including welding and assembly lines, and the production of components.

The first assembly line producing 90,000 cars per year is due to be completed in 2015, and the second line in 2017. According to Kazakhstan’s Ministry of Industry and New Technologies, AvtoVAZ and Yertis will each take a 25% plus one share in the joint venture, while ASIA AUTO will be entitled to 50% minus two shares. The Kazakh authorities have provided land for the plant and have promised to build infrastructure for the site.

The Kazakh-assembled cars will be sold in Central Asia, the Caucasus, Siberia and the Far East region of Russia.
Kazakhstan develops light aviation

November 25, 2011

A new aircraft manufacturing plant, KazAviaSpektr, has been established in the Karaganda region of Kazakhstan. The plant will produce light aircraft under licence from Russia’s MVEN. The total cost of the project amounted to 1.648 billion tenge (349 million roubles or around $11.2 million). In exchange for granting a licence, MVEN was given a 10% stake in the new plant. KazAviaSpektr will produce light aircraft, including Farmer-2 and Farmer-500 aircraft used for treating agricultural land with chemicals. The plant will reach its initial estimated capacity of 36 Farmer aircraft per year in 2012.

The Kazakh government will become the plant’s major customer. At present 80% of Kazakhstan’s aircraft park consists of Soviet-era planes, which are obsolete.

KazAviaSpektr is Kazakhstan’s first aircraft manufacturing plant.

Kazakhstan’s plant to produce Kazan aircraft

December 28, 2011

Kazakhstan’s first aircraft manufacturing plant will make 12 Farmer-2 agricultural aircraft, designed by Russia’s MVEL (Kazan), in 2012.

Plans to build Farmer agricultural aircraft were included in Kazakhstan’s Industrialisation Map and therefore the project received state support. The project helped create 125 new jobs. Initially the factory will assemble aircraft from kits. It also has facilities for moulding polymer composite components. Initially some parts and plane units will be supplied from Kazan. However, the Kazakh plant will eventually be able to produce the entire aircraft, with a capacity of around 50 planes per year. Kazakhstan’s demand for Farmer aircraft is estimated at approximately 500 planes; the plant has already received its first 100 confirmed orders.

Belarus sells stake in MTS JV

September 7, 2011

The State Property Committee of Belarus has announced an auction to sell the Belarusian government’s 51% stake in mobile operator MTS Belarus. The auction has been scheduled for December 1, 2011. Bids are being accepted until November 15, 2011. In July, the State Property Committee Chairman
Georgy Kuznetsov said the Belarusian government valued the 51% stake in MTS Belarus at $960-970 million.

Note:
The Belarusian-Russian limited liability company Mobile TeleSystems (MTS) has been providing GSM 900/1800 mobile communication services in Belarus since 2002. UMTS-based services have been available since 2010. The founders are the Belarusian landline communication monopoly Beltelecom (51% of MTS’s registered capital) and the Russian mobile company Mobile TeleSystems (49%).

OTHER SECTORS

Kazakh-Russian space cooperation

January 17, 2011

Kazakh President Nursultan Nazarbayev has signed into law the ratification of the Russian-Kazakh intergovernmental agreement on cooperation in space research and the use of space for peaceful purposes, which was signed on May 22, 2008.

The agreement aims to create the necessary legislation and institutions to support mutually beneficial cooperation in the exploration and use of outer space. It regulates the partners’ use of intellectual property, confidential information, export controls and customs regulations. It also provides for tax breaks and preferential trade partnerships on goods from countries that are not party to the Customs Union of Russia, Belarus and Kazakhstan.

The implementation of the agreement will facilitate joint space projects, the application of joint research and development work, and, consequently, the creation of a space industry in Kazakhstan. Russia and Kazakhstan will work together in Earth remote sensing; the development of spacecraft, launch vehicles and other equipment; the creation of ground-based space infrastructure; and in other spheres.

IA Novosti-Kazakhstan

Kazakhstan signs KazSat-3 agreement with Russia

June 21, 2011

Kazakhstan’s National Space Agency (Kazkosmos) and Russia’s Reshetnev Information Satellite Systems (ISS) have signed a deal to build the KazSat-3 telecommunication satellite.

ISS announced that it had contracted Thales Alenia Space, the European leader in satellite systems, to supply the KazSat-3 communications payload. The satellite will be based on the Express-1000N platform developed by ISS and
will be integrated and tested in ISS’ premises at Zheleznogorsk, Russia. The satellite is expected to be ready for service within 2.5 years and will have a 15-year service life and provide TV, radio, and broadband internet services.

Thales Alenia Space and ISS began jointly marketing satellites based on ISS’ Express-1000 platform in the early 2000s. Combining ISS’ and Thales Alenia Space’s products and skills to serve the Kazakh market emulates other important international projects, e.g., Amos-5 (an Israeli satellite) and Telkom-3 (Indonesia).

**KazSat-2 launched**

*July 16, 2011*

Russia’s Proton-M booster rocket with a Breeze-M upper stage carrying a KazSat-2 geostationary communications and broadcasting satellite was launched from Baikonur on July 16, 2011.

The KazSat-2 satellite was placed into geosynchronous orbit at 86.5 degrees east longitude. The satellite has 16 active transponders; four of them will provide continuous TV broadcasting and the remaining 12 Ku-band transponders will handle fixed communications. Its launch mass was 1,330 kg, and its expected lifetime is 12.5 years. The contract to build the second KazSat-2 national satellite was signed in 2006 by the Kazakh Republican Space Communication Centre and the Khrunichev State Research and Production Space Centre. French company EADS-Astrum developed the satellite control system.

**Pharmstandard acquires 55% stake in Ukraine’s Biolek**

*January 19, 2011*

Leading Russian pharmaceutical company JSC Pharmstandard has announced the acquisition of 55% stake in the Ukrainian company Biolek. The move followed the Ukrainian Antimonopoly Committee’s decision in November 2010 to grant permission for the purchase of over 50% of the shares of Biolek. The deal was financed from Pharmstandard’s own funds.

Biolek, one of Ukraine’s top-20 pharmaceutical companies, produces immunobiological products, vaccines, serums, diagnostics products, culture mediums and blood products, as well as hormonal, antiviral, antibacterial and enzymatic agents.

According to unaudited data, Biolek’s sales reached $13.3 million in 2009, while 2010 projected sales will reach $17.7 million (a 23.3% increase year-on-year). Exports account for 23% and domestic sales for 77% of the company’s revenue.
Pharmstandard Director General Igor Krylov noted that Biolek is the company’s first acquisition in Ukraine. The Ukrainian market is the second largest after Russia in terms of sales volume. Pharmstandard’s current product range will be diversified with vaccines and serums, oncological and immunobiological drugs. Biolek’s products are largely sold in Russia; Pharmstandard plans to increase sales on the Russian and overseas markets.

Finam.ru

RUSAL may stop aluminium production in Ukraine
April 11, 2011

Due to unresolved electricity pricing issues, RUSAL may disable all electrolysis units at the Zaporozhye Aluminium Plant, leaving only the foundry division functioning. RUSAL has long been trying to negotiate differentiated electricity tariffs for the plant. Due to the high cost of electricity, aluminium production at Zaporozhye Plant is unprofitable. In order to reduce losses to breakeven point RUSAL had to raise its prices in March. However, this made its products uncompetitive, and stocks began to accumulate, leading to a gradual shutdown of the plant’s electrolysis units.

Note:

RUSAL, one of the world’s leading aluminium producers, accounts for around 10% of both the global aluminium market and the global aluminium oxide market. The company operates in 19 countries and exports its products mainly to Europe, North America, South East Asia, Japan and Korea.

RIA Novosti

AGRICULTURE

Russia halts milk powder exports from Belarus
May 19, 2011

Russia has limited shipments of milk whey and milk powder from Belarus, but has placed no restrictions on the supply of butter and cheese. In late 2010 the agriculture ministries of both countries signed a food balance for 2011, defining the precise amount of mutual supplies of foodstuffs. According to the document, Belarus would supply to Russia 65,000 tonnes of skimmed milk powder (compared to 32,000 tonnes in 2010), 20,000 tonnes of whole milk powder (12,000 tonnes in 2010), 50,000 tonnes of concentrated milk (40,000 tonnes in 2010), 70,000 tonnes of butter (50,000 tonnes in 2010), 125,000 tonnes of cheese and cottage cheese (116,000 tonnes in 2010).

Belarus suspended deliveries of milk whey and milk powder to the Russian market from May 18, 2011. Belarus is abiding by the commitments it made under a dehydrated milk agreement with Russia, and does not export such
products to Russia so as not to harm the interests of Russian farmers, Russian Minister of Agriculture Elena Skrynnik said.

Note:

The current tensions between the two countries came as no surprise to the market since they arise every year during the “big milk” period. In June 2009 the Federal Service on Customers’ Rights Protection and Human Well-being Surveillance (Rospotrebnadzor) banned exports of 1,500 types of Belarusian dairy products to Russia. Belarus responded by introducing partial customs controls at its border with Russia. The “Milk War” was brought to an end after the two governments agreed technical terms and the volume of dairy imports into Russia. In mid May 2010 supplies of powdered milk from Belarus were stopped again until July. This year, due to the macroeconomic situation, the Belarusian Agriculture Ministry is taking a tougher stance in negotiations. The Belarusian rouble has been devalued, the country needs currency, and dairy products are the country’s major export commodities.

RBK daily, Kommersant

Kazakhstan squeezes Russian grain traders

October 3, 2011

Russian grain exports have reached a record high of more than 9 million tonnes in just three months. To maintain the flow of exports, the Russian government is ready to reduce the tariff on transporting grain by rail to seaports. However, further expansion of Russian grain exports may be hampered by Kazakhstan, which is expecting a record grain harvest this year. Last week, for example, Egypt purchased 120,000 tonnes of grain from Russia and another 120,000 tonnes from Kazakhstan. The Kazakh government is subsidising rail transportation via Russia to the Mediterranean markets. The number of grain carriers is expected to double as Russian transport companies lease further rolling stock. According to the Kazakh Minister of Transport and Communications, Berik Kamaliyev, Kazakhstan Temir Zholy, the state-owned railway company, agreed to lease 5,500 Russian grain cars, including 4,000 grain carriers from Rusagrotrans, 1,000 cars from Tekhnotrans, and 500 cars from Baltic Grain House.

RBK daily

MILITARY AND POLITICAL COOPERATION

CSTO promotes collective security initiatives

February 16, 2011

Kyrgyz President Rosa Otunbayeva welcomed a delegation of the CSTO Secretariat headed by CSTO Secretary General Nikolai Bordyuzha. She acknowledged the urgent need to strengthen Kyrgyzstan’s state border. Otunbayeva said that Kyrgyzstan regards the CSTO as a key regional organisation ensuring the security of its member states. One of the country’s vital tasks is to protect and strengthen its borders. Decisions made by the CSTO on providing
military and technical aid and equipping border troops are also important, she noted.

Following a meeting with senior officials in the Kyrgyz Defence Ministry the parties evaluated the results of Kyrgyzstan’s military and technical cooperation with CSTO countries during the tragic events in the summer of 2010, discussed the prospects of further cooperation within the CSTO, and exchanged opinions on the current social and political situation in Kyrgyzstan. Bordyuzha said the purpose of his visit was to study Kyrgyzstan’s newly established system of governance and discuss a number of procedural issues with members of Kyrgyzstan’s government and the Prime Minister.

The CSTO delegation has suggested setting up a committee of chiefs of general staff and chiefs of armed service staff of the CSTO member states’ armed forces. A special Central Asian military grouping may be created to strengthen collective security. The multilateral grouping will comprise the Collective Rapid Deployment Forces (CRDF) and CRRF, as well as national military formations and troop units.

According to the CSTO Secretary General, the time is right to consider a coalition air defence force, as part of a Joint Air Defence System, headquartered in one of the region’s states.

Joint Air Defence System

April 14, 2011

Kyiv hosted a meeting of the CIS Air Defence Coordination Committee of the CIS Defence Ministers’ Council to harmonise draft interstate agreements on establishing regional air defence systems in the Caucasus and Central Asian regions. Russia’s Defence Ministry did not specify a date for the possible signing of the agreements.

Ukraine

Russian Defence Ministry plans to buy ANTONOV AN-70

April 19, 2011

On April 17-19, 2011 Russian Defence Minister Anatoly Serdyukov met with his counterpart Mikhail Yezhel in Ukraine. The sides discussed military and technical cooperation between Russia and Ukraine and visited several military enterprises and military facilities in Crimea. The Defence Ministers met with Ukrainian President Viktor Yanukovich to discuss Russian-Ukrainian military relations.
Serdyukov visited the NITKA ground-based naval pilot training centre, which Russia uses for training pilots of deck-based aircraft. The Ministers discussed the possibility of training cadets on Russian and Ukrainian naval vessels, and opportunities for the military academy faculty staff in both countries to exchange expertise.

The two Defence Ministers toured the Black Sea Shipyard and the Shipbuilding Plant named after 61 Communards. In addition, the Russian Minister visited the ANTONOV State Aircraft Manufacturing Concern in Kyiv, where he discussed the Russian-Ukrainian project to build AN-70 medium military freighter and modernise AN-124 heavy military transport aircraft. According to Serdyukov, Russia’s Defence Ministry is interested in procuring AN-70 aircraft and is currently working on a joint venture to produce the planes in Russia. Russia will be ready to buy AN-70 aircrafts from 2015-2016, he said.

**RIA Novosti**

**Black Sea Fleet remains controversial**

**May 13, 2011**

The April 2010 “Kharkov agreements” on extending the lease of a naval base to Russia’s Black Sea Fleet until 2042 have not resolved all outstanding issues. Russia and Ukraine have therefore agreed to establish a commission on Black Sea Fleet operations. The commission, made up of representatives from the Defence and Foreign Ministries of both states, will deal with contentious issues, such as the movement of Russian military units beyond the range of permanent deployment in Sevastopol.

In January 2011 the parties agreed that the two fleets could use lighthouses in Crimea (previously, navigation facilities have been the subject of heated debate). In addition, experts are considering options for Russia’s greater participation in the social and economic development of local communities close to where Black Sea Fleet military personnel are stationed.

Russia and Ukraine also agreed to draw up an inventory of land and real estate rented by the Black Sea Fleet. According to the 1997 Big Treaty, Russia leases 3,312 ha of land in Sevastopol and around 15,000 ha in Crimea. The Black Sea Fleet may now be in a position to relinquish five land plots covering a total 749 ha in the centre of Sevastopol because they are no longer strategically significant. If the Sevastopol authorities find investors for their development, Moscow will release this land. However, the plots may be placed at Russia’s disposal at short notice once again. The estimated cost of investment projects, which could be located on former naval land, amounts to $1.7 billion. Ukrainian investors do not have such sums, and foreign investors appear reluctant to invest in Crimean real estate. Russia therefore remains the only qualified potential investor in such large-scale commercial projects.

**Expert Online**
Ukraine to charge more rent for hosting the Black Sea Fleet

November 18, 2011

Ukraine’s Cabinet of Ministers has recommended that the authorities in Sevastopol should set the rental charges on land used by Russia’s Black Sea Fleet at a rate of 3% of their regulatory and monetary value in 2013 and at 4% in 2014. The Cabinet also believes that Ukraine’s State Land Resources Agency, its Foreign and Defence Ministries and the State Property Fund should harmonise agreements on inventory and valuation of land used by the Russian Black Sea Fleet in Ukraine by 2013.

Inventory of the Russian Black Sea Fleet’s non-military facilities in Crimea began, as agreed, on October 6, 2011. The Cabinet intends to compensate local authorities for any shortfall in their budget revenues caused by the deployment of the Black Sea Fleet on Ukrainian territory. Ukraine’s Finance Ministry has suggested that the draft law on state budget should include additional subsidies.

In April 2011, the Ukrainian Foreign Minister Konstantin Gryshchenko said that the market value of the facilities leased to the Fleet will be calculated after the inventory of real estate is concluded.

Note:

From May 28, 2017 Russia will pay Ukraine $100 million annually in return for stationing the Black Sea Fleet in Crimea. Russia’s reduced rent will be calculated as 30% of the price of gas supplied to Ukraine.

Expert Online

Central Asia

Russia to extend lease of Tajikistan military base

September 2, 2011

The Russian President Dmitry Medvedev and the Tajik President Emomali Rahmon have given their Defence Ministries the task of preparing an agreement, for signature in early 2012, extending Russia’s lease of a military base in Tajikistan by 49 years. Following bilateral negotiations in Dushanbe, Medvedev noted that this agreement must be put together carefully, and must balance the interests of both Tajikistan and Russia.

Note:

The Russian base in Tajikistan was set up in 2005 on the premises of the former 201st Motorised Rifle Division, a remnant of the Soviet period. The initial agreement signed in April 1999 and implemented in 2004 allowed the base to function until 2014. Russian military units are located in Dushanbe, Qurghonteppa and Kulab.

Expert Online, RBK daily
Central Asian states create joint disaster response centre

September 12, 2011

The Minister of Emergency Situations of the Republic of Kazakhstan Vladimir Bozhko, and the Minister of Emergency Situations of the Kyrgyz Republic Bolotbek Borbiyev have signed the Agreement on Establishing the Intergovernmental Central Asian Centre for Disaster Response and Risk Reduction. Tajikistan’s State Committee for Emergency Situations and Civil Defence will sign the document later.

The Centre will be headquartered in Almaty and its remit is to improve regional cooperation and coordination in responding to disasters and reducing risk, thereby enhancing solidarity and improving the safety of people living in the Central Asian region.

The Centre will regularly assess regional risk and response to transborder emergencies. Information and communication systems will be established to ensure effective risk assessment. The real-time gathering, processing and analysing of information will help monitor and prevent emergencies, and will be vital in launching early warning systems. A decision has been taken to create a data and geoinformation system to assess natural and man-made hazards to the population, infrastructure and geographic areas. All systems and databases will be integrated into international monitoring systems and networks for natural and man-made disasters. The Centre will also hold international exercises, rescue missions and humanitarian operations in Central Asia and other countries.

It is anticipated that the Central Asian Centre for Disaster Response and Risk Reduction will strengthen member states’ national platforms or other multi-disciplinary mechanisms for reducing disaster risk in the region.

Russia, Kazakhstan to set up joint air-defence system

September 22, 2011

According to Colonel General Valery Gerasimov, deputy chief of the General Staff of Russia’s Armed Forces, Russia and Kazakhstan are planning to set up a joint air defence system in the near term.

Russia already operates bilateral regional air defence systems with Belarus and Armenia and is planning a similar arrangement with Kazakhstan. Gerasimov noted that a bilateral air defence system with Kazakhstan could be created “in the nearest future”. At present Kazakhstan’s air defence system is part of the Joint CIS Air Defence System.
US military base to remain in Kyrgyzstan till 2014

November 23, 2011

The Manas US military base will remain in Kyrgyzstan till the year 2014, as agreed by Kyrgyzstan and the United States, Kyrgyzstan’s outgoing president Roza Otunbayeva said. She stressed that the base is vital for the international coalition force in Afghanistan. The fate of the Manas base after 2014 will depend largely on the situation in that country. Otunbayeva said that President-elect Almazbek Atambayev had suggested that the base should be closed when the lease expires and the capital’s main airport, Manas, should be transformed into a civilian transit centre. Otunbayeva backed this proposal, noting that Kyrgyzstan needs a big transport hub to handle goods shipped from west to east and vice versa.

Note:
The Manas base was established in late 2001 after the United States went to war against the Taliban and al-Qaeda in Afghanistan. The military base, which was subsequently renamed the Transit Centre, now accommodates about 1,200 American soldiers.

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