We provide our readers with this chronicle of integration events which illustrates the progress of economic cooperation and integration in the post-Soviet space. This is the third time our digest has been published; the first two issues appeared in the previous Yearbooks, covering 2007 and 2008.

The main highlight of 2009 was, undoubtedly, the formation and launch of the Customs Union of Belarus, Kazakhstan and Russia. This organisation is still in the process of fine tuning. As of Spring 2010, a number of important issues are awaiting decisions, including the procedure of distributing customs duty revenue among the member countries, and adjustment of the Single Customs Tariff rates. Importers are reporting the first problems they have begun to encounter with the new rules and standards of the Customs Union. However, despite all the difficulties of its inception period, the Customs Union is a huge step towards optimising the conditions for the economic development of its member states. Today, the prospects of expanding its membership are already being discussed, as Tajikistan, Kyrgyzstan and Ukraine all announced their intention to join. Finally, the Presidents of the three Customs Union countries adopted a decision to create a single economic space – a task that is expected to take two years to complete.

The intention to join the WTO as a single regional grouping that was announced by Belarus, Kazakhstan and Russia provoked wide international response. Eventually the three countries settled on joining the WTO individually, but in a coordinated manner.

All regional integration organisations were very active in 2009, as their member states strove to develop common approaches and measures to overcome the financial and economic crisis. In particular, the EurAsEC $8.5 billion Anti-crisis Fund was established. In parallel with that, the SCO and the CIS have been studying opportunities to use the national currencies of their member states in mutual payments, and to create common energy markets. In all these organisations, high-level meetings were held and a number of
important documents were signed on socioeconomic cooperation and collective security. The heads of the five CSTO states signed an agreement establishing the Collective Rapid Response Force.

The political news from the past year gives witness to tangible developments in the relations between post-Soviet countries. The Presidents of Russia and Tajikistan reached an agreement on settling of Tajikistan’s debt for supplied electric power, and implementing energy projects. Ukrainian-Belarusian relations improved as these two countries agreed that Ukraine will repay its debt by supplying electric power to Belarus at a preferential rate. At the Summit of the Heads of CIS states held at the end of the year Russia and Ukraine settled the issue of reducing gas import by Ukraine and agreed that Gazprom will not impose sanctions against Ukraine for its failure to take the ordered quantities of gas over the past year. Russia and Belarus settled their discourse that begun with the “milk conflict” and reached their peak when Belarus turned down chairmanship of the CSTO and suspended the operation of the Unecha-Ventspils pipeline section. After these issues were all resolved, Russian milk producers gained access to the Belarusian market.

The oil and gas and energy sectors remained a focus of attention throughout the year. In addition to the traditionally complex Russian-Ukrainian differences centred around the terms of purchase and transit of gas, new problems were reported in this sector. As a result of an accident on the main pipeline in Turkmenistan in April 2009, supply of Turkmen gas to Gazprom discontinued. Friction developed between Turkmenistan and Azerbaijan over the division of oil and gas resources in the Caspian. At the end of the year Moscow and Minsk also had heated debates over the transit of Russian gas via Belarus and export of oil to that country. In December, the opening ceremony of the Turkmenistan-China pipeline was held with the participation of the Presidents of Turkmenistan, Kazakhstan and Uzbekistan. This pipeline undermines Gazprom’s monopoly in Central Asia. On the whole, during the past year all oil and gas producing countries made attempts to revise the format of their relations with Gazprom, a long-standing Russian monopoly. The year also saw a series of crises in the electric power sector, specifically, the withdrawal of Uzbekistan from the Unified Electric Power System of Central Asia.

Investment activity slowed in other sectors, as can be judged by the insignificant number of transactions with the participation of Russian players in the banking and mining sectors. By contrast, China expanded its presence in the region and strengthened its positions in the energy and transport and transit sectors.

However, as general conclusion, joint efforts to overcome the crisis stimulated cooperation between post-Soviet countries, and thus the integration process gained pace during the past year.
Regional Organisations' News

CIS

The CIS Council of Heads of Governments in Astana

May 22, 2009

The CIS Council of Heads of Governments was held in Astana. During the session the participants discussed and reviewed 22 draft documents on regulation of the interstate cooperation in economic, humanitarian and information spheres, as well as ensuring the security measures in the CIS member countries.

The participants signed the Action Plan for the implementation of the first stage (2009–2011) of the CIS economic development strategy to 2020. The implementation of the strategy includes three stages: the first stage will be implemented from 2009 to 2011, the second stage – from 2012 to 2015 and the third – from 2015 to 2020. The Action Plan envisages the widening of interaction between the CIS member states in industrial production, implementation of interstate energy programs, transport, agricultural sector (with a view of increasing the competitiveness of produced goods), and the introduction of innovative technologies. Sections of the Plan touch upon boosting cooperation in mutual trade, fuel and energy industry, energy saving, monetary and financial sphere, exploration and use of space, as well as the protection of the environment.

One of the key directions of the CIS activities is cooperation in the sphere of security, fighting against crime, maintaining and strengthening the international security and stability, as well as combating new challenges and threats. The heads of governments of the CIS member countries signed an agreement on the exchange of information on crime control.

Information and Analytical Department of the CIS Executive Committee

Cooperation in Energy Policy Development

May 25, 2009

The key field for interaction between the CIS member states for 2009 is energy. A working group, established early this year, is developing a Concept for energy cooperation between the CIS states for the period to 2030 and an action plan for the implementation of the Concept. The Concept is based upon the prioritisation of economic interests of the CIS member states. It aims at improving the efficiency of production and consumption of energy, the reliability of energy supply and environmental security. The key directions for cooperation are:
• the organisation of a common electric power market, improvement of cooperation in enhancing the reliability of parallel work of the power systems of the CIS member states;

• interaction in compiling future forecasts for production and consumption of energy resources of the CIS states;

• balancing adjustment of flows of energy resources exports to European and Asian markets.

Issues of cooperation in nuclear power were excluded from the Concept. This field of cooperation will be carried out within the framework of the "Cooperation Atom-CIS" programme.

Information and Analytical Department of the CIS Executive Committee

Georgia Completes Withdrawal from the CIS International Treaties and Decisions

August 18, 2009

A formal procedure of Georgia’s withdrawal from the Commonwealth of Independent States (CIS) was completed on August 18, 2009. Starting this moment CIS international agreements, as well as decisions made by CIS agencies cease to have effect in Georgia. However, the country remains a party to an array of important multilateral economic agreements in fields of trade, transport and intellectual property protection. For example, the multilateral agreement on conducting a systematic policy in the field of standardisation, metrology and certification will continue to be in effect. Georgia decided to keep its membership in the Organisation for the Cooperation of Railways (OSZhD). Moreover, the country remains a party to agreements on International Railway Freight Traffic and Interstate Transportation of Dangerous and Explosive Loads. Georgian Railways LLC is a member of the International Union of railways.

As for intellectual property, agreement on cooperation in the field of protecting the author’s and allied rights and agreement on reporting and restraining imitated trademarks and geographic signs stay in effect as usual. Earlier Georgia filed a request to the CIS for working out a proposal for the country’s participation in the Rules for defining the country of origin of goods that were affirmed by the CIS Council of Heads of Governments on November 30, 2000.

On August 14, 2008 the Parliament of Georgia abrogated the agreements, which define the country’s membership in the CIS. On June 10, 2009 Georgian president, Mikhail Saakashvili, announced Georgia’s withdrawal from the CIS. On June 12, 2009 the Parliament of Georgia unanimously adopted two resolutions “On the Interparliamentary Assembly of the CIS” that officially conclude the procedure of Georgia’s withdrawal from the Commonwealth.

RIA Novosti
Summit of CIS Heads of States in Chisinau

October 9, 2009

The main issues on the agenda of the summit touched upon a draft resolution on joint measures to mitigate the consequences of the global financial and economic crisis, possible use of CIS member states’ national currencies in mutual settlements, as well as inspection of the CIS contractual and legal base, taking into account Georgia’s official withdrawal from the Commonwealth in August 2009. The participants of the summit gave their assent to 22 documents, including a concept of coherent border policy for the CIS member states, an agreement on establishing a council of leaders of the CIS agencies for control over the trafficking of drugs, psychotropic substances and their precursors, as well as the fight against their illegal turnover. One of the most important results of the summit was the establishment of an expert group on settlements in national currencies.

During the summit, Russia, which will chair the CIS in 2010, officially presented its concept and an action plan for the concept’s implementation. These documents foresee further boosting the multilateral interaction within the framework of the CIS, improving the efficiency of decisions made in the fields of economy, migration and energy.

The leaders of Uzbekistan, Kazakhstan, Tajikistan and Turkmenistan did not attend the summit.

RIA Novosti

The Session of the CIS Council of Heads of Governments

November 20, 2009

A session of the CIS Council of Heads of Governments was held in Yalta. During the session the participants discussed the economic situation in the CIS member states, joint measures to minimise the consequences of the global financial crisis, as well as projects being implemented within the CIS. During the session the participants made concerted decisions on 26 issues that were on the session’s agenda.

The participants of the session adopted a Plan for the implementation of the CIS joint measures for coping with the consequences of the global financial and economic crisis for 2009–2010. The Plan foresees measures for improving the sustainability of the banking systems. It also envisages the signing of agreements on the legal regulation of mutual access by the resident banks of CIS member states to the national currency markets, as well as general political principles of foreign exchange regulations and currency control. According to the Plan, an expert group will be established to study the possibility of using the national currencies of CIS states in mutual settlements.
settlements; introducing a coordinated policy that supports the local market of the industrial sector, foodstuffs and other products; as well as ensuring the exchange of information on the state of competition on socially important and infrastructural markets.

Energy was the key sphere of interaction within the framework of the Commonwealth in 2009. During the session the heads of governments reviewed an array of important documents, including the Concept of energy cooperation. The heads of governments approved the Agreement on cooperation in using the national power systems’ interstate transmission lines. Moreover, the participants of the session approved a draft agreement on the coherent development of the international transport corridors of the CIS member states.

The next regular session of the CIS Council of Heads of Governments will be held on May 21, 2010 in Moscow.

\textit{CIS Executive Committee}

\textbf{The CIS Member States Selected Macroeconomic Indicators in 2009}

The CIS Interstate Committee on Statistics does not have data on industrial production in Turkmenistan. In addition, it stopped publishing information on Georgia, which officially withdrew from the CIS in August 2009.

The maximum GDP growth on the CIS was recorded in Azerbaijan – 9.3%, and Uzbekistan – 8%. GDP in Kyrgyzstan grew by 2.3%, in Tajikistan by 3.4%, in Kazakhstan by 1.2%, in Belarus by 0.2%. In Armenia, GDP fell by 14.4%, Ukrainian GDP decreased by 15.0%. The decrease in Russian GDP in 2009 was 7.9%. Moldovan GDP went down by 7.3%.

According to the CIS Interstate Committee on Statistics, industrial production in Kazakhstan in 2009 grew by 1.7%. Azerbaijan saw a 7.4% growth in the production sector, Uzbekistan – 9%. Other CIS countries recorded decline in this indicator. The sharpest decline in production among the CIS member states was marked in Moldova (22.2%). In Ukraine it was 21.9%, in Kyrgyzstan 6.4%. Industrial production fell by 10.8% in Russia and by 7.8% in Armenia. In Tajikistan it fell by 6.3%, in Belarus – by 2.1%.

On average, the level of GDP in the CIS member states reduced by 9% compared to the same period last year, industrial production decreased by 13%, cargo transportation fell by 18% and retail turnover dropped by 7%. Growth in the agricultural sector output was 3.5%.

The highest annual inflation among the CIS member states was recorded in Ukraine, where it reached an average of 12.3%. Annual inflation in Russia
amounted to 8.8%, in Kazakhstan – 6.4%, in Belarus – 10.1%, in Kyrgyzstan – 8.3%, Kazakhstan – 7.6%, Tajikistan – 6.5%, Armenia – 6.5%, Azerbaijan – 1.8%, Uzbekistan – 7.4%. Inflation in Moldova and Kyrgyzstan remained consistent at the level of the previous year.

CIS Interstate Committee on Statistics

Russians Evaluate the CIS

December 14, 2009

Russian Public Opinion Research Centre conducted a poll among the citizens of Russia and compiled a credibility rating of the CIS member states and their leaders. The rating reflects which CIS countries are considered to be most trustworthy, stable and successful. According to the poll, the most reliable partners for Russia in the CIS are Belarus (43%) and Kazakhstan (31%). The three most trustworthy partners also include Armenia (8%). Other CIS countries substantially lag behind in the rating of trust: only 4% of the respondents have confidence in Azerbaijan and Ukraine as partners for Russia. The ratings of trust of Kyrgyzstan, Moldova, Turkmenistan and Uzbekistan amounted only to 3% each. Tajikistan and Georgia round off the list with the trust of 2% and 1% respectively.

The confidence of Russians in the CIS leaders is much the same. The president of Belarus, A. Lukashenko, and Kazakhstan’s president, N. Nazarbayev, top the credibility rating (33% and 28% respectively). The next eight most trustworthy CIS leaders include the president of Azerbaijan I. Aliyev (6%), the president of Uzbekistan I. Karimov (5%), the Turkmen leader G. Berdymuhamedov (5%), Kyrgyz president K. Bakiyev (4%), the head of Armenia S. Sargsyan (3%), Ukrainian president V. Yushchenko (3%), the president of Tajikistan E. Rahmon (2%) and the acting president of Moldova M. Ghimpu (2%). The outsider of the current poll is the president of Georgia, M. Saakashvili (1%).

Belarus and Kazakhstan top the rating of the CIS member states that, according to the poll, are the most stable and successful (41% and 29% respectively). Following after a wide margin are Azerbaijan (9%), Armenia (8%), Turkmenistan (6%), Kyrgyzstan, Moldova and Uzbekistan (5% each). Georgia and Tajikistan have the lowest rating of stability and success (3% and 2% respectively).

The absolute leaders of the most successful CIS countries in mitigating the crisis rating are Belarus and Kazakhstan (24% and 14% respectively). All other CIS states lag behind with only 3% or less of the poll’s total votes.

RBK Daily
EurAsEC

EurAsEC Anti-Crisis Fund

February 4, 2009

An extraordinary session of the Interstate Council at the level of Heads of States was held due to an urgent need for prompt response to a disturbing economic situation in the EurAsEC member states, caused by the global financial crisis. Presidents of all five member countries, as well as the president of Armenia, which has an observer status in the EurAsEC, attended the session.

The EurAsEC Interstate Council made a decision to establish the EurAsEC Anti-Crisis Fund with charter capital of $10 billion and to create a Centre for New Technologies, which will be aimed at the implementation of scientific and technical programmes and innovative projects within the organisation.

Public Relations Department, EurAsEC

EurAsEC Crisis Response Measures

May 20, 2009

A regular session of the EurAsEC Financial and Economic Policy Council was held in Moscow. The chairman of the Council, the deputy chairman of the government of Russian Federation and Finance minister A. Kudrin, EurAsEC Secretary General T. Mansurov, leaders of central (national) banks, economy and finance ministries of EurAsEC member states and Armenia, EurAsEC observer, took part in the session.

The EurAsEC member states faced a tight economic situation. On average the EurAsEC member states’ GDP fell by 11% in the first quarter of 2009 compared to the same period of 2008. Industrial production decreased by 13%, freight transportation by 16% and capital investments by 12%. Foreign and mutual trade fell by over 30%. Inflation grew by 14%. All countries reported a substantial decline in exports and imports.

The participants of the session gave their assent to the Plan for the implementation of joint crisis response measures in EurAsEC member states, as well as legal and other documents that constitute the EurAsEC Anti-Crisis Fund and Centre for New Technologies. After the documents are approved by the heads of EurAsEC member states, it will be necessary to form the Fund’s authorised capital, sign an agreement with the Eurasian Development Bank, which will act as the fund manager, and organise the Fund’s council, which will be made up of the finance ministers of the participating states.

Public Relations Department, EurAsEC
The EurAsEC Anti-Crisis Fund was established by the Heads of Governments of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. It aims to help the countries cope with the negative influence of the global financial crisis on the national economies, as well as secure their economic and financial sustainability and boost further widening of the integration process between the EurAsEC member states. The Fund will provide loans to the countries for anti-crisis goals, stabilisation loans and financing for the implementation of the interstate investment projects. The Fund’s resources will be distributed on conditions of maturity, serviceability and recoverability. During the voting process each country’s votes will carry weight in proportion to their contributions to the Fund. The fund will have $8.5 billion in charter capital. Russia will supply $7.5 billion, Kazakhstan $1 billion, Belarus – $10 million, and Kyrgyzstan, Tajikistan and Armenia – $1 million each.

The charter contributions are due six months after ratification of the agreement. Payment is to be made 10% in euro or dollars and the remainder in simple, non-circulating, interest-free promissory notes.

The fund will be managed by a council made up of the finance ministers of the participating states and representatives of participating international organisations. The chairman will be elected by the council members, whose votes will carry weight in proportion to their contributions to the fund. Each vote is the equivalent of $100,000 in contributions. The Eurasian Development Bank will carry out the council’s decisions concerning fund management.

A Package of Documents Concerning the EurAsEC Anti-Crisis Fund Signed

June 9, 2009

Following the results of the EurAsEC Interstate Council session at the level of heads of states the participants signed an agreement on establishing the fund and its enactment, as well as an agreement on the funds management.

www.minfin.ru

July 15, 2009

The Russian State Duma ratified the agreements on the establishment of the EurAsEC Anti-Crisis Fund and the fund’s management.

REGNUM

October 27, 2009

The Parliament of Belarus ratified the agreements on establishment of the EurAsEC Anti-Crisis Fund. Belarus is interested in attracting the Fund’s resources to finance interstate investments projects and is ready to submit its investment projects for approval to receive the financial assistance.

Reuters

December 28, 2009

Kazakhstan’s president N. Nazarbayev signed the law “On ratification of the Agreement on the Establishment of the EurAsEC Anti-Crisis Fund”. Moreover, Nazarbayev also signed the law “On Ratification of the Agreement on Management of the EurAsEC Anti-Crisis Fund Finances”.

Kazakhstan Today
SCO

Meeting of SCO Interbank Consortium Member Banks Coordinators

June 4, 2009

On June 4, Vnesheconombank as the Chairman Bank of the Shanghai Cooperation Interbank Consortium conducted a meeting of the coordinators in St. Petersburg. In the course of the meeting, Draft Regulations on the Cooperation with Financial Institutions of SCO Observer States and on the Status of SCO Interbank Consortium Chairman Bank were agreed upon and initialled. This document sets out the required legal framework for establishing and maintaining relations with SCO observer states’ financial institutions. A Draft Agreement on Cooperation in personnel training and sharing business experiences between SCO Interbank Consortium member banks was also initialled.

Public Relations Department,
Vnesheconombank

The SCO Interbank Consortium was established on October 26, 2005. Its activity is designed to support regional economic cooperation. At the moment, it incorporates the State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, the Kazakhstan Development Bank, the China State Development Bank, OJSC RSK Bank, the Tajikistan National Savings Bank “Amonatbank” and the Uzbekistan National Bank for Foreign Economic Affairs. The Eurasian Development Bank has been the SCO Interbank Consortium’s partner bank since 2008.

SCO Leaders Sign Yekaterinburg Declaration

June 16, 2009

On June 15–16, 2009, a meeting of the Council of Heads of Member States of the Shanghai Cooperation Organisation (SCO CHS) took place in Yekaterinburg (Russia). The summit was attended by heads of states and governments of SCO member countries – China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, and leaders of SCO observer nations – Mongolia, India, Pakistan and Iran.

Issues of ensuring stability and security within the SCO, situation in Afghanistan and around North Korea topped the agenda of the meeting. The participants also discussed the idea of establishing a common energy market and constructing a transport corridor from Europe to China. High-ranking representatives of state and private financial and banking structures, manufacturers and entrepreneurs took part in the forum.

Following the results of the meeting, the SCO heads of states signed the Yekaterinburg Declaration, a major political document which assesses the present international situation. The parties voiced their support for the Nuclear Non-Proliferation Treaty, increased cooperation in the control and management of international finance and preserving economic stability. The
SCO Convention against terrorism was also signed. The heads of states gave their assent to a cooperation programme of SCO members in the fight against terrorism, separatism and extremism for 2010–2012, the decision to grant Sri Lanka and Belarus the status of the SCO dialogue partner, an agreement on training the anti-terrorist forces of SCO members, as well as an agreement on cooperation in the field of ensuring international information security.

RIA Novosti

**China Intends to Finance the Modernisation of SCO Member Economies**

*June 16, 2009*

China will provide a $10 billion loan to member states of the Shanghai Cooperation Organisation (SCO) to shore up their economies amid the global financial crisis, Chinese President Hu Jintao said at the SCO summit in Yekaterinburg. The funds will mainly be directed to China’s SCO partners from Central Asia – Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. According to the Chinese leader, SCO member states must work together to mitigate the crisis. In light of this, Hu Jintao suggested the implementation of an array of infrastructural projects in the key fields of the economy, including energy and transport.

www.regions.ru

**SCO Heads of Governments Council Meets in Beijing**

*October 14, 2009*

A regular meeting of the Council of the Heads of Government of the Member States of the Shanghai Cooperation Organisation took place in Beijing. The heads of the governments discussed the fulfillment of the SCO Multilateral Trade and Economic Cooperation Programme with reference to the implementation of large joint projects in the transport, energy, modern information and telecommunication technologies sectors.

The SCO Business Council and the Interbank Consortium agreed to establish a unified base of investment projects that will unite around 35 projects with a total cost of $6 billion. The heads of the governments reached an agreement to establish a mechanism of monitoring the economic situation in the region. During the meeting the participants arrived at a decision to hold a meeting of SCO Finance Ministers and leaders of Central Banks in Almaty by the end of the year to discuss the possibilities of using the national currencies in mutual settlement, as well as the issue of establishing a special account for financing the SCO projects. Kazakh Prime Minister K. Masimov suggested the development of an SCO energy strategy.

RIA Novosti
First Meeting of the SCO Finance Ministers and Heads of Central Banks

December 9, 2009

On December 9, 2009 the first meeting of finance ministers and heads of central banks of the SCO member states took place in Almaty. The parties exchanged opinions on the acute issues and prospects for cooperation among the SCO member states in the financial field.

The participants of the meeting agreed to further consider the possibility of widening the sphere of using national currencies in mutual settlements between the SCO member states, and suggested that the SCO Secretary, together with financial and other experts from member states, speed up the coordination of main conditions for establishing and putting into operation the SCO Special Account.

CSTO

CSTO Countries Agree to Establish Collective Rapid Response Forces

February 4, 2009

The leaders of the Collective Security Treaty Organisation (CSTO) member states signed an agreement on the establishment of a collective rapid response force (CRRF) during a CSTO summit in Moscow. The CSTO comprises Armenia, Belarus, Russia and four Central Asian nations: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The initiative to establish the CRRF was first voiced by the Russian President D. Medvedev at the CSTO summit in September 2008.

Moscow’s Airborne Division and Assault Landing Brigade (around 8,000 services staff) may form the core of the force. Kazakhstan’s Assault Landing Brigade (up to 4,000 services staff) will also become part of the CRRF. Each of the rest CSTO members will provide the CRRF with a squadron bringing the total strength of the force to 15,000 services staff. Military forces of different countries will have the compatible communication systems and will have the opportunity to conduct joint drills. The force will be used for repelling “military aggression,” conducting operations to combat international terrorism and extremism, transnational organised crime and drug trafficking, and handling the consequences of emergencies.

Moreover, special attention will be given to the establishment of joint air defence systems. Three regional systems (Eastern European, Central Asian and Caucasian) may be formed in the near future. Russia and Belarus also plan to boost cooperation in this field.
CSTO Summit in Moscow

June 14, 2009

On June 14, 2009 Moscow hosted the CSTO summit. The presidents of Uzbekistan, Russia, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan participated in the summit. Five of the states – Armenia, Kazakhstan, Kyrgyzstan, Russia and Tajikistan – signed an agreement on the establishment of the CSTO Collective Rapid Response Force. Belarus refused to attend the CSTO summit due to “overt economic discrimination by a CSTO member country against Belarus”. According to the Russian Foreign Ministry, Belarus’ non-participation in the summit does not invalidate the summit’s decisions. Uzbekistan did not sign the CRRF agreement either, citing “some reservations”. The leadership of this country has a specific opinion concerning the collective forces. Tashkent has never been part of any of the CSTO military structures.

The participants of the summit signed a document on the implementation of the CSTO decision to create the CRRF within the organisation dated February 4, 2009; reviewed the drafts of the regulatory legal acts that specify the activities of the CSTO CRRF. Moreover, the participants signed a document that includes the Agreement on the CRRF and a decision on the CRRF Collective Security Council. Other decisions on the principles of establishing and managing the force and resources were also signed.

Russia Takes over CSTO Chairmanship

June 14, 2009

By agreement with the CSTO member states Russia took over the technical chairmanship in the organisation “for the period of Belarus’ absence”. This technical chairmanship will be valid for the period until final decisions on the chairmanship are made.

According to the Russian president, the conflict over the ban on imports of dairy products from Belarus would not infringe the work on establishment of the CSTO CRRF and all problems would be settled in the near future. In the meantime, Belarus is now contesting the validity of the summit’s decisions made in the absence of Belarus. The Belarusian Foreign Ministry’s note clearly warns that Belarus’ non-participation in the CSTO Collective Security Council, Foreign Ministers’ Council, Defense Ministers’ Council and Security Council Secretaries Committee “means a lack of approval from Belarus of the decisions that are to be considered” at the summit, as well as
disavowal of decisions made at the pre-summit, ministerial-level meetings, which “consequently means a lack of consensus on these decisions”.

CSTO Informal Summit in Kyrgyzstan

July 31, 2009

Moscow plans to strengthen the military component of the CSTO and turn the organisation into a NATO analogue run the risk of failure. The final formation of the CSTO CRRF was to be the key issue of the agenda of the informal summit in Cholpon-Ata, Kyrgyzstan. The day before the summit Moscow began to speed up the development of military capability within the framework of the organisation. On July 29, Russia initiated negotiations at a staff level on conducting the first ever CRRF collective drills in Almaty. Moreover, Russia plans to establish the first military base in Central Asia under the auspices of the CRRF. However, Russia faced serious obstacles during the preparation for the summit in Cholpon-Ata, including the position of the Belarusian president A. Lukashenko, who refused to take part in the CSTO summit in Moscow and did not sign the agreement on the establishment of the CRRF. Other events also hinder Moscow’s plans, including the lack of de jure recognition of Georgia’s sovereignty over Abkhazia and South Ossetia by Belarus and the shut down of the Russian oil pipeline. Moscow plans for Kyrgyzstan also faced a lot of difficulties because shortly before the summit Bishkek postponed the signing of a package of documents regarding the military base.

Results of the CSTO Informal Summit in Kyrgyzstan

August 3, 2009

The CSTO summit in Cholpon-Ata resulted in a memorandum on establishing a second Russian military base in the south of Kyrgyzstan. The base is to be officially founded under the auspices of the CRRF. The military contingent on the base would not exceed the size of a squadron. The agreement will be valid for 49 years with an extension possible every 25 years. Russia was counting on the signing of a full-fledged agreement, but the very first day of the summit revealed the impossibility of agreeing the terms of the base establishment. According to the memorandum, the final agreement, which will presumably be signed by November 1, will define all Russian military objects, including the Russian airbase in the city of Kant.

The mass media often mention the cities of Osh and Batken as a would-be location for the second base. Moscow would prefer Osh due to the presence of infrastructure. Kyrgyzstan is in favour of establishing the base from scratch.
**Bilateral relations**

**Russia–Georgia**

**Russian and Georgian Interests Sections Open at the Embassy of Switzerland in Tbilisi and Moscow**

*March 4, 2009*

From March 5, Switzerland’s Foreign Ministry has officially agreed to represent Russia’s interests in Georgia and vice versa.

Neutral Switzerland often plays the role of mediator between different states that have not established diplomatic relations. Georgia broke all diplomatic ties with Russia after Moscow recognised the independence of two Georgian breakaway regions, South Ossetia and Abkhazia, in August 2008. The parties filed a request to Bern to present their interests and in early October 2008 the government of Switzerland gave its assent to both countries. The establishment of Russian and Georgian Interests Sections resulted from two agreements, signed by Switzerland and Russia on December 13, 2008, and Switzerland and Georgia on January 12, 2009.

*RIA Novosti*

**Russia and Georgia Agree to Re-open Border**

*November 6, 2009*

Representatives of Russia, Georgia and Armenia held technical consultations in Yerevan on the issue of re-opening Russian-Georgian land border to traffic. The two countries reached a deal to re-open the only land border crossing, the Upper Lars checkpoint, which was closed in 2006, when Russia banned imports of Georgian products and construction of a new checkpoint started. In late 2008 Georgian Foreign Ministry received notification from Moscow that all construction works were over and a new terminal was ready to serve up to 400 cars a day. However, the Georgian Foreign Ministry demanded that they conduct negotiations on the checkpoint in Geneva under Swiss mediation, which turned out to be unacceptable to Russia. According to the Russian Foreign Ministry, the meetings were held in Yerevan because Armenia is one of the stakeholders in opening the border crossing.

Armenia is interested in opening the checkpoint because almost 30% of the country’s external trade turnover was earlier carried out by means of the Georgian Military Road. Georgia constructed a new border crossing at Kazbegi with $2.5 million in assistance from the United States, which provided the facility with modern offices and search equipment and raised the checkpoint’s capacity to 500 cars a day. Georgia agreed to re-open the Upper
Lars checkpoint only on condition of “non-discriminatory attitude towards
Georgian products”, that is, a repeal of a ban on imports of Georgian agriculture
produce, wines and mineral water. Trade restrictions on Tbilisi placed by the
Russian agency for consumer market control (Rospotrebnadzor) are still in
force.

Kommersant

Belarus–Kazakhstan

June 10, 2009

An array of bilateral agreements was signed during the official visit of Kazakh
Prime Minister K. Masimov to Minsk. Kazakhstan and Belarus agreed to
establish joint ventures in Kazakhstan, including a Belarusian domestic
refrigerators plant, as well as agriproduct processing, cattle breeding,
machinery and grain harvester production joint ventures. This will help
Belarus enlarge its share in Kazakhstan’s markets and boost the turnover
between the two countries. Due to the global economic crisis, the sales
turnover between Kazakhstan and Belarus decreased by 40% in the last six
months. Following the results of the talks both countries signed a long-term
cooperation agreement for the period to 2016.

www.mirtv.ru

November 8, 2009

Following the results of the meeting with Kazakh Prime Minister K. Masimov,
Belarusian Prime Minister S. Sidorsky announced that Belarus intends to
implement 37 projects in Kazakhstan.

The projects aim to increase the production of grain, beetroot and potato
in Kazakhstan by using Belarusian agricultural equipment and technology.
Moreover, Belarus also suggested developing dairy production in Kazakhstan
by constructing milk complexes and equipping these with modern milking
facilities. During the meeting the parties discussed a range of specific
science and technical cooperation projects in medicine, X-ray examination,
as well as production of modern household appliances. They agreed to train
Kazakh specialists in the technological institutes and universities of Belarus.
Moreover, Belarus suggested several projects for potassium and phosphoric
fertiliser production. The parties reached agreement on boosting the
production of elevators in Pavlodar and development of BelAZ and agricultural
equipment production.

Kazakhstan Today

November 26, 2009

President of Kazakhstan N. Nazarbayev held a meeting with the Belarusian
leader A. Lukashenko. Following the results of the talks between delegations
Belarus and Kazakhstan established diplomatic ties on September 16, 1992. Both countries maintain bilateral, multilateral and traditional cooperation within frameworks of the UN, OSCE, EurAsEC and CIS. Kazakhstan and Belarus have signed a total of 76 contracts and agreements, including the Treaty of Friendship and Cooperation, the Economic Cooperation Programme for 2009–2016 and the Free Trade Agreement. Trade and economic cooperation, the key field of interaction between Kazakhstan and Belarus, is carried out within the framework of the Economic Cooperation Programme for 2009–2016. Kazakhstan is Belarus’ third largest partner after Russia and Ukraine. In 2008 the trade turnover between Kazakhstan and Belarus amounted to $567 million. In 2009 the turnover was $421.8 million, or 25.6% less compared to 2008.

from the both countries a range of bilateral documents were signed. Kazakhstan’s president met with the leadership of BelAZ production plant and Lidselmash open joint stock company (OJSC).

Russia–Tajikistan

October 22, 2009

The presidents of Russia and Tajikistan held talks in Moscow, during which the parties managed to solve the bulk of the issues that had aggravated relations between the countries, including debt for electric energy, implementation of energy projects in gas fields in particular and the conditions of stationing the Russian military base in Tajikistan.

The sides made decisions relating to the settlement of a $30 million debt of Tajik national company for electric energy supplied by Sangtuda hydropower plant (HPP), as well as the repayment schedule. The sides also agreed upon Tajikistan’s payment for its stake in the HPP at an amount of 25% plus one share.

Russian president called for speeding up the implementation of energy agreements. The agreement on strategic cooperation in gas fields, signed in May 2003, foresees the realisation of geological exploration drilling operations in the gas-bearing areas of Tajikistan, development and exploitation of natural gas fields, construction and reconstruction of gas pipelines. Gazprom has development licenses for two fields in Sarikamysh and Western Shaambary areas. Geological exploration will be completed within the next 1-1.5 years. One of the key tasks is to timely ratify the ways in which Tajikistan will repay expenditures that Gazprom will incur during the geological exploration.

Commenting on the law on the state language Tajik president noted the document regulates the Tajik language sphere solely and that the Russian language will remain the language of international communication.

Belarus–Ukraine

November 6, 2009

President of Belarus A. Lukashenko paid his first official visit to Ukraine. Following the results of the meeting with the Ukrainian president
V. Yushchenko the countries announced that “all present contradictions were settled”. In particular, the presidents settled the issue of Ukraine’s debt to Belarus. Ukraine agreed to supply Belarus with electric energy at a discount price.

The presidents tackled the issue of the ratification of a joint border agreement that was signed in 1997. Ukraine ratified the agreement, but Belarus interlinked the ratification with another document – an agreement on settling Ukraine’s financial obligations to Belarus. Ukraine has been under obligation to Belarus since the Soviet era and for almost 20 years the two countries had not been able to agree upon the debt repayment, which in its turn hindered the ratification of the border agreement. The parties agreed that Ukraine’s debt will be repaid by means of supplying electric energy to Belarus at a discount price.

Belarus will benefit from electric energy supplies at a discount price for one other reason. By the end of the year Lithuania plans to shut down the Ignalinskaya nuclear power plant and will have to purchase significant amounts of electric energy. It will give Belarus an opportunity to resell cheap Ukrainian electric power to Lithuania at a higher price.

Russia–Belarus

Ban on Dairy Products Import Results in a Conflict

June 6, 2009

A "milk war" broke out between Russia and Belarus. Russia’s Rospotrebnadzor imposed a ban on imports of Belarusian dairy products, alleging the country was failing to comply with new labeling regulations. As a result of the ban on imports of over 1,200 different products, Belarus may sustain a loss of around $1 billion.

From December 17, 2008 a Federal Law “Technical Regulations for Milk and Dairy Products” came into force in Russia. The law established requirements for milk and milk products packaging and labeling. Under the law, fluid milk that is produced from dry milk, concentrated milk or condensed milk can no longer be called “milk” and must be referred to as “milk beverage”. According to Rospotrebnadzor, Belarusian producers of milk “did not even try to comply with the new requirements of Russian legislation” and around 500 milk products imported to Russia from Belarus do not have valid documents. Therefore, according to a resolution of a chief sanitary inspector, from June 6, Russia imposed a ban on import of over 500 dairy products that do not comply with the new labeling regulation, as well as the turnover of previously imported goods. Later the list of banned products was expanded.
Despite the fact that the new technical requirements had been in force for six months, Russia’s decision to impose a ban was only taken now and coincided with the recent arguments between Moscow and Minsk over the $500 million tranche of the Russian loan to Belarus. The day before the sanctions were introduced the Belarusian president A. Lukashenko said that military cooperation between Moscow and Minsk is under threat.

*Kommersant*

June 17, 2009

Belarus state customs committee announced that Belarus may introduce intense control over the transportation of cargo via the main Russian-Belarus highways. The measures were introduced following a decree by Belarusian president A. Lukashenko, as an adequate response to Russia’s actions against Belarusian products. However, the intense control measures were not introduced after a compromise was reached with Russia on dairy products.

*Vedomosti*

June 18, 2009

During the latest in a series of talks about the “milk issue” the parties managed to reach an agreement that Belarusian producers and suppliers will gradually adjust the labeling and other documents to Russia’s regulations. Taking this into account, Rospotrebnadzor lifted the ban on importing some of the Belarusian products in accordance with the agreed list of goods. From June 18, Belarus resumed supplies of 139 dairy products to Russia. From June 22, Rospotrebnadzor repealed a ban on another 134 Belarusian dairy products. Therefore, a total of 273 dairy products from Belarus are allowed to be imported to Russia.

*RIA Novosti*

Gas Row Looms between Russia and Belarus

June 29, 2009

A gas dispute replaced the row over a ban on imports of Belarusian dairy goods to Russia, which had finally been resolved. Although the milk war may have ended, energy issues remain an irritant. The appearance of Russia’s new complaints against Belarus proved that the two countries are still very far from a complete resolution of disputes. Russia’s gas export monopoly Gazprom has demanded Belarus pays $244 million in arrears for gas supplies so far this year and promised to cut the gas supplies if Belarus did not repay the debt in July. Belarus authorities acknowledged a debt of $234 million and promised to repay it no later than November. In other words, Moscow and Minsk were on the brink of a gas war this time.
The stated amount of debt resulted from the short payment for gas supplies in January-April in the sum of $234 million and fines for an overdue payment. Meanwhile, Gazprom paid $625 million for 12.5% stake in Beltransgaz this year (bringing its share to 37.5%) and another $250 million of advance payment for the transit of gas through Belarus. Therefore, Gazprom paid Minsk a total of $875 million this year.

However, Minsk did not intend to abide by Gazprom’s terms. The country planned to start repaying its gas debt in July and fully pay off the debt no later than November. Moreover, Minsk acknowledged only the principle debt in the amount of $234.1 million and is not going to pay the fines. The reason for the dispute is that the sides have a different understanding of the outcomes of the bilateral meeting of Russian and Belarusian presidents on April 10, 2009. According to Minsk, president Medvedev pledged that Belarus will purchase gas at an annual average price of $150 for 1,000 m$^3$. Minsk sent a corresponding draft supplement agreement to Moscow in April, however, Gazprom does not acknowledge the verbal arrangements of presidents.

**Kommersant**

**July 22, 2009**

Belarus temporarily suspended the Belarusian section of the Unecha-Ventspils oil product pipeline that belongs to Russia’s Transneftproduct joint stock company (JSC), citing its unsatisfactory technical condition. The operation of the pipeline was suspended due to the need to conduct scheduled maintenance of ill-conditioned parts of the pipeline. The representatives of the Belarus Emergency Ministry said that the owners of the pipeline, the Russian company Zapad-Transnefteproduct (part of Transnefteproduct) were notified about the transportation suspension ahead of time and were presented with the results of the latest pipeline’s inspection performed by a German company in 2007.

The inspection revealed 1,082 defects, which were supposed to be fixed by July 17, 2009. Yet, only 254 defects (23.5%) had been fixed.

On this basis Belarus Emergency Ministry had to suspend the operation of the pipeline due to its poor technical condition and the risk of emergencies and ecological damage. The suspension of the operation of “Unecha-Ventspils” oil-products pipeline was discussed in a phone conversation between the Vice Premiers of Russia and Belarus, I. Sechin and V. Semashko. The Russian and Belarusian sides are taking measures to ensure the prompt resuming of the pipeline’s operations.

**RIA Novosti**

Several large-scale diesel fuel leaks occurred in Belarus. In March 2007 a diesel fuel leak from the oil pipeline polluted over 1 hectare of land. Some of the spilt diesel fuel polluted the Ulla River (a tributary of the Zapadnaya Dvina) and also the Zapadnaya Dvina. On February 14, 2008 a spillage of 70 m$^3$ of diesel fuel polluted 100 m$^2$ of land.
October 28, 2009

The Prime Ministers of Russia and Belarus V. Putin and S. Sidorsky held a regular meeting of the Council of Ministers of the Union State. With the crisis conditions Moscow and Minsk needed to smooth over many of the common economic difficulties, including the decreasing sales turnover (42% down).

The meeting was the fourth Russian-Belarusian meeting in two months. Despite a wide range of problems and mutual complaints none of the meetings brought any significant results. During the last meeting the Council of Ministers endorsed a draft budget for the Union State of Russia and Belarus for the next year with an amount of 4.87 billion roubles, or, in other words, kept the budget unchanged from the 2009 level. Energy remains one of the most problematic issues in relationships between the two states. Belarus would prefer to keep current gas prices in 2010 without transferring to the European system of price formation. Moreover Minsk would like to draw interest from Russian oil exports as an “external” western border of the Customs Union. Moscow believes Minsk to already have enough preferential treatment. The situation with the issuance of the last $500 million tranche of the Russian loan to Belarus remains unclear.

Though the milk war is over, the political background of the Union relations remains chilly and Lukashenko’s refusal to visit the CSTO CRRF drills in Kazakhstan, even though everybody awaited not only his presence but also the signing of the CRRF agreement, once again proves that.

RBK Daily

December 17, 2009

According to Beltransgaz, the price for Russian gas transit throughout the territory of Belarus would be levelled up slightly in 2010. One of Beltransgaz’ priorities is to ensure the uninterrupted transportation of gas to Europe through Belarus. At present the Yamal-Europe branch of the gas pipeline is working at full capacity. Beltransgaz is currently in talks with Russia’s Gazprom about the possibility of constructing a second branch of the Yamal-Europe pipeline.

RIA Novosti

December 18, 2009

Russia offered Belarus duty-free deliveries of oil for internal use. The volume of deliveries will amount to

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On December 31, 2006 Gazprom OJSC and Beltransgaz OJSC signed an agreement on supplies and transit of gas in 2007–2011. The agreement defines the price formula effective from January 1, 2008 (it corresponds to the formula used to price Russian gas deliveries to Europe), as well as the price reduction factors for 2008–2010 (0.67, 0.8 and 0.9 respectively). According to the agreement, starting 2011 the gas price for Belarus will be levelled with the gas delivery price for Europe. In May 2007 Gazprom OJSC and the Belarus State Property Committee signed an agreement on acquisition of a 50% stake in Beltransgaz OJSC for a total sum of $2.5 billion paid in equal shares during four years. At present Gazprom owns 37.5% of shares of Beltransgaz. The deal will be closed in 2010.
5-6 million tons a year. A corresponding offer was voiced by Russia at the Supreme State Council of the Union State of Belarus and Russia in Moscow. The duty-free offer will apply only to deliveries of oil for Belarus’ domestic consumption. All other oil deliveries will be liable to export duties.

According to official figures, up to 21 million tons of oil was transported to Belarus via pipelines. Moreover, another 4-5 million tons of oil are being exported via rail or road transportation. From 2010 the reduction factor (0.356 in 2009) will cease to have effect on oil and oil product deliveries to Belarus. Belarus is interested in keeping the reduction factor but Moscow objects due to less favorable terms for the Russian oil refining industry under the current conditions.

Belarusian Agricultural Equipment on Russian Market

June 27, 2009

Negotiations on granting Belarusian companies equal conditions for access to the Russian market of agricultural equipment have had no effect.

According to Belstat, in January-April exports of Belarusian tractors decreased by 40% in natural units to 13,000, other agricultural equipment by 35.8% to 9,400 units. Although the figures give evidence of a system crisis, they are not as pessimistic as the car industry statistics, which demonstrate an 80% decrease in sales. Along with that the average prices for Belarusian agricultural equipment rose 37% in dollar equivalent.

Belarus insisted that some Belarusian and Russian producers of agricultural equipment should have the same conditions for access to markets of other countries as those of the national companies. The list of selected companies includes 11 Belarusian and 9 Russian companies. As a mutual concession, Belarus brought its legislation on state purchases in line with the Russian statutory provisions and widened the possibilities of prepaying imports (in particular, by means of credit resources) to an extent that will not hinder the deliveries of Russian equipment to Belarusian farming units within the framework of the state purchases procedure. In its turn Russia introduced a 15% preferential compensation factor for Belarusian producers taking part in state purchases.

Belarus considered the measure insufficient. Belarusian government hoped that all measures of state support would be available to the 11 Belarusian companies on the list. However, Russia’s position on accession of Belarusian equipment to Russian market remains firm and unchanged.
July 6, 2009

The government of Russia tasked the relevant ministries and agencies with probing cases of “hidden” imports of Belarusian agricultural equipment into Russia. According to the Russian company Rostselmash, Belarusian agricultural machinery producer Gomselmash delivers its combine harvesters to a factory in Bryansk called Bryanskselmash. The combines undergo a trivial presale service before being itemised as Russian products. From that moment these combine harvesters are supported by a subsidised programme to compensate interest rates from the federal budget.

In spring 2009 Belarus filed a proposal to Russia to purchase local combine harvesters via credit facilities. However, the request was rejected due to the fact that credit facilities must be offered to domestic (Russian) producers. In late June the head of Rostselmash accused Belarus of dumping on the Russian market. According to him, while taking part in domestic purchases Belarusian Gomselmash sells its combine harvesters for 5.96 million roubles per unit. However, when supplied to Russia the very same combines cost 4.65 million roubles per unit. Under these circumstances Russian producers cannot compete with Belarusian produce, which is in demand due to the lower prices.

RIA Novosti

July 8, 2009

Talks between Russia and Belarus on mutual supplies of agricultural equipment were held in an atmosphere of mutual complaints. The Russian Premier was tasked with probing the case of Belarus dumping imports of Belarusian equipment on the Russian market. Belarus accused Russia of blocking Belarusian agricultural equipment imports. According to experts, the parties intended to renounce the idea of mutual preferential deliveries in favour of export crediting.

According to a statement by Russian Prime Minister V. Putin, Russia is not going to block imports of agricultural equipment forever. A ban on importing equipment during an acute crisis phase is quite feasible but cannot be applied on a permanent basis.

RIA Novosti

Financial and Monetary Interrelations

Kyrgyzstan Receives a Concessional Loan from Russia

February 3, 2009

Following the results of a meeting between the Russian president D. Medvedev and Kyrgyz head of state K. Bakiyev in the Kremlin, Moscow
pledged to issue a concessional loan to Bishkek totalling $2 billion and a grant for $150 million. Moreover, Russia agreed to write off Kyrgyzstan’s debt for a total sum of $180 million.

The total loan amount is $2 billion. The loan consists of a $1.7 billion investment in construction of the Kambarata HPP and equipment purchase (the parties signed a separate agreement on the HPP), as well as $300 million loan to support the country’s financial system (with a 0.75% annual interest rate and a term of 40 years).

Moreover, Russia agreed to write off Kyrgyzstan’s debt, a total amount of $180 million, part of which was repaid by the 48% of shares in the Dastan enterprise that produces naval armament and special purpose underwater equipment.

Kyrgyzstan will also receive $150 million crisis response grant assistance. The country is heavily hit by the economic crisis. Inflation in 2008 amounted to 22.5%. The state’s external debt amounted to $3 billion as of June 2007. Turkmenistan delivered a heavy blow to Kyrgyz economy by almost doubling the gas prices.

Belarus and China to Cut Dollar and Euro Trade Settlements

March 11, 2009

The Central Banks of China and Belarus signed a three-year agreement on cross currency swaps for a total sum of 20 billion yuan (around $3 billion) in order to avoid dollar and Euro settlements of trade operations between the two countries and transfer to settling in national currencies. In light of this the Central Banks of both countries exchanged deposits. In order to transfer to settlements in their national currencies China and Belarus must sign a special agreement. Belarus will add the 20 billion Chinese yuan it received to its gold and currency reserves.

Russia Provides Financial Support to South Ossetia and Abkhazia

March 17, 2009

Russia provided financial assistance to South Ossetia and Abkhazia at the amount of 2.8 billion ($80.4 million) and 2.36 billion roubles ($67.7 million) respectively. Russia’s financial support is crucial to South Ossetia, which is experiencing an extremely difficult social and economic situation.

Corresponding interagency agreements with South Ossetia and Abkhazia were signed on March 17 by the Russian Finance Ministry. The funds will
support the social and economic development and secure the budget balance of both republics.

The situation in South Ossetia, devastated by the war, is very uneasy. Reconstruction is almost suspended due to the fact that Russian and South Ossetia authorities cannot agree on a scheme of financing. Besides problems with restoring the residential areas and social facilities South Ossetia faced difficulties in financing the public sector. Russian financial assistance will help pay salaries to the personnel of state-financed organisations, children’s allowances, pensions, scholarships and state-financed organisations’ expenditures. The Russian budget is to finance the reconstruction works to a total of 8.5 billion roubles.

Russia, Armenia Sign $500 Million Loan Agreement

May 20, 2009

Finance Ministers of Russia and Armenia A. Kudrin and T. Davtyan signed a loan agreement. The $500 million loan will be granted for a term of 15 years with LIBOR +3% rate to stabilise the country’s economy within the crisis conditions. According to A. Kudrin, the credit will be given to Armenia on easy terms with a reduced annual rate of 4%. “We have also provided a 5-year grace period,” he said.

According to the Armenian Finance Minister, the loan is of great significance to Armenia’s economy under the current crisis conditions. He underlined that Armenia is a conscious borrower and expressed confidence that Armenia will also fulfil its loan-related obligations this time. The loan will be allocated to the development of infrastructure, support of small- and medium- sized businesses and the country’s economy as a whole.

Russia–Belarus

Russia and Belarus in Talks about Issuing a $2 Billion Loan

April 3, 2009

Minsk was negotiating with Russia’s Sberbank on the possibility of issuing a $2 billion loan to secure trade operations and the transition to a single currency, which has already been postponed by several years. Earlier Belarus asked Russia to provide 100 billion roubles for the same needs. In practice Belarus needs money to pay for the Russian gas that rises in price every year, but still trades substantially below European prices.

The government of Belarus and Sberbank of Russia signed a memorandum of cooperation. Within the framework of the memorandum the parties will
study the possibility of Sberbank taking part in financing the flow of commodities. In order to do so, the bank needs certain financial assets. Within the crisis conditions Russia’s demand contracted and Belarusian exports reduced by 45% in the first months of the year and economic growth rate lowered to 1.4% in January-February from 10% during the last year.

Having received loans from Russia in the past for a total of $1.5 billion, Belarus was eager to get another 100 billion roubles loan or currency swap to fund the transition to national currencies settlements in external trade. However, the talks were discontinued by Russia.

Reuters

Belarus Refuses to Accept Loan in Russian Roubles

May 28, 2009

A regular session of the Council of Ministers of the Union State of Russia and Belarus (USRB) was held in Minsk. The Russian delegation was chaired by the Russian Prime Minister V. Putin. According to Russia, Belarus refused to accept the second $500 million tranche of a credit facility for supporting the Belarusian balance of payments, opened by Russia in 2007.

In 2008 Russia agreed to allocate another $2 billion and in November Belarus received the first $1 billion tranche. In March 2009 Russia confirmed the allocation of a second $500 million tranche but suggested transferring the funds in Russian roubles. Belarus refused to accept the loan.

Belarus didn’t provide any formal reason. However, Belarus admitted the need for Russian money: on May 28, Russia’s Finance Ministry received an application from Belarusian government for crediting the construction of a nuclear power station to an amount of $9 billion.

Kommersant

Trade and Investments

Customs Union

Key Issues of the Establishment of the Customs Union

February 4, 2009

Moscow hosted the first meeting of the Customs Union Commission, a supranational body of the Customs Union being established by Russia, Belarus and Kazakhstan within the framework of the EurAsEC.
The Customs Union proposes abolishing the customs procedures on the borders between the member states, as well as introducing unified rates of duties and a single system of non-tariff foreign trade regulation. Earlier the governments of the three states agreed to put into operation a single customs tariff and establish a customs union starting January 1, 2010 with completion of all necessary procedures by July 1, 2011. The Customs Union agreement was signed in October 2007 within the framework of the EurAsEC. The participants to the agreement reserved the right to apply protective, anti-dumping and countervailing measures, as well as ban or limit imports or exports.

In October 2008 the heads of three states decided to carry into effect an agreement on the Customs Union Commission dated October 6, 2007 and formed the Commission. Members of the EurAsEC Integration Committee – Deputy Prime Minister of Belarus A. Kobyakov, Minister of Industry and Trade of Kazakhstan V. Shkolnik and the first Deputy Prime Minister of Russia I. Shuvalov joined the Customs Union Commission. The staff list of the Commission’s Secretariat and the draft budget of the Commission for 2009 were also approved. The participants of the meeting also reviewed the terms of interaction of the customs services of the Customs Union member states, discussed separate issues in the sphere of indirect taxation and made organisational decisions that will boost the process of the single customs tariff formation.

In 2009 the Supreme Body of the Customs Union, the Customs Union Commission and the governments of member states completed the formation of a single customs tariff for all goods imported to the Customs Union member states, worked out the Customs Code and the Statute of the Customs Union Court, as well as many other documents comprising the contractual and legal base of the Customs Union.

Public Relations EurAsEC

April 22, 2009

The Deputy Prime Ministers of the EurAsEC member states took part in the 44th meeting of the EurAsEC Integration Committee in Moscow. During the meeting the participants reviewed the drafts of a free trade agreement, an agreement on a unified approach to applying information technologies to the activities of customs services of member states and an agreement on unified principles of informational interaction of the member states’ customs services.

Kyrgyzstan noted the possibility of the country’s participation in the work on shaping the Customs Union contractual and legal base.

A meeting of the Customs Union Commission was held the same day to review the issues of establishing a single customs territory, single customs tariff and non-tariff regulation.

Public Relations EurAsEC
August 12, 2009

During a regular meeting of the Customs Union Commission in Moscow the representatives of the Customs Union member states affirmed the adjusted schedule of events for the establishment of a single customs territory of Belarus, Kazakhstan and Russia. In accordance with this decision, the Customs Union will be formed in three stages: the preliminary stage (up to January 1, 2010), the first stage (up to July 1, 2010) and the second stage (up to July 1, 2011). During the preliminary stage it is necessary to create the conditions for the implementation of a single customs and tariff regulation, as well as the shaping of the unified system of non-tariff regulation measures in respect to other countries outside the single customs territory. The free rotation of products subject to compulsory conformance evaluation, as well as the establishment of a sanitary, veterinary and quarantine phytosanitary control system on the external border of the Customs Union must be accomplished by January 1, 2010.

The parties approved an action plan for the transfer of the relevant types of state control, excluding border control, to the external borders of the single customs territory. The action plan must be implemented for the Russian-Belarusian border by July 1, 2010 and the Russian-Kazakh border by July 1, 2011. The participants of the meeting also reviewed the draft Customs Code of the Customs Union. They reached consensus on the issue of working out a mechanism of assignment and distribution of customs duties, other duties, taxes and fees of an equivalent value. Following the results of the meeting regulations for the procedure of joining the Customs Union by the EurAsEC member states was sent to the Customs Union member states for coordination. The Customs Union Commission also endorsed an action plan for the working group on Kyrgyzstan’s participation in the Customs Union.

Public Relations EurAsEC

October 21, 2009

Following the results of the regular session of the Customs Union Commission, Russia, Belarus and Kazakhstan finalised all the constitutive documents needed for the establishment of the Customs Union. During the meeting the participants approved all necessary draft international agreements that would need to be signed by the heads of states on November 27, in Minsk. The parties also agreed upon the final draft of the Customs Code, reviewed the planned operating methods for the exterior outline of the Russian-Kazakh and Russian-Belarusian borders. The new operating methods will commence from July 1, 2010 on the Russian-Belarusian border and from July 1, 2011 on the Russian-Kazakh border. A single customs tariff has been formulated and is ready for approval.

Public Relations EurAsEC
October 27, 2009

The customs services of the three countries coordinated the terms of transfer to the unified procedures within the framework of the Customs Union. A single customs tariff was established and sent to all participants of the foreign economic activity for examination. It is expected that the import tariff will rise slightly for Belarus and Kazakhstan and decrease for Russia by an average of 1%.

A unified Customs Code of the Customs Union will be put in force starting July 1, 2010. As soon as the single tariff is in effect, the Customs Union of Russia, Belarus and Kazakhstan will start operating. All procedures necessary for shaping the single customs territory will be completed by summer 2011. However, there is a significant challenge in the way of establishing the Customs Union. The parties will have to agree upon one of the key issues – a mechanism of administering the customs payments and their distribution among the budgets of member states.

At present a schedule for uniting the customs services of the three states has been defined. Its implementation will start on January 1, 2010. The process is currently at the stage of adjustment, unification and a more detailed study of the customs procedures. The major complications are connected with the diversity of the regulatory frameworks of each of the countries. Currently the member states need to adjust the basic customs procedures, such as advanced notice and electronic customs entry form, as well as uniting the procedures of customs clearance.

November 3, 2009

The heads of governments of the Customs Union member states signed a Protocol for tariff preferences. According to the protocol, tariff preferences will be provided by a decision of the Customs Union Commission in the case of import of goods not mentioned in the agreement on unified customs and tariff regulation to the single customs territory. The Commission will analyse the legislation of the Customs Union member states and initiate talks between the participants of the Customs Union in order to reach agreement on the application of tariff preferences.

The government of Russia introduced the agreement on the conditions for applying tariff quotas and preferences within the framework of the Customs Union of Russia, Belarus and Kazakhstan to the State Duma for ratification. In order to put the protocol in effect Russia will have to review the law on customs tariff and abolish the government’s function of granting tariff preferences. Moreover, the Russian government suggested ratifying the agreement on conditions and mechanism of applying tariff quotas. The agreement regulates
the conditions and the means of establishing the tariff quotas for imports of agricultural products from other countries to the single customs territory of the Customs Union member states in order to boost agricultural production and secure the necessary size of consumption of agricultural goods. The allocation of tariff quotas will be based on equal grounds. The allocation of tariff quotas to other countries will be based on the results of the consultations with all major suppliers from these countries (with a 10% or larger stake in imports to the single customs territory).

_November 18, 2009_

The total integration benefit from the establishment of the Customs Union may reach about $400 billion by 2015. The calculations were made by the Institute of Economic Forecasting at the Russian Academy of Sciences. The scientists believe that the dissolution of customs barriers to mutual trade between the three countries will ensure the growth of their mutual GDP by 15-20% by 2015. According to estimates by the experts of the Higher School of Economics, Russian GDP may grow 10%.

_www.lenta.ru_

_November 27, 2009_

A meeting of the Supreme Body of the Customs Union of Belarus, Russia and Kazakhstan was held in Minsk. The presidents of the three countries A. Lukashenko, N. Nazarbayev and D. Medvedev reviewed 15 draft agreements, including the agreements on the Customs Code, a single customs tariff and unified commodity classification. The participants of the meeting discussed an array of issues on external trade regulations, including the keeping of statistics, the functioning of a single system of bans and limitations, and the gradual cancellation of economic restriction measures in mutual trade of the three members of the Customs Union. Following the results of the EurAsEC Interstate Council session the presidents of three countries signed a package of documents to launch the Customs Union on January 1, 2010.

_RIA Novosti_

_December 11, 2009_

Following the results of the meeting of the Supreme Body of the Customs Union of Belarus, Russia and Kazakhstan in St. Petersburg, Russian Prime Minister V. Putin kick-started the building of a new territorial unit with a common external border and without any internal boundaries. The Prime Ministers signed agreements on technical regulation, sanitary norms and excise duties.
Within the framework of the Customs Union Russia will preserve the customs tariff at a previous level of 82%, 14% of import duties will be lowered and 4% will rise. The figures for Belarus are 75%, 7% and 18% respectively, and for Kazakhstan – 45%, 10% and 45%.

The Customs Union starts operating on January 1, 2010, and from July 1, 2010 a single territory “inspections and duty free” mode will be put into force. A future step is the harmonisation of economic policy not only among the three member states, but also those countries that are already willing to join the Customs Union – Kyrgyzstan, Tajikistan and Armenia, as well as “harmonisation in the field of currency exchange regulation and a single level of support for different economic sectors”.

**Single Economic Space**

**Russia, Belarus and Kazakhstan Establish a Single Economic Space**

*December 19, 2009*

Following the results of an informal summit in Almaty the presidents of Russia, Belarus and Kazakhstan agreed to establish a single economic area by January 1, 2012. The establishment of a single economic area of the Customs Union would be the highest level of economic integration of the countries. Within the framework of the single economic space the countries will establish a common energy market and a unified transport space. Moreover, it will help solve other principal issues.

**Other News on the Customs Union**

**Kazakhstan’s Prospects within the Customs Union**

*November 26, 2009*

With the Customs Union in effect Kazakhstan will have to raise customs duties on imports of goods from the other countries, however the VAT rate will remain unchanged. Being a member of the Customs Union Kazakhstan will discover not only new possibilities but new challenges as well. The higher import duties will lead to a slight increase in domestic prices, and inflation will rise by 0.5-0.7%. However, the rise in the inflation will level out if Kazakhstan reduces imports, replacing them with domestic products.

The Customs Union will come into force on January 1, 2010. It will result in the gradual unification of the customs legislation and introduction of a single customs tariff. The member states agreed upon several exceptional
circumstances in order to support certain sectors of their economies and directly or indirectly support their businesses. The VAT rate is one of the exceptions. The VAT rate in Kazakhstan will remain flat at 12%, in Russia and Belarus – 18%. In addition, after the establishment of the Customs Union the return of VAT from the budget to Kazakhstan’s exporters will be performed on a timely basis in accordance with legislation. The leaders of the customs services of three countries plan to sign a corresponding agreement, which will foresee a monthly interchange of a VAT return applications database, which would be performed via special information systems.

**Russian Modality to Spread All over the Customs Union**

*December 2, 2009*

A Russian modality of car assembly will spread over the whole Customs Union. From January 1, 2010 the foreign-made cars being assembled in Russia now will be exempt from duties when imported to Kazakhstan and Belarus. The decision was made by the Customs Union Commission and published on its official website. At present the legislations of member states regarding assembly plants differ from each other, in particular Kazakhstan and Russia. Moreover, customs duties are applied to foreign-made cars that are assembled in Russia and imported to neighbouring countries, as the newly established manufactures failed to reach the required level of localisation (50%).

According to decisions made on November 27, 2009 in Minsk, from 2010 foreign-made cars assembled in Russia will be exempt from duties when imported to Belarus and Kazakhstan, if their manufacturer reached a 30% level of production localisation. According to Russian Ministry of Industry and Trade, the bulk of car manufacturers operating in Russia meet this requirement. The same scheme will be applied to imports of foreign-made cars assembled in Kazakhstan. Moreover, by mid 2010 the Customs Union member states are supposed to unify their legislation on commercial assembly on the basis of Russian requirements for capacity and localisation of car components production.

**Kyrgyzstan Intends to Join the Customs Union**

*December 3, 2009*

Kyrgyzstan authorities contemplate the possibility of joining the Customs Union. The Kyrgyz president K. Bakiyev tasked the government with “studying the issue of Kyrgyzstan entering the Customs Union voiced its intent to enter the Customs Union on June 19, 2009 at a meeting of EurAsEC heads of customs authorities.”
Union”. The government established a special working group that is working on the issues of harmonising the country’s customs legislation with the legislations of the Customs Union member states.

**RIA Novosti**

**Belarus, Russia and Kazakhstan Set Up Sugar Producers’ Union**

**December 28, 2009**

The sugar producers of Belarus, Russia and Kazakhstan intend to create a sugar union within the framework of the Customs Union. Belarus will be represented by the Belgospischeprom group, Russia by the Union of Sugar Producers, and Kazakhstan by the Asia Sugar association. The parties have recently signed a protocol of intent; the development of foundation documents is underway. The prime responsibility of the union is to boost the production of beetroot sugar in the Customs Union member states.

The union will impose seasonal customs duties on the import of raw sugar to encourage domestic sugar beet producers. Sugar produced from raw sugar will not be exported to markets in Customs Union participating states, only to external countries. The Belgospischeprom group announced that the parties had already reconciled the balance of sugar deliveries for 2010. Next year Belarus will be able to export 150,000 tons of beetroot sugar to Russia and 10,000 tons of beetroot sugar to Kazakhstan.

The new organisation will be headquartered in Moscow at the Union of Sugar Producers of Russia. Moreover, the Customs Union is also considering the establishment of a union of butter producers.

**RIA Novosti**

**WTO**

**Accession to the WTO as the Customs Union**

**June 9, 2009**

Russia, Belarus and Kazakhstan plan to launch negotiations for accession to the World Trade Organisation as a Customs Union, Russian Prime Minister V. Putin said following a meeting of the Union’s supreme body. Putin also said that a draft project for a uniform customs tariff, effective January 1, 2010, was approved.

The three countries’ Prime Ministers had issued a joint statement to notify the World Trade Organisation on the plan to start a negotiation process on the accession of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation to the WTO as a single customs territory. The three countries are terminating the talks for their separate accession bids.
It remains a common priority to seek the entry of three countries to the WTO, but this time as a single customs space, as a customs union, and not as each country separately. The WTO accession talks will be held by a special joint group of specialists from three countries.

Interfax

Customs Union Member States’ WTO Accession Scenarios

July 9, 2009

The Customs Union has not yet filed an official application for accession to the WTO and the date of negotiations has still not been set. According to the WTO Secretariat, the experts held “informal consultations on the subject, which were necessary for a clearer understanding of the situation in order to make it easy for the Customs Union member states to choose the right way of accession”.

The experts of the WTO Secretariat and the trade organisation member states suggested three scenarios for WTO accession. The first scenario involved accessing the WTO as a unified Customs Union. The second scenario proposed the accession of three countries within the framework of the Customs Union, simultaneously and on equal terms. According to the third variant, all three countries would join the WTO separately, at different times and on diverse conditions.

The first scenario is the most difficult of all as its implementation requires the Customs Union member states to have a single customs tariff and a common non-tariff regulations system.

Vedomosti

New Prospects for Russia’s Accession to the WTO

July 13, 2009

Russia may choose the second scenario for WTO accession, which foresees the accession of Russia, Belarus and Kazakhstan separately but within the framework of the Customs Union, simultaneously and on equal terms. The consultations with the members of the WTO and independent experts showed that from a legal point of view the accession of the Customs Union to WTO as a single organisation does not mean the Union itself joins. First the supranational functions of the Union will have to be expanded on all the spheres related to the WTO regulations. This may substantially delay the accession of the Customs Union member states to the WTO.

Vedomostii
Russia to Access the WTO Together with Belarus and Kazakhstan

August 12, 2009

The issues of the WTO accession negotiation process and the draft Customs Code topped the agenda of the meeting of the Customs Union Commission.

The first issue touched upon the format of accession to WTO. Discussions on the preferable scenario of accession began on June 9, when within the framework of the EurAsEC Interstate Council the Prime Ministers of Russia, Belarus and Kazakhstan agreed to join the WTO together. However, a month later, during the press conference on results of the G8 summit in L’Acquila, Italy, Russian president D. Medvedev announced that Russia would approach the WTO separately. In other words, the member states of the Customs Union will stick to an alternate scenario of joining the WTO that foresees the simultaneous accession of the three states, with their steps being coordinated.

If the countries confirm their intention to join the WTO together, the bilateral talks will be suspended. The negotiations between the Customs Union and the WTO may then be resumed not earlier than 2011, when the formation of the Customs Union will finally be completed.

Following the results of the session the Customs Union being put together by Russia, Belarus, and Kazakhstan established a unified group of negotiators on joining the World Trade Organisation headed by M. Medvedkov. Medvedkov currently leads the Russian delegation in the negotiations on joining the WTO. This negotiating team will hold negotiations on the Customs Union’s accession to the WTO and also on Russia’s, Belarus’, and Kazakhstan’s accession to the WTO on acceptable terms and conditions, which will be coordinated. The priority is Russia’s, Belarus’ and Kazakhstan’s simultaneous accession on equal terms.

Kommersant

WTO Talks to be Resumed

September 3, 2009

Russia, Belarus and Kazakhstan held trilateral consultations in Moscow in order to coordinate their stance on WTO accession and resume negotiations with the trade organisation in October. Within the framework of consultations the parties agreed upon certain actions that would allow them to continue talks on WTO accession in the near future. The talks are supposed to resume in January 2010.

Reuters
Russia, Kazakhstan and Belarus to Join the WTO Separately

October 6, 2009

Within the framework of the multilateral consultations in Geneva, Russia, Belarus and Kazakhstan announced that they intend to resume individual talks on WTO accession. However the countries agreed to coordinate their efforts.

Economic Sectors

Oil and gas

Russian–Ukrainian Relations. Gas Conflict between Russia and Ukraine

January 7, 2009

From January 1, Russian Gazprom cut gas supply to Ukraine, and on January 7, to European consumers. The conflict resulted from a dispute over Ukrainian Naftogaz’ debts for Russian gas supplied in 2008, gas prices for 2009 and Ukraine’s illegitimate siphoning off of gas from the export pipeline system. As a result, 18 European countries were cut off from gas supplies.

January 13, 2009

Gazprom resumed pumping gas to Ukraine’s pipelines. Gas deliveries are carried out through the Sudzha gas measuring station. Russian gas was first delivered to the most affected countries – Bulgaria, Romania, Turkey, Macedonia, Greece, Moldova and Slovakia. According to Gazprom, the company pumped 76.6 million m$^3$ of gas for the Balkans and another 22.2 million m$^3$ for Slovakia. However, despite the presence of European observers, Ukraine did not open the transit gas pipelines and kept the gas on its territory.

January 15, 2009

Ukraine resumed gas deliveries to Moldova to the smallest possible extent through the main pipeline a week after the deliveries were cut off. Gas deliveries to Moldova via the Ukrainian gas pipeline were cut off on January 7. As a result, the whole Transdniestria region and south Moldova had run out of gas. On January 14, Ukraine resumed gas supplies to the Odessa region. The two largest regional enterprises – Moldova metal plant (Russian investors own most of its shares) and Moldova GRES (100% owned by Inter RAO UES) were still without gas.

January 20, 2009

Russia resumed gas deliveries to Ukrainian consumers, as well as gas transit through Ukraine to Europe after a three week break in supplies.
According to Gazprom, the Russian gas price for Ukraine will amount to $360 per 1,000 m³ in the first quarter of 2009 and will be subject to trimestrial changes throughout the year, based on the “European market” gas price with a 0.8 coefficient or 20% discount. According to an agreement with Ukraine, starting January 1, 2010 Ukraine will have no discounts on gas purchases. An agreement for gas transit through Ukraine maintains the preferential transit rate of $1.7 per 1,000 m³ per 100 km for 2009 and $2.5 for 2010.

The signing of two separate agreements on gas transit via Ukraine and gas deliveries to Ukraine should serve as a guarantee of uninterrupted supply of gas to Ukraine and Europe in future. Both agreements are valid from 2009 until 2018.

*Reuters*

**March 18, 2009**

Gazprom acknowledged the receipt of an official letter from Ukraine’s Naftogaz in late February with an offer to review separate provisions of a contract dated January 19, 2009 and reduce the gas supplies to Ukraine in the current year by 17.5% to 33 billion m³.

In March the head of Gazprom, A. Miller, announced that Russia would not fine Ukraine for falling short of the contracted gas purchase volumes in February 2009. However, according to the agreements, every month Ukraine is obliged to purchase the minimal contract-stipulated amounts of gas. On March 12, Russian Prime Minister V. Putin also noted that Moscow would not use sanctions against Kyiv for under-importing under a bilateral agreement due to Ukraine’s difficult economic situation.

According to Gazprom’s operational principles, a counteragent is obliged to pay for contract-stipulated amount of gas. According to the agreements, Ukraine had to purchase 2 billion m³ of gas in February for $720 million. However, Ukraine imported only 1 billion m³ of gas for $360 million. In the first quarter of 2009 Russian gas was being supplied to Ukraine for $360 per 1,000 m³. Later on the price would be subject to changes in accordance with oil products price dynamics. According to the estimates by the Ukrainian government, the average annual price in 2009 will be $228.8 per 1,000 m³.

On March 17, Ukraine’s Naftogaz presented its new balance, according to which gas supplies throughout Ukraine amounted to 6 billion m³ in February (11.3 billion m³ in February 2008). According to the experts, the annual gas transit through Ukraine to the EU will not exceed 100 billion m³ instead of the stated 120 billion m³.

*Kommersant-online*
Q3 Gas Price is Set for Ukraine

July 3, 2009

In the first quarter of 2009 Naftogaz bought Russian gas for $360 per 1,000 m$^3$, in the second quarter the gas price fell to $280. The gas price for Ukraine in the third quarter was $198 per 1,000 m$^3$. According to Gazprom’s forecasts, the gas price in the last quarter of 2009 will amount to $155 per 1,000 m$^3$.

The gas price for Ukraine in 2009 was changing every three months according to the world market oil price. In 2009 Ukraine was to buy Russian gas with a 20% discount. The parties agreed to transfer to market relations in 2010.

This allowed Naftogaz to boost Russian gas purchases in July. In June Ukraine sharply decreased the pumping-in of gas to underground gasholders due to higher prices in the second quarter compared to the third quarter of 2009. As a result, Ukraine bought only 1.1 billion m$^3$ out of the 3.4 billion contract-stipulated amount of gas. However, Gazprom did not fine Ukraine for the shortfall. Under the bilateral agreement with Gazprom signed in January, Ukraine is liable to penalties for under-importing if the shortfall exceeds 20%. Within the current economic crisis conditions Ukraine saw a sharp decrease of demand for gas. Ukraine was to pay around $300 million for gas consumption in June. In July Naftogaz would have had to pay $1 billion. Ukraine faced difficulties in paying for Russian gas several times during the year. The economic crisis resulted in a sharp fall in budget revenues and losses for Naftogaz, which led to a shortage of funds for gas purchases.

Ukraine Boosts Russian Gas Purchases

July 8, 2009

As was expected, the benefits Ukraine receives from the current system of gas pricing, resulted in Ukraine increasing its gas purchases four-fold in the first week of July. Daily average request for a month amounted to around 120 million m$^3$ (33 million m$^3$ in June). Naftogaz said that 19.5 billion m$^3$ of gas were currently stored in Ukraine’s gasholders and that the company planned to increase this amount by 9 billion m$^3$ during the third quarter of 2009.

Taking into account the current state of affairs, Naftogaz intended to pay Gazprom $736.6 million in July. Naftogaz is currently in talks on raising a $4 billion loan via the Russian bank Troika Dialog. Both Naftogaz and Troika Dialog refrained from comments. Ukrainian Prime Minister Y. Timoshenko pledged that Ukraine would pay for gas on a timely basis. Gazprom confirmed
the receipt of payment for June (less than $300 million) but voiced concern over the future gas payments due to the increased amount of gas being purchased.

_Vedomosti_

**Kyiv Plans to Raise Gas Transfer Price by 60%**

*September 3, 2009*

One of the key issues of Russian-Ukrainian relations is the transit of hydrocarbons. Around 80% of Russian gas exports are transported through Ukraine to Europe. According to Gazprom, the price for Russian gas transit via Ukraine may be increased in 2010 by 51-59%. At present Gazprom forecasts the transit price in 2010 to be $2.56-$2.7 per 1,000 m$^3$ per 100 km. This year Gazprom was paying $1.7 per 1,000 m$^3$ per 100 km.

Gazprom’s estimates are a bit lower than the forecasts of Naftogaz, which foresees a 57-60% rise in transit prices to $2.67-$2.72 in 2010. Earlier Ukrainian authorities expressed discontent with the transit rate.

_Reuters_

**Russia Refuses Kyiv Prepayment for Gas Transit**

*September 7, 2009*

Russian president D. Medvedev instructed the head of Gazprom to reject Ukraine’s request for prepayment of Russian gas transit. In its turn Ukraine noted that transit rates in 2010 will raise “significantly” but promised there will be no problems with gas transit to Europe.

Relations between Russia and Ukraine, the economy of which suffered the heaviest crisis blow among CIS member states, have remained difficult since the “gas war” early in 2009, which temporarily halted Russian gas supplies to Europe. Around 120 billion m$^3$ of Russian gas is being transported through Ukraine a year or about 80% of all Russian gas export. The head of Gazprom, A. Miller, said that Russian gas transit through Ukraine is currently prepaid up to and including the first quarter 2010.

Ukraine’s Prime Minister Y. Timoshenko announced that Ukraine completed the pumping-in of gas to underground gasholders and promised to ensure the reliable export of Russian gas to Europe. However, she warned that the transit rate will rise by 50-70% next year. In summer Ukraine pumps gas into the underground gasholders situated near the country’s western border, in order to use it in winter for partial replacement of gas exported by Gazprom to Europe.

_Reuters_
Russia, Ukraine Settle Gas Issue

November 23, 2009

Within the framework of the summit of the CIS heads of governments in Yalta the participants held an array of bilateral talks, including talks between the Prime Ministers of Russia and Ukraine, V. Putin and Y. Timoshenko.

Putin agreed to record in writing the reduction of Russia gas purchases by Ukraine’s Naftogaz in 2010 and Gazprom’s obligation not to fine Ukraine for falling short of contracted gas purchase volumes in the current year. A new round of Russian-Ukrainian gas talks began on November 23, in Moscow. Naftogaz and Gazprom were trying to seal the political agreements reached by the premiers of both countries. According to experts, Gazprom will fulfill the instructions of the Russian Prime Minister and agree to change the gas purchase amount. However, the provision that concerns fines will remain in the contract. Moreover, Naftogaz still has some unsettled issues to take care of – a lawsuit for $8.3 billion filed by Swiss RosUkrEnergo to the Stockholm Court (50% stake in RosUkrEnergo belongs to Gazprom), for compensation for the loss of 11 billion m$^3$ of gas in Ukrainian gasholders this winter.

During the meeting the parties also discussed other issues. The corresponding agencies of both countries prepared to sign a strategic agreement in the nuclear sphere for the period to 2020. Moreover, Ukraine intends to cooperate with Russia in the field of new technologies by taking part in the construction and development of a global satellite navigation system, GLONASS. Russia and Ukraine also agreed to cooperate in the aircraft industry. A protocol on cooperation foresees the integration of Antonov Group of companies with the United Aircraft Corporation.

Finally, Putin and Timoshenko agreed that by late 2009 the parties will have signed a protocol to the agreement on regulating the deliveries of certain types of Ukrainian-made pipes to Russia in order to prolong the validity of the agreement. The parties are supposed to transfer from the tariff-based method of regulating imports of stainless pipes from Ukraine to Russia (special protective duty) to non-tariff (quota).

Gazprom to Lose $1.3 Billion over Gas Supplies to Ukraine

December 7, 2009

According to Gazprom, the company will lose $1.3 billion over gas deliveries to Ukraine. This sum doesn’t include fines and is based on the “take or pay” clause in the gas supply contracts.

On November 25, 2009 Naftogaz and Gazprom signed a supplement to the agreement dated January 19, 2009, according to which the contract-
stipulated amounts of gas to be purchased by Ukraine in 2010 will be reduced to 33.75 billion m³ from the planned 52 billion m³. The parties also agreed not to apply fines for the shortfall in 2009. If Russia had fined Ukraine, the country would have paid from $5.8 billion (Naftogaz’ estimates) to $7.8 billion (president Yuschenko’s estimates).

**Uzbekistan–Russia**

**Uzbekistan Ready to Sell More Gas to Russia**

*January 23, 2009*

During the visit of Russian president D. Medvedev to Uzbekistan, Uzbek head of state I. Karimov noted that Uzbekistan is ready to double its sales of gas to Russia. According to Karimov, Uzbekistan offered Gazprom 16 billion m³ of gas for export this year, but the country is ready to provide more. Gazprom, along with LUKoil, a Russian private oil and gas company, is active in energy-rich Uzbekistan. Considering that LUKoil has been granted permission to increase gas production in this country, Uzbekistan can supply another 15 billion m³ of gas. Moreover, Uzbekistan is ready for new gas pipelines to be built across its territory to increase gas supply and transit.

According to the head of Gazprom, A. Miller, during the Russian-Uzbek talks in Tashkent the parties reached agreements on cooperation in gas transportation sphere. In particular, they are studying the possibility of building gas transit lines running parallel to the existing Central Asia – Centre pipelines. The parties agreed upon the key issue of transfer to market prices in late 2008. In the second half of 2008 the price was $165 per 1,000 m³ and the average annual price was around $140.

**Ekspert Online**

*December 11, 2009*

Gazprom OJSC and Uztransgaz JSC signed supplements to the agreement on the transit of natural gas through the territory of Uzbekistan.
in 2010 and the major conditions for gas deliveries to Gazprom by the Uzbekneftegaz national company in 2010.

www.finam.ru

Uzbekistan–Tajikistan

Uzbekistan Cuts Gas Supplies to Tajikistan

January 26, 2009

Uzbekistan reduced the amount of gas transmitted to Tajikistan by 50% due to Tajik debt of $9 million. At the time, Tajikistan received around 800,000 m³ of gas a day instead of the 1.65 million supplied earlier.

The clients of the Tajik gas distributor owe the company around $18.7 million. Dushanbe combined heat and power plant is one of the major debtors. Moreover, the unpaid gas debt of the Barki Tojik energy holding tops $8.29 million, Tajikcement’s debt amounts to $107 million, Somonsugdgas’ – $1.73 million and Tajikistan’s individual consumers’ debt amounts to around $1 million.

Gas deliveries to the country’s population continue, however, the large enterprises as TajikAzot, engaged in mineral fertilisers production, and Tajikcement were cut off from gas supplies.

On December 19, 2008 Uztransgaz informed Tajikistan that starting 2009 the gas price will be more than doubled. Tajikistan is not pleased with a gas price of $300 per 1,000 m³ and considers the current gas price of $145 per 1,000 m³ to be excessive within the crisis conditions.

Uzbekistan is the only country that exports gas to Tajikistan. Tajikistan’s domestic gas production amounted to only 14.7 million m³ in January-November 2008. However, Russian Gazprom and Canadian Tethys Petroleum are currently engaged in developing promising gas fields in Tajikistan.

March 6, 2009

According to Tajiktransgaz, Tajikistan paid $4 million to Uztransgaz thus having reduced its total gas debt from $18 million to $14 million.

Uzbekistan cut gas supplies to Tajikistan by 50% over unpaid debts. In January-February 2009 Tajikistan received 70 million m³ of gas out of the 140 million m³ earlier projected. According to agreements, Uzbekistan will supply around 550 million m³ of gas to Tajikistan at a price of $240 per 1,000 m³. Last year the gas price for Tajikistan was $145 per 1,000 m³.

www.ca-news.org
According to Tajiktransgaz OJSC, Uzbekistan resumed supplies of natural gas to Tajikistan, after the country cleared the majority of its $18 million debt. Tajik’s debt to Uzbekistan resulted from domestic non-payments, mostly by large Tajik enterprises. The largest commercial bank in Tajikistan, Oriyonbank, issued a $10 million loan to debtor-enterprises so that they could redeem their gas debts.

In January-August 2009 Tajikistan reduced the import of natural gas from Uzbekistan by 52.7% to 168 million m$^3$. Tajik domestic gas production in the period amounted to 10.8 million m$^3$.

Reuters

Russia–Turkmenistan

Russian–Turkmen Gas Challenges

According to the Russian gas company Gazprom, gas supplies from Turkmenistan have been suspended due to a pipeline rupture. Turkmengaz informed Gazprom in the April 9 morning that a rupture and fire occurred on the 487$^{th}$ km of the Davletbat–Dariyalyk gas pipeline at 01:32 a.m.. There has been no delivery of Turkmen gas to Russia since then. Turkmenistan is working to repair the damaged pipeline and to divert deliveries of gas through unused lines of its Central Asia–Centre pipeline network.

Turkmenistan is the largest supplier of Central Asian gas to Gazprom. The first line of the Central Asia–Centre gas pipeline network that transports gas to Russia was built in 1967. The Central Asia–Centre consists of several lines with an annual capacity of 80 billion m$^3$ of gas. According to Turkmen Foreign Ministry, in 2008 Turkmengaz exported around 50 billion m$^3$ of natural gas out of the 70.5 billion m$^3$ produced. In 2009 Turkmenistan plans to produce over 75 billion m$^3$ of gas and export over 51 billion.

The bulk of gas is supplied through Russia to Ukraine. Gazprom has no difficulties with production at present and faced a substantial decrease in demand for its production in the first quarter and had to reduce exports to Europe. Moreover, in early April Gazprom cut gas deliveries to the Balkans due to an explosion at the main gas pipeline in Transdniestria.

The gas relationship between Russia and Turkmenistan became strained after Ashgabad’s announcement of an international tender for the construction of an East-West gas pipeline that will transport gas from Iolotan, the largest gas field in the CIS, to the Caspian Sea.
September 14, 2009

Over the last several months the parties have repeatedly tried to bridge the gap. The head of Gazprom, A. Miller, visited Ashgabad on several occasions, and the Russian president D. Medvedev paid a visit to Turkmenistan in September. However, the parties failed to reach an agreement on resuming gas supplies. The leaders of Russia and Turkmenistan were unable to coordinate the schedule for resuming Turkmen gas deliveries to Russia, which were halted after the explosion at the gas pipeline in the spring. The pipeline rupture prevented Turkmenistan, the largest gas supplier, from exporting for nearly six months. Gas deliveries cannot be resumed due to the disagreements over the price and amounts of gas. Before the rupture Turkmenistan supplied Gazprom with around 50 billion m$^3$ a year, or over two thirds of domestic gas production last year and nearly one tenth of Gazprom’s production, which remains the only export channel for Turkmenistan.

After the pipeline rupture Ashgabad tried to widen the geography of its gas supplies and reached agreements on increasing gas deliveries to Iran. Moreover, Turkmenistan boosted the preparation for the construction of a gas pipeline to China and made a proposal to deliver gas for a future Nabucco gas pipeline to Europe, a main competitor to the Russian South Stream project. Gazprom does not have an urgent need to purchase expensive Central Asian gas because of a reduction of the company’s own sales early this year due to falling European demand.

Though Turkmenistan does not face serious problems with the reduction in gas deliveries due to monetary reserves accumulated in recent years, reaching an agreement with Russia is nevertheless very important.

December 22, 2009

Following the results of a meeting between Russian and Turkmen presidents, the state-run companies Gazprom and Turkmengaz signed amendments to the contract, according to which the exports of gas from Turkmenistan to Russia will resume on January 1-10, 2010. Therefore, the gas conflict between the two countries that began in spring 2009 has finally ended. According to the new contract, Russia pledged to purchase up to 30 billion m$^3$ of Turkmen gas annually. Prior to 2009 Gazprom bought around 48 billion m$^3$ of Turkmen gas a year and according to Gazprom’s budget for the next three years, purchases of Turkmen gas were to decrease to 10.5 billion m$^3$. The price for gas will be set according to the European price formula.

Due to a decrease in European demand for gas in 2010 Gazprom plans to cut its purchases of gas from Central Asian suppliers. According to the company’s budget, next year Gazprom plans to purchase around 32.8 billion m$^3$. 

Reuters
m³ of Central Asian gas. Meanwhile, Gazprom’s budget foresees that the level of gas deliveries from Uzbekistan and Kazakhstan will even increase slightly. Gazprom intends to purchase around 14.5 billion m³ of gas from Tashkent and 17.2 billion m³ from Astana. Thus, the forecasted cut in purchases of Central Asian gas will mainly affect Turkmenistan. Turkmenistan may be able to compensate for the loss in revenue by entering the Chinese gas market.

Lenta.ru

Turkmen Gas Transport Routes

March 29, 2009

Turkmenistan announced a tender for the construction of a 1,000 km-long pipeline that will link the gas fields of Eastern Osman and Southern Iolotan and transport gas to the Caspian Sea.

Turkmenistan has repeatedly noted its intent “to diversify the Turkmen gas delivery routes, as well as to establish a reliable and stable system of transporting Turkmen energy resources to international markets”.

Within the framework of the official visit to Moscow on March 24-26, Turkmen president G. Berdymuhamedov met with his Russian counterpart D. Medvedev and the Prime Minister V. Putin. Contrary to expectations, the parties failed to sign an agreement on construction of a gas pipeline in Turkmenistan.

Reuters

June 24, 2009

Turkmen president G. Berdymuhamedov and Chinese Vice Premier Li Keqiang signed a package of agreements on the gas union of Turkmenistan and China. China will provide a $3 billion loan to Turkmenistan for the development of the country’s largest gas field, Southern Iolotan. Gas produced from this field will be transported to China via the pipeline that will be put into operation this year. Chinese authorities intend to transport gas from Southern Iolotan via the Turkmenistan-China pipeline (through Uzbekistan and Kazakhstan), the construction of which is nearing completion. The pipelines initial capacity will be 30 billion m³ a year, which will be increased to 40 billion m³ a year. The project capacity of the planned Nabucco, for comparison, would be 31 billion m³ of gas a year by

In late 2007 the governments of Russia, Kazakhstan and Turkmenistan signed an agreement on the construction of a Pre-Caspian gas pipeline. According to the agreement, it is planned to modernise and build new pipelines in the territories of the three states in order to shape the so-called Pre-Caspian gas pipeline system with capacity of up to 30 billion m³ of gas a year. It is planned that the parties will commission the Pre-Caspian gas pipeline, which will follow the Eastern shore of the Caspian Sea and enter the Russian system of gas pipelines, in 2010. Meanwhile, China is building a pipeline from Turkmenistan through Uzbekistan and Kazakhstan, and is also intending to start gas transportation in 2010. The capacity of this pipeline will reach 40 billion m³ a year instead of the planned 30 billion. In turn, the European Union is actively advising Turkmenistan to join the Nabucco project.
2019. Beijing hopes that for a long term the substantial part of Turkmen gas will be transported to China.

*Kommersnat*

**September 23, 2009**

In mid December Turkmenistan is going to pump gas into the new gas pipeline. In 2007 Turkmenistan, Uzbekistan and Kazakhstan reached agreement with the Chinese national oil and gas corporation CNPC over the construction of two lines of a 7,000 km-long gas pipeline to China with a project capacity of up to 40 billion m$^3$ of gas a year. Construction of the pipeline’s first route will be completed on schedule. The project costs over $7 billion.

During the initial stage Turkmenistan will pump around 13 billion m$^3$ of gas a year. With the development of new fields the gas pipeline will reach its project capacity. In June China will provide a $3 billion loan to Turkmenistan for the development of the country’s largest gas field, Southern Iolotan.

*Reuters*

**December 14, 2009**

The presidents of Turkmenistan, Kazakhstan and Uzbekistan, G. Berdymuhamedov, N. Nazarbayev and I. Karimov, as well as the Chairman of China Hu Jintao commissioned Turkmenistan–China gas pipeline. The ceremony of the opening of the new gas pipeline was held at the Samandepe field, where the transnational gas pipeline starts from. This event marked Turkmenistan commencing gas supplies to China. A total of 150 million m$^3$ of gas was to be delivered to China by the end of 2009. In the following years, gas supplies will increase. The pipeline’s project capacity is 40 billion m$^3$ of gas a year.

*RIA Novosti*

**Russia–Azerbaijan**

**October 14, 2009**

Gazprom signed an agreement on the purchase of up to 500 million m$^3$ of gas from Azerbaijan in 2010. Gazprom plans to add gas from Azerbaijan to its own exports to Europe and hopes to increase purchases in the future. The price for gas deliveries from Azerbaijan will depend on a formula based on world oil prices. Gazprom and State Oil Company of Azerbaijan Republic (SOCAR) agreed to start delivering gas using the first gas from the second phase of Azerbaijan’s Shah Deniz offshore field in June. The natural gas reserves of the Shah Deniz gas field amount to 1.3 trillion m$^3$ of natural gas. Gas output of the Shah Deniz gas and condensate field will top 8 billion m$^3$ of gas this year. Gazprom is looking forward to purchasing gas from the second phase of Shah Deniz that will come on stream in 2016. Europe is also counting on the second
stage of Shah Deniz as this field may be used as a possible source of gas for the Nabucco project.

Azerbaijan’s authorities repeatedly stated that they will select the buyer for gas from the second stage of Shah Deniz on a basis of business factors.

*Reuters*

**Kazakhstan–Russia**

**Gas Transit**

*January 21, 2009*

Kazakhstan raised the gas transit rate from $1.4 to $1.7 per 1,000 m$^3$ per 100 km. A corresponding agreement was signed by KazMunayGaz and Gazprom.

*Reuters*

*November 19, 2009*

Astana is in talks with Russia on transiting gas through the territory of Russian Federation. Until now Gazprom has always re-exported Central Asian gas. Within the framework of negotiations with Russia on the Customs Union, the Kazakh Energy Ministry together with Kazakhstan’s national oil and gas company KazMunayGaz have been trying to agree upon improving the conditions for oil transit through Russian territory and the possibility of gas transit. Kazakhstan managed to negotiate stable tariffs on oil that would not exceed the price for oil transportation within Russia. The issue of gas transit is still far from being settled. According to the Russian government, Russia and Kazakhstan held expert consultations on the issues of oil transportation and gas transit on October 14-16. The results of the consultations have not yet been made public.

According to experts, Russia could have benefited from transiting Central Asian gas and not reselling it. It could have been especially feasible for the country’s budget because re-export is not liable to customs duties. At present foreign gas is forcing Russian production out of Gazprom’s exports. However, Gazprom benefits from selling its own gas and receives higher profit instead of engaging itself in re-exports that sometimes may turn loss making. Moreover, through becoming a transiting company the Russian holding would release itself from the risk of the gas buyer. Demand for gas next year will not be high enough and Kazakhstan fears that Gazprom would not buy enough gas from the country, as happened with Turkmenistan. Astana is striving for direct access to consumers. From an economic point of view this could be more profitable for Gazprom than re-exporting Kazakh gas. However, the holding may lose part of the marketing outlet.

*RBK Daily*
November 20, 2009

Within the framework of the CIS Heads of Governments meeting in Yalta the participants signed a protocol of amendment to the agreement on oil transit signed by Russia and Kazakhstan on June 7, 2002.

The parties plan to increase the capacity of Atyrau–Samara oil pipeline from 15 million tons to 25 million tons of oil a year, as well as the capacity of the Caspian Pipeline Consortium (CPC) to 67 million tons of oil per annum by 2014. They also envisage cooperating in the projects for the construction of the Burgas–Alexandroupolis and Samsun–Ceyhan pipelines.

Moreover, according to the amendments, tariffs for oil transiting must be competitive and non-discriminatory.

In addition, the stated tariff is being fixed as of November 1, 2009 for the period to December 31, 2014 with a possible further annual readjustment in accordance with the level of inflation. The tariff may also include an investment component in case the parties agree to expand the operating systems of main oil pipelines.

www.finam.ru

Other Oil and Gas News

Gazprom Transfers $625 Million to Belarus for 12.5% of Beltransgaz Shares

February 11, 2009

Russian Gazprom transferred $625 million to Belarus for acquisition of another 12.5% of shares of gas transportation monopolist Beltransgaz. After long-term arguments Belarus agreed to sell a 50% stake in Beltransgaz to Gazprom in equal parts of 12.5% within four years with each part priced at $625 million in exchange for preserving preferential gas prices. Gazprom purchased the first two parts in 2006 and 2007.

Reuters

Disputed Matters of Caspian Oil Fields

July 24, 2009

Turkmenistan authorities plan to appeal to the International Court of Arbitration in order to assert the country’s rights for the oil and gas fields in the Caspian Sea that are being disputed with Azerbaijan.

Turkmen president G. Berdymuhamedov noted at a government meeting that the issue of delimitation of a passing border and the median line dividing the Caspian between Turkmenistan and Azerbaijan cannot be solved because of the position of Baku. According to him, the situation emerged due to the
fact that the rich oil and gas fields Serdar, Osman and Omar are located in a disputable part of the Caspian Sea but Azerbaijan believes the fields belong to it.

Berdymuhamedov instructed the government to recruit international experts – qualified lawyers to examine the legality of Azerbaijan’s claims to the disputed offshore fields in the Caspian Sea, prepare the documents and bring the case to the International Court of Arbitration. The head of Turkmenistan also tasked the government with informing all international companies currently working in the disputed part of the Caspian that, should the Court rule in favour of Ashgabad, Turkmenistan will demand compensation for the damages from these companies.

Gazprom to Gain Control over the Kyrgyz Gas Company

August 6, 2009

Kyrgyzstan agreed to sell Gazprom a controlling stake in Kyrgyzgaz, Kyrgyzstan’s national gas company. The Kyrgyz parliament committee for international affairs approved the corresponding draft agreement on June 15, 2009.

The Russian government proposed the acquisition of 75% plus one share in the Kyrgyz national gas company. The Russian party undertook to supply the Central Asian republic with natural gas at tariffs approved by the Kyrgyz government, and also to modernise and upgrade equipment and carry out major repairs to trunk gas pipelines. An estimated $400 million is required to bring the state of the Kyrgyz gas industry up to an acceptable standard.

Kommersant

Baku and Astana Agree on Oil Transit

October 2, 2009

The State Oil Company of Azerbaijan Republic and Kazakhstan’s national oil and gas company KazMunayGaz signed three documents on the tanker transit of oil from Kazakhstan to Azerbaijan and from there to international markets.

RBK Daily

Kyrgyzgaz is engaged in the purchase, transport and distribution of natural gas in Kyrgyzstan, as well as settling accounts with consumers and suppliers. Kyrgyz State Property Committee owns an 87.9% stake in Kyrgyzgaz and another 5.37% of shares belong to the country’s social fund. Kyrgyzstan’s proven natural gas reserves are estimated at 6 billion m³. Kyrgyzstan only produces about 30 million m³ of gas annually compared with annual consumption of around 750 million m³. Gazprom’s officials were not available for comments on the company’s future obligations to Bishkek and the deal’s price as all legal formalities had not yet been completed. In October 2008 Gazprom and Kyrgyz government signed a memorandum of understanding on boosting cooperation within the framework of privatising part of the state-owned Kyrgyzgaz. Meanwhile, Russia intends to stretch its assistance beyond Kyrgyzstan’s gas field. By the end of 2009 Russia planned to establish a joint venture for the construction of Kambarata-1 HPP, which will belong to Kyrgyzstan and Russia on a parity basis. The project will cost $1.7 billion.
In 2006 Kazakhstan and Azerbaijan, the largest oil producing countries in the Pre-Caspian region, initiated talks on the possible launch of the Trans-Caspian Project in 2012. The project will help deliver oil from Kazakhstan’s Kashagan oil field, one of the largest in the world, through Azerbaijan to the Black and Mediterranean Seas.

Within the framework of Kazakh president N. Nazarbayev’s visit to Baku on October 2, the parties signed an agreement engaging Azerbaijan’s infrastructure in transiting Kazakhstan’s oil, a memorandum on performing a Trans-Caspian Project feasibility study for tanker transportation of oil from Aktau and Kuryka over the Caspian Sea and a memorandum on cooperation in establishing a Baku-Black Sea oil transportation route.

The project proposes the delivery of oil from Kazakhstan to Baku ports, where the oil will be distributed among the existing infrastructure – rail and pipelines, and transported to international markets. In order to successfully implement the project Kazakhstan needs to guarantee certain amounts of oil to be transported, mainly from Kashagan, in order to initiate talks with international financial institutions on financing the Trans-Caspian Project.

**Reuters**

### Electric power

**Settling the Central Asian Energy Crisis**

From January 1, 2009 Uzbekistan halted transit of Turkmen electric power to Tajikistan and aggravated the country’s crisis situation even further.

A serious situation emerged at Nurek HPP, which produces around 70% of the country’s energy. The amount of water in Nurek reservoir would only be enough to produce energy till mid February. At present the level of water in Nurek reservoir is 8.5 m lower than necessary. The limit for the dam’s usage lies only 7 m lower.

*February 6, 2009*

The Central Asian united power grid may fail due to a complex situation with Tajikistan’s power supply. The energy systems of Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan operate in parallel mode with the Central Asian united power grid maintaining the planned cross-flows of electric energy. The Tajik power system faces a tense situation with electric power supply, which may lead to large illegal cross-flows of energy from other power systems to Tajikistan. This in its turn may cause an imbalance in normal parameters of electric energy quality and a possible response from an emergency control schemes that will shut down all other power systems in the Central Asian united power grid.
February 27, 2009

The Central Asian region faced a shortfall in energy consumption. Despite substantial restrictions, introduced in Kazakhstan, Tajikistan and Uzbekistan, all power systems continue to experience difficulties.

According to the National Electric Grid of Kyrgyzstan OJSC, Kyrgyz power system faces difficulties in securing an uninterrupted power supply in the north. On February 26, 2009 Kazakhstan’s power grid started operating independently of the Central Asian united power grid, which led to a shutdown of all 500-22-110 kV high-voltage power lines on the border with Kyrgyzstan.

Kazakhstan withdrew from the Central Asian united energy grid due to systematic illegal energy cross-flows to the Tajik power system. The level of Nurek and Kairakum reservoirs was near critical and Tajikistan experienced an acute electric energy shortage. The parties tried to negotiate their parallel work within the Central Asian united power grid.

kg.akipress.org

March 13, 2009

Due to the uncoordinated actions of the Tajik and Uzbek energy systems Kazakhstan’s power system has been operating independently of the Central Asian united power grid since February 26, 2009 in order to ensure the stability of the national power system. It was assumed that independent operation of energy systems will continue till the seasonal water inflow and refill of the regional water reservoirs during the second half of April.

The transfer to the independent operation of energy grids boosted the resumption of Turkmen electric energy transit to Tajikistan. However, the imbalance between the generation and consumption of electricity led to frequent failures, frequency drops and restrictions for consumers of energy in Tajikistan, Kyrgyzstan and Uzbekistan.

Kazakhstan considered the possibility of reversing back to parallel operation within the Central Asian united power grid on conditions of energy payback, regulation of energy flows, unhampered transit and adherence to the schedule of energy consumption.

A working meeting of the representatives of ministries and energy systems operators of Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan was held in Almaty on March 6. Following the results of the meeting the parties decided to resume the Kazakh energy system’s parallel operation within the Central Asian united power grid.

According to agreements reached during the meeting, Turkmenistan and Uzbekistan will transfer up to 20 million kWh per day to Tajikistan. The Tajik power grid operator will sign an agreement with JSC KEGOC, Kazakhstan’s
national power grid operator, on power regulation. This will allow the South zone of Kazakhstan’s power system to receive up to 200-250 mW during the peak hours. Moreover, Tajikistan’s Barki Tojik will return the unscheduled energy consumption of 88.4 million kWh to Kazakhstan’s KEGOC.

Uzbekenergo will provide electric energy transit for the duration of the validity of an agreement between Barki Tojik and Turkmenenergo and secure power regulation within the range of 100-150 mW. Moreover, starting April 20 Uzbekenergo will begin compensating KEGOC for energy losses in January-March.

The parties began preparations for resuming parallel operation on March 7, and from March 11 Kazakhstan’s power system again began working in parallel mode with the power grid of Russia and the Central Asian united power grid. Kazakhstan reserved the right to pull out of the united power grids and return to individual operation.

*Kazinform*

**October 28, 2009**

According to JSC KEGOC, the national power grid operator, lately there has been unauthorised withdrawal of electricity from the Central Asian power system, namely by Tajikistan. In addition, there has been a difficulty in transmitting the Turkmen electricity through Uzbekistan to Tajikistan. An imbalance between the generation and consumption of electricity may overload the North-South overhead line, which will result in cascading failures affecting both the Kazakh and Russian power systems. The power system of Kazakhstan is largely self-sufficient, KEGOC said, and capable of satisfying not only internal demand for electricity but also supplying it to its neighbour, Kyrgyzstan. Moreover, in the last 10 years Kazakhstan has pulled out of the Central Asian power system twice. The previous occasion was from February 26 to March 11, 2009 due to an imbalance in generation and consumption of electricity by the Central Asian states. Kazakhstan withdrew from the Central Asian united energy grid due to systematic illegal energy cross-flows to the Tajik power system.

*Vesti.kz*

**December 1, 2009**

According to the Uzbekenergo state joint stock company, Uzbekistan seceded from the parallel energy grid of Central Asia. In early October the leadership of Uzbekenergo’s dispatch centre expressed concern over possible illegal energy cross-flows, as well as the exposure of local power grids to external disturbances.

One of the weak points in the work of Uzbekistan’s power system was the disjunction of its constituents – all southern territories of the country depended
on energy supplies from Tajikistan. Over the last two years Uzbekistan had been busy building a loop electric power transmission line that was completed on November 25, 2009.

According to the leadership of Barki Tojik energy holding, Uzbekistan’s withdrawal from the Central Asian united power grid will deprive Tajikistan of the only transit line for Turkmen energy. Tajikistan managed to unite its power transmission lines into a joint system before Uzbekistan pulled out of the Central Asian united power grid. On November 29, Tajikistan commissioned a new South-North high-voltage power line with capacity of 500 kW. Until this point, Tajikistan had not had a national united power system for more than 70 years.

Uzbekistan’s withdrawal from the Central Asian united power grid mostly affects Tajikistan. The import-export statistics for nine months of 2009 demonstrate that the ratio was nearly equal (1051.8 million kWh and 1171.6 million kWh respectively). Moreover, the bulk of energy is imported from Turkmenistan and the majority of exported energy goes to Uzbekistan. Kazakhstan, being the second largest energy exporter (217.4 million kWh), also used Uzbek power lines.

According to Uzbek authorities, in withdrawing from the Central Asian united power grid, Uzbekistan has not breached any international regulations or international commitments assumed by the state and described the Soviet-era regional power grid as an “outdated and unreliable” union that is becoming a source of conflict among member countries. Kazakhstan noted that its power systems allows it to operate independently and assist Kyrgyzstan, however the country believes that the parallel operation increases reliability and improves the energy supply mode.

*RIA Novosti, Kursiv*

**Other Events in the Electric Power Sector**

**Construction of Kambarata-1 HPP in Kyrgyzstan**

*February 3, 2009*

The governments of Russia and Kyrgyzstan signed an agreement on the construction of Kambarata-1 HPP. Under the agreement the parties will jointly construct and manage Kambarata-1 HPP and necessary infrastructural facilities. According to the agreement, the parties will establish a joint venture between INTER RAO UES (Russia) and OJSC Electric Stations (Kyrgyzstan). Both will have a 50% stake in the authorised capital of the new venture.

Russia will provide $11.7 billion in loans for construction within four years starting from 2009. The loans will be provided for 20 years with a grace period of 4 years. Moreover, the Finance Ministries of both countries
reached an agreement on providing gratuitous financial aid of $150 million to Kyrgyzstan that will be transferred to the republic by April 30, 2009.

As of January 1, 2009 Kyrgyzstan’s state debt to Russia was over $193 million.

Kyrgyzstan will redeem part of the debt by selling a 48% stake in the OJSC Transnational Company Dastan to Russia for over $19 million.

The remaining debt will be written off within the framework of measures for rendering official development assistance to the country.

Fergana.ru

Kazakhstan Suspends Nuclear Power Plant Project in Aktau

February 23, 2009

Kazakhstan has suspended the project for the construction of the nuclear power plant in Aktau until all the issues regarding the transfer of the intellectual property are settled. The funds allocated from the budget for the feasibility study for the project were handed back to the budget, as the project requires a complete legal base, in particular, the clause providing for the transfer of the intellectual property by Russia.

According to the officials, the parties first need to sign an intergovernmental agreement on the transfer of the intellectual property. As the agreement on the transfer of the intellectual property has not yet been signed, Kazakhstan, responsible for financing the project, finds it unreasonable to spend the budget funds.

The experts consider the current economic situation to be the key reason for suspending the project, because it is difficult to accumulate the necessary amount of funds under the current crisis conditions. Moreover, if the current world economy trend continues, the cost of energy production by the nuclear power plant may match or surpass the price for energy produced by simple thermal power plants but with a substantially higher level of initial investment.

Institute Hydropower Completes Works at Sangtuda-1 HPP

March 3, 2009

Institute Hydropower is implementing the completion stage at Sangtuda-1 HPP in Tajikistan. The commissioning of the last fourth unit of hydraulic plant was scheduled for late March. In the near future it is planned to build the dam up to the design elevation, raise the water storage basin to the standard top flood control level and install radial gates on terminal units.
The project was initiated on April 15, 2005 – HPP’s construction was officially resumed after a long break with the assistance of the Russian participators. The project’s originator is JSC Sangtuda-1 HPP, a joint stock company of Russia and Tajikistan. Inter RAO UES invested around $600 million in the project. At present this is the largest project in the power engineering industry that is being implemented with Tajikistan’s participation. It is supported at the top governmental level. Sangtuda-1 HPP with a capacity of 670 mW is located on the River Vakhsh near the settlement of Sangtuda, 170 km from Dushanbe. Commissioning Sangtuda-1 HPP is an important step in solving the problem of power supply in Tajikistan.

Institute Hydproject, which is under the management of JSC Engineering Center UES, operated as General Designer and performed design and survey work, developed design documentation, provided field supervision during construction of the 670 mW Sangtuda-1 HPP. The hydraulic plant project was implemented under the control of the company’s specialists. The plant includes a dam (earth fill embankment dam with a core), HPP facility, turbine waterways, HPP water intake, construction and service spillway (with two construction and service tunnels, water intake and terminal units), as well as 220 kW outdoor switchgear. Manufacture and delivery of the basic equipment was provided by OJSC Power Machines.

www.ruscable.ru

Inter RAO UES Plans to Purchase a 50% Stake in Ekibastuz GRES-1

November 26, 2009

Russian Inter RAO UES expected to purchase a 50% stake in the Ekibastuz GRES-1 power station in Pavlodar region of Kazakhstan from Kazakhmys before the end of 2009, or in the first quarter of 2010 at the latest. If the deal is closed Russia will own around 10% of Kazakhstan’s total electric energy and by 2013 Russia will increase its share to 15%. Kazakhmys has already approved the deal.

Inter RAO UES also owns a 50% stake in Ekibastuz GRES-2, which produces 8% of Kazakhstan’s total power, and a 76% stake in KazEnergoResurs LLC, bought in August 2009 for $3.5 million. Ekibastuz GRES-1, located 20 km from Ekibastuz GRES-2, is the largest coal-fired power stations in the world. Ekibastuz GRES-1 has 4,000 mW of installed capacity, whilst the Balkhash Thermal Power Plant (TPP), which will be put into operation in 2018, will be capable of producing 2400 mW.

At present Ekibastuz GRES-1 produces only 2,450 mW, or 12% of Kazakhstan’s total electric power, and is the only supplier of Kazakh power to Russia (300 mW). In three years the plants’ current capacity will be increased by 500 mW within the framework of the project for the reconstruction of the plant’s power unit No. 8, which has been out of service since 1995. The project’s budget is more than $160 million and the works are under way. Another two non-functioning power units (No. 1, 2) with a capacity of 500 mW each may be reconstructed much faster and at less cost because they are less dismantled.

Kursiv
Third Power Unit of Ekibastuz GRES-2

Inter RAO UES and Ekibastuz-2 State District Power Plant JSC signed an intergovernmental agreement on financing the construction of a third power unit with an installed capacity of 500 mW at Ekibastuz GRES-2. The project will be financed by Russia’s Vnesheconombank, the Eurasian Development Bank and Samruk-Energo. Russia’s VEB and EDB agreed to provide 15-year $770 million multicurrency loan on a parity basis. It is expected that the project for expanding Ekibastuz GRES-2 will help reunite Russia’s and Kazakhstan’s power grids, boost integration between two countries.

Financial Sector and Stock Markets

Vnesheconombank Purchases a 75% Stake in Ukrainian Prominvestbank

January 15, 2009

Vnesheconombank, the Russian state-run development bank known as VEB, bought a 75% stake in Ukraine’s sixth biggest bank by assets, Prominvestbank, after buying new shares.

According to a financial recovery plan, aside from increasing the authorised capital of the bank the shareholders will also provide additional financing of an amount of over 7 billion hryvnias and attract clients with large cash flows.

In December the Ukrainian Antimonopoly Committee gave permission to Vnesheconombank to purchase over 50% of Prominvestbank’s shares.

Sberbank is in Talks with Belarus over the Acquisition of BPS-Bank

March 11, 2009

Sberbank of Russia is studying the possibility of acquiring a 100% stake in Belarusian BPS-Bank. The National Bank of Belarus had earlier announced the possible sale of the controlling interest in BPS-Bank to a foreign investor. Sberbank of Russia expressed its interest in operating in the Belarusian market. In light of this, the government of Belarus and Sberbank of Russia signed an agreement on the conditions of interaction that included the possibility of gaining control over one of the existing banks or the establishment of a new bank.
December 10, 2009

The President of Belarus signed a decree on selling BPS-Bank to Sberbank of Russia for $280.73 million. According to conditions of the deal, the bank will pass into the ownership of Sberbank by late 2009. Sberbank will purchase 835.504 million BPS Bank shares for $0.336 each in 2009. The proceeds from the sale of BPS Bank will be allocated to the National Development Budget Fund of Belarus.

Sberbank will gain access to the Belarusian market and will be able to offer trade financing in Belarus to its corporate clients.

Ekspert Online

VTB Subsidiary Obtains a License in Kazakhstan

May 25, 2009

VTB’s subsidiary bank in Kazakhstan, Bank VTB (Kazakhstan), was granted a banking licence, the Russian lending institution said in a press release. VTB already has subsidiary banks in Ukraine, Belarus, Armenia, Azerbaijan and in a number of European and Asian countries.

According to VTB management board chairman A. Kostin, “expanding VTB Group’s presence in Kazakhstan will contribute to intensifying the interaction of the banking systems of the two countries. In launching the subsidiary bank VTB Kazakhstan aims to improve the operating efficiency of lending and settlement services as part of trade and economic cooperation activities for the benefit of Russian and Kazakh concerns”.

VTB has conducted operations in the Kazakh market since early 2008. A representative office was launched in Almaty in early February 2008 and work was under way to establish a subsidiary bank. The lending institution obtained permission from the Bank of Russia to open a subsidiary bank in Kazakh territory on February 21, 2008. The legal entity (subsidiary company Bank VTB (Kazakhstan)) was registered by the Justice Ministry of the Republic of Kazakhstan on September 9, 2008.

RIA Novosti

BTA Arranges Debt Restructuring

December 10, 2009

Sberbank received an offer from Samruk-Kazyna to acquire a stake in BTA Bank in February 2009. Since then the parties have been in talks. First it was reported that Samruk-Kazyna is ready to sell half of its stake in BTA Bank, however later on the fund informed that it intends to sell the whole
controlling stake of 75% of shares. Samruk-Kazyna gained control over BTA Bank in early 2009 when the bank faced serious troubles with liquidity.

Sberbank is still negotiating the deal and asked for the settlement of the bank’s accounts with creditors as a sine qua non condition. BTA Bank’s leadership plans to sign a debt restructuring agreement with its creditors. The external debts of BTA Bank stand at $13 billion. Meanwhile, the situation continues to deteriorate: Moody’s Investors Service downgraded the bank’s senior unsecured debt rating from Ca to C.

_Eurasian Bank (Kazakhstan) Gains Control over Russian Troika Dialog_

*December 15, 2009*

Eurasian Bank JSC (of Kazakhstan), ranked seventh by assets, has signed a sales and purchase agreement with Troika Dialog Investment Company CJSC and Troika Dialog Financial Consultant CJSC, for the acquisition of 100% of the shares in the commercial bank Troika Dialog. The parties did not disclose the amount of the transaction.

This marks an important transaction for the Eurasian Bank as it expands the bank’s regional footprint and platform consistent with its strategy. The acquisition will enable the Bank to benefit from cross-border trade and investment flows between Russia and Kazakhstan. According to the strategic initiatives of the Bank’s shareholders and management, the acquisition of Troika Dialog will allow the diversification of its loan portfolio as well as wider coverage through various banking services and products in Russia.

The structure of the transaction also includes the Eurasian Financial Corporation (owned by majority shareholders, the Kazakh Eurasian Natural Resources Corporation – ENRC), the 100% owner of Eurasian Bank, acting as nominee purchaser for the Bank in acquiring 1 share (100% of authorised capital) of Bank Troika Dialog. Completion of the transaction is planned for Q1 2010 subject to receipt of all regulatory approvals and authorisations in Kazakhstan and Russia, including changing the name of the bank to Eurasian Bank OJSC.

_Ekspert Online_

Belarus to Access Bond Market

*December 14, 2009*

Belarus is placing notes on the Russian market for a total sum of up to 15 billion roubles. Sberbank was appointed the lead manager for the placement. Belarus is undertaking a second attempt to raise funds on the Russian bond market. The market participants believe the placement to be successful.
On December 11, 2009 Sberbank and the government of Belarus signed an agreement, according to which the bank received a mandate to place Belarus Eurobonds for a total sum of $2 billion and floating notes for up to 15 billion roubles on the Russian bond market. Sberbank will also organise syndicates for the issue of loans to Belarus for a sum of $300 million and 5 billion roubles.

*RBK Daily*

**ETS Begins Trading**

*March 30, 2009*

On March 30, 2009 trading was opened on the Eurasian Trading System (ETS) headquartered in Almaty. The ETS is a joint project by the Regional Financial Centre of Almaty (RFCA) and the Russian Stock Exchange (RTS).

The launch of the ETS is seen as an event of high importance. The activity on the commodity stock market is low; the moderate sales volumes of Kazakhstan’s stock exchanges have shrunk even further during the last few years. 10 regional commodity exchanges operated in Kazakhstan last year. In a twelve month period the exchanges sealed only 671 deals for a total sum of 13.7 billion tenge, while in 2007 eleven operating at that moment stock exchanges signed 1.852 agreements for 28 billion tenge.

The state had repeatedly shown its interest in establishing a marketable and modern stock exchange in order to secure transparency and introduce risk hedging instruments. Moreover, there was a long felt need for a sustainable way to guarantee trade settlements.

The establishment of an active stock exchange was tasked to the RFCA, which aims to develop Kazakhstan’s stock market. The project benefited from the engaging of one of the leading Russian stock exchanges. The new Eurasian Trading System was established in a record time of three months on the basis of existing technologies and software support from the RTS. Trading and clearing is performed in the RTS electronic system, adapted to suit Kazakhstan’s conditions. Being a strategic partner, RTS helps ETS not only by providing the software, but also servicing the trading and helping Russian sellers and buyers to access the ETS. The expansion of the trading system is an important step for RTS in implementing international projects. Apart from the one in Almaty, a similar trading project was launched in Ukraine.

*Ekspert Kazakhstan*
Metal and Machine Building Industry

Construction of the First Mining Facility in Turkmenistan

June 19, 2009

Presidents of Belarus and Turkmenistan laid the foundation for the mining and processing complex for production of potassium fertilisers. The cost of constructing the plant which may become the largest in Central Asia is estimated at around $1 billion.

Belarusian company Belgorkhimprom won the bid for becoming the major partner in the project. According to Turkmen president G. Berdymuhamedov, the construction of this first mining plant means the creation of a new industry for Turkmenistan. Turkmenistan will now be able to find large consumers. According to the head of Belarus, the joint project will help support both countries in the conditions of the current financial crisis.

Russian–Kazakh Railcars Production Plans

October 16, 2009

Kazakhstan Temir Zholy National Railway Company (KTZh) and Uralvagonzavod, a Russian railcar manufacturer, agreed to establish railcar production in Kazakhstan. The companies signed a memorandum of understanding after the 13th meeting of the Kazakh-Russian intergovernmental commission on October 16 in Astana. This is a rather large project: the production capacity of the plant will amount to 3,000 railcars during the first stage and 5,000 during the second stage. The parties were not available for comment on the size of the investment or other details of the project. The plant will be built in Stepnogorsk, in the north of Kazakhstan.

A year ago, Uralvagonzavod’s rival, ICT Group, a Russian holding, announced plans to construct a railcar production plant in Kazakhstan that will cost over $200 million.

Mining

Consolidation of Russian Uranium Assets in Kazakhstan

March 12, 2009

On January 23, 2009, “Atomredmetzoloto” (ARMZ, operating under Rosatom corporation) Uranium Holding Co. signed an agreement with Effectivnaya Energia N.V. (Effective Energy N.V.), the owner of 50% of the Karatau Uranium Mine and 25% of Akbastau, on purchase of these assets.
located in Kazakhstan. Experts price the deal at around $560-580 million. Gazprombank provided a loan to ARMZ to finance the deal. Thus, ARMZ Uranium Holding Co. consolidated Russian uranium assets – 50% – in three joint ventures with Kazatomprom: Zarechnoye, Akbastau, and Karatau. Rosatom State Corporation was the final beneficiary of the agreement. The deal was closed after approvals had been granted by the relevant regulatory bodies in March 2009.

Rosatom has consolidated 100% of the uranium mining assets owned by Russia on the territory of Kazakhstan in the framework of the intergovernmental Russian-Kazakh program of cooperation in the field of peaceful use of nuclear energy, which is being implemented jointly with Kazatomprom on the instruction of the presidents of Russia and Kazakhstan. Moreover, the unique experience of ARMZ in uranium projects will have a positive impact on effective use of consolidated assets.

The purchase of the assets of Effective Energy N.V. has made Uranium Holding ARMZ the second biggest foreign uranium mining company operating in Kazakhstan in terms of uranium reserves.

Karatau and Akbastau develop the 2nd and the 1st, 3rd and 4th sections of Budyonovskoye deposit, respectively. The reserves and resources of the two companies total 49,800 tons and 84,000 tons of C1, C2 and P1 categories, respectively. The large amount of resources combined with the practice of stocking the greater part of them is a guarantee of the long-term operation of the deposits. The total capacity of the companies is 5,000 tons of uranium a year (2,000 and 3,000 tons at Karatau and Akbastau, respectively). This capacity is expected to be attained in 2015. Karatau is already mining uranium on a commercial basis: it produced 653 tons of uranium in 2008. Akbastau is in the pre-production phase and was due to start mining in 2009.

Russia and Kazakhstan have also formed the joint venture Zarechnoye, which mined 167 tons of uranium in 2008.

ARMZ, which is part of the Rosatom system, has said it plans to increase uranium production at its three Kazakhstan-based joint ventures to 6,000 tons by 2020. Just over 3,000 tons of uranium are being mined annually on Russian territory today.

Kursiv

Polyus Gold to Work out Development Strategy for KazakhGold

November 5, 2009

Management at Polyus Gold will discuss a strategic development model for KazakhGold, the Kazakhstan-based gold producer which the top Russian gold producer took over this year. Additional investment will, of course, be
needed. In 2010 the company may invest $100 million to triple production at KazakhGold at the earliest possible date.

The development programme will be implemented in several stages. During the first stage the company needs to increase production output back up to the Soviet-era volumes of 7-7.5 tons per year, or approximately three times today’s output. During the second stage the production output will be increased even more by adding new open pits and recovery plants. KazakhGold has two exploration projects in East Kazakhstan – Anzhal and Kaskabulak. The company might start producing gold at Anzhal in 2010 and at Kaskabulak in 2011. These aren’t big projects, but quite advantageous ones.

On November 30, the mass media published information that Polyus Gold management is mulling over the reverse acquisition of KazakhGold. If the deal goes through and KazakhGold becomes the core company of the holding, it will be renamed Polyus Gold. A reverse acquisition is one option under consideration to bolster the company’s share liquidity. Also, it would be more straightforward for a British company to use its own shares as acquisition currency and raise loans. Polyus Gold bought 50.1% of KazakhGold in August 2009. KazakhGold is registered in England and Wales and listed on the London Stock Exchange.

On December 3, KazakhGold Group Ltd. issued a Notification of Event of Default for its $200-million Senior Notes due 2013. A breach of the terms and conditions of the Senior Notes had resulted from the non-publication by KazakhGold of interim financial statements for the first six months of 2009. The report stated that KazakhGold was informed that the trustee has notified the holders of notes of the coming event of default under the terms of issue of notes. The Trustee is awaiting instructions from Noteholders as to whether to take enforcement action in respect of this event of default, and the Trustee will be required to take such action if so directed by Noteholders holding an aggregate of 25% or more of the principal amount outstanding of the Senior Notes. In the event that the Trustee does take enforcement action, the Senior Notes, together with accrued interest, will become immediately due and payable.

On August 3, 2009, Polyus subsidiary Jennington International Inc., which is officially buying back the shares, had received valid acceptances in respect of a total of 39.62 million KazakhGold Shares, which represents approximately 74.84% of KazakhGold’s existing charter capital. This is one and a half times more than Polyus needed: Polyus Gold had planned to buy a 50.1% stake in the Kazakh company. Polyus Gold will pay $7.18 and 0.064 Polyus shares for each share in KazakhGold (a 50.1% stake in KazakhGold is priced at $269 million, as of June 11, 2009 quotation). Therefore, Polyus Gold’s first international purchase will cost the company around $187 million in cash and 0.9% of Polyus shares. The largest shareholder in KazakhGold is Gold Lion Holdings Ltd, which owns 41.7% of the company’s shares. By purchasing KazakhGold Polyus will be able to increase its gold reserves by 20% to 86.8 million ounces, as well as production by 20% or by 200,000-250,000 ounces a year.
**Polymetal Acquires Varvarinskoye Mine**

*November 26, 2009*

Russia’s top silver producer Polymetal announced that it has entered into a definitive sale and purchase agreement (SPA) to acquire a 100% interest in the Varvarinskoye Gold-Copper Mine in Kazakhstan from Orsu Metals Corporation for an aggregate purchase price of up to $20 million (plus any deferral interest).

Under the terms of the SPA, Polymetal will acquire 100% of the shares in Three K Exploration and Mining Limited, a wholly-owned subsidiary of Orsu which currently owns Varvarinskoye (directly and indirectly). Polymetal itself said the total consideration payable to Orsu by Polymetal comprises of $8 million in cash payable upon completion, and deferred consideration of up to a maximum of $12 million (plus any deferral interest), contingent on and calculable in reference to future prices of gold and copper.

Prior to entering into the transaction, Orsu held certain debt and hedging obligations relating to Varvarinskoye with a syndicate of banks including Investec Bank, Nedbank Limited and Natixis Bank, specifically: debt obligations in the amount of approximately $73 million, comprising of a $35 million Export Credit Insurance Corporation, South Africa (ECIC) loan, a $8 million convertible loan, a $18 million commercial loan, and $12 million of overdue hedging obligations; and gold forward contracts totaling 338,468 ounces at a strike price of $574.25 per ounce with a total estimated value of approximately negative $140 million (based on a spot gold price of $950 per ounce).

As part of the transaction, Polymetal has reached preliminary agreement with the lenders to restructure current debt and hedging obligations, under which these obligations will be transferred to the Varvarinskoye asset level, with limited recourse to Polymetal. In addition, the lenders have agreed to restructure the existing hedging contracts (in a form acceptable to Polymetal) to allow Varvarinskoye to benefit from future gold price increases. The repayment schedule of the resulting debt and hedging liabilities will be rescheduled with final repayment becoming due in 2013 (35% of the total liabilities) and 2014 (65% of the total liabilities). In addition, a cash sweep mechanism will apply to all free cash flows generated from Varvarinskoye in the preceding years. Polymetal has agreed to provide the lenders with a corporate guarantee of $90 million, which may be called upon in specific limited circumstances.

Polymetal views the asset as promising and intends to invest in it $20 million next year to double the production.

Kazakhstan is ranked seventh in the world by gold reserves.
Agricultural Sector

Establishment of Grain Exporters Pool

June 8, 2009

Russia, Ukraine and Kazakhstan, which together supply around a quarter of the world’s wheat export, are in talks over the possible establishment of a pool of Black Sea grain producers to coordinate policy on volumes and prices and share infrastructure such as ports, Russian president and Agriculture Ministers of Ukraine and Kazakhstan said at the World Grain Forum on June 6 in St. Petersburg.

Russia intends to increase the average grain harvest to 135 million tons during the next 10-15 years. Russia reaped a record 108.1 million tons of grain in 2008, the largest grain harvest in the Post-Soviet years. The annual exports in this case may rise to 40-50 million tons of grain, Russian Agriculture Minister Y. Skrynnik said. This is twice as much as grain exports in 2008, when Russia exported 22.25 million tons, according to Prozerno analytical company. Russia is ranked second by grain exports. According to Prozerno, Kazakhstan and Ukraine are sixth and seventh respectively in the list of the world’s largest grain exporters.

A coordinated export policy by Russia, Kazakhstan and Ukraine may lower the volatility of prices on the world’s market and their dependence on speculative activities, help jointly manage grain reserves, optimise the use of grain infrastructure across the three countries, as well as improve their competitiveness on international markets.

A working group to study the possibility of creating the pool of grain exporters was established several months ago. The possible scheme for the pool’s operation is still being discussed. However, the possible increase in grain exports is limited by the peak capacity of the Russian infrastructure. At present Russia is capable of transshipping 25 million tons of grain a year. Therefore, in order to boost grain exports Russia needs to expand and modernise its infrastructure. Ukraine’s port infrastructure is widening and the country will be able to transship up to 42 million tons of grain in the near future. According to the Ukrainian Agriculture Ministry, grain harvest in 2009 will reach 42-43 million tons and “Ukraine’s ports will be free to transship not only domestic grain, but also grain produced by partner countries”. Kazakhstan is actively widening its export infrastructure. The country plans to complete the construction of grain terminals in Beineu that will be engaged in grain exports to Uzbekistan and Turkmenistan, the grain terminal on the Black Sea, as well as the grain terminal on the border with China by 2013.

Vedomosti
Kazakhstan May Boost Flour Exports

December 10, 2009

In 2008 Kazakhstan became the top world flour exporter by exporting 1.8 million tons of flour. Meanwhile, Kazakhstan intends to raise annual flour exports to 2.5 million tons by 2014, according to experts from Kazagromarketing. Kazakhstan is capable of producing over 6 million tons of flour a year if its production facilities operate at their peak capacity. During the last few years Kazakhstan’s flour production has improved significantly. The average annual growth reached 9% in the last five years. The sustainability of flour production is also explained by the annual growth in flour exports. Flour exports grew by 24% in 2008 compared to 2007; the average annual exports growth in the period from 2003 to 2008 was 32%. The largest flour producing companies are situated in the grain rich regions and the South Kazakhstan region due to its proximity to the Central Asian markets. Kazakhstan exports flour mainly to the Central Asian states, including Kyrgyzstan, Tajikistan, Turkmenistan, Afghanistan and Uzbekistan, which account for the bulk of flour exports (600,000-700,000 tons a year). Kazakhstan also ships flour to Iran, Georgia, Mongolia and Azerbaijan.

Kazakhstan’s flour exports are limited only by import abilities of those countries which receive Kazakh flour. According to the Union of Grain Processors and Bakers of Kazakhstan, Kazakh flour market potential is 10 million tons. Flour exports are much more profitable than grain exports due to the fact that flour price has a substantial added value. Kazakhstan’s flour leads the flour market due to its high competitiveness and quality, high bread-making potential based on the value of the protein complex, as well as the relatively low costs of transportation to the CIS member states.

According to experts from Kazagromarketing, Kazakhstan joining the Customs Union would not influence the flour price and may aid in boosting flour exports due to access to the sea and the opportunity to export flour to the European Union member states.

Food Industry

Unimilk Launches Two Production Units in Belarus

September 9, 2009

The second largest Russian dairy producer Unimilk invested in the establishment of two new production units in Belarus. Unimilk launched two joint ventures with Belarusian Pruzhansk Dairy Plant OJSC and Shklovsk Dairy Plant JSC.
The dairy plant in Shklovsk will be put into operation in the first quarter of 2010 with capacity of 50 tons of dairy products a day and a further increase in production to 100 tons a day. Unimilk will specify the details of operation of the second joint venture in Pruzhansk in late September, during a joint meeting of Agriculture Ministries of both countries. The parties intended to discuss the issue of deliveries of primary products to dairy plants. Unimilk is the first Russian dairy producer to gain access to the Belarusian market. Until this venture, Belarusian legislation prevented foreign investors from acquiring the country’s milk plants. During the last five years Russian milk giants Wimm-Bill-Dann and Unimilk held talks on the implementation of projects in Belarus. However, positive results of these negotiations emerged only when Russia and Belarus ended the milk war that broke out in June this year after Russia introduced a ban on importing Belarusian dairy products.

Unimilk, the second largest Russian producer of milk products, controls 24 dairy plants in Russia and 2 in Ukraine.

Security

Uzbek Parliament Ratifies Agreement on State Border with Tajikistan

March 12, 2009

On March 12, Uzbek parliament approved a 2002 Tajik-Uzbek border demarcation agreement. Tajikistan’s lower chamber of parliament approved the border agreement with Uzbekistan in late February. The agreement settled 85% of the border line.

The intergovernmental commissions of both countries now have to complete the process of delimitation of the remaining 15% of the border line consisting of four places along the border, which are still disputed and open to discussion, by late 2009, as well as to perform the Uzbek-Tajik border demarcation procedure in accordance with standards of international law.

Tajikistan and Uzbekistan disagree on the region’s water management, as well as energy supplies. A notable fact is that according to the Tajik party the length of the border makes up 1.106 km where as the Uzbek government believes it to be 1.161 km.

Tajik-Uzbek joint commissions on economic cooperation and border lineation met on February 18, in Dushanbe to discuss cooperation issues. The second session of the Tajik-Uzbek intergovernmental commission on trade and economic cooperation resulted in signing of an agreement establishing closer economic ties that are dedicated to ease the electricity shortage in Tajikistan.
Uzbekistan Strengthens Border in Ferghana Valley

August 20, 2009

Tashkent continues strengthening the state border in the Ferghana Valley – the most densely populated area of Central Asia. In June Uzbek authorities began excavating trenches 3 m in depth and width, as well as building 7-metre high concrete walls along certain parts of the border.

This time the government aimed to creating a full-fledged isolation space along the border. In order to do so, all households within 50 m of the border were resettled to interior parts of the country. Uzbekistan’s measures evoked criticism from Kyrgyz authorities that believe construction of fortifications along the border to be a breakaway from the border agreements that forbid all construction works until the completion of the border delimitation.

REGNUM, www.ca-news.org

Other news

Tajikistan Hosts SCO Anti-Terror Drill

April 6, 2009

A two-day joint anti-terror drill of member nations of the Shanghai Cooperation Organisation (SCO), dubbed Norak-Anti-terror 2009, was conducted at the Fakhrobod training ground in the Khatlon province, some 30 km to the south of Dushanbe.

The purpose of the exercise was to rehearse coordination and interaction in antiterrorist missions, boost vocational training, battle training, exchange of experience and practical skills, as well as improve tactical efficiency in the fight against international terrorism, political extremism and separatism.

The drill was conducted as part of a common plan and in accordance with an appropriate decision by the SCO anti-terror centre. The exercise was conducted in two stages and involved task forces and special action forces from the armed forces of Tajikistan, China, Kazakhstan, Kyrgyzstan, and

The territorial issue is the key challenge in relationships between Uzbekistan and Kyrgyzstan. The countries performed delimitation of the major part of the joint Uzbek-Kyrgyz border that amounts to around 1,300 km. However, there are 58 disputed areas along the border that are still being discussed. The special intergovernmental commission on border issues faces many difficulties in its work, mostly due to the mutual contradictions. The Uzbek party advocates the use of a map dated 1924 to delineate boundary lines whereas Kyrgyzstan suggests using a map dated 1955.

The conflicts on the Kyrgyz-Uzbek border are regular in character. 21 border incidents, including one fatal case, took place in 2009. The clash between Uzbekistan and Kyrgyzstan has lasted for several years. At the same time Tashkent takes steps to “move” the border at its own convenience. The local population depends on the cross-border trade and in order to make their living people smuggle goods across the border. The conflict escalated in early June 2009 when Uzbekistan virtually blocked Kyrgyzstan by building 7-metre high concrete walls and closed the bulk of border checkpoints. In response the Kyrgyz border guard service accused Uzbekistan of violating bilateral agreements.
Russia. The drill involved military personnel along with armoured vehicles, combat helicopters, artillery and aircraft. Representatives of defence and civilian structures from the CIS and other countries observed the joint drill.

CIS Member States Develop Military Cooperation
June 3, 2009

The CIS Defence Ministers’ Council held a session in Moscow to discuss the prospects of military cooperation development. Given the importance of promoting integration processes in the military sphere, the defence ministers, among other issues, determined conceptual approaches to the development of military cooperation between CIS member countries for the period up to 2015 and approved a plan of joint actions of the CIS member states armed forces for 2010.

Particular attention was paid to the issues of establishing and modernising different unified military systems. The participants specified the terms and operations of the second stage of the establishment of a united system of communications and approved a list of facilities planned for joining the system.

The Defence Ministers analysed the safety of flights in the Armed Forces of the CIS member states and made the decision to set up a package of application programs securing the functioning of the uniform information and analytical system of safety flights and the CIS in-flight reliability. The participants of the session considered the aspects of improving the Air Defence unified system. The Defence Ministers discussed issues of cooperation between engineering troops of the CIS countries’ armies, military science and military-technical cooperation, as well as the burning issues of training and retraining of military personnel, particularly, operational forces of the CIS air defence and specialists in the field of physical training and sports for the armies of the Commonwealth.

Ukraine Calls Russia to Hand over the Black Sea Fleet Facilities
July 2, 2009

Ukrainian Foreign Ministry appealed to Russia with a request to hand over the hydrographic navigation facilities being used by the Russian Black Sea Fleet.

Earlier the courts of Ukraine ruled that the Black Sea Fleet facilities must be handed over to Ukrainian government, however, the Russian naval command

In May 2010, Ukraine and Russia signed an agreement on the extension of the lease.
refused to obey the ruling. In particular, on June 16, Russian sailors denied Ukrainian bailiffs entrance to the Mars-75 radio navigational station on the grounds that the Russian-Ukrainian relations on issues of hydrographic facilities are subject to international agreements and not the rulings of local courts. Attempts to seize the Black Sea Fleet facilities on the grounds of judicial decisions started in 2005. One of the most recent attempts took place in March this year.

According to Russian Black Sea Fleet command, Ukrainian efforts to seize the facilities upon local court orders are illegal and contradict the framework agreements on the status and conditions of the Russian Black Sea Fleet deployment on the territory of Ukraine dated 1997. According to the Fleet Commander-in-Chief Vice Admiral A. Kletskov, actions carried out by Ukraine are groundless without resolutions by the Russian government, which acts as the lease holder. All changes to the current status of the hydrographic navigation facilities being used by the Russian Black Sea Fleet can be introduced only on the intergovernmental level, because the Black Sea Fleet and Russian Defence Ministry are not the lease holders.

*Kommersant-Online*