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*Central Asia- Caucasus Institute
Silk Road Studies Program*

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THE CENTRAL ASIA-CAUCASUS ANALYST

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Submission Guidelines:

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

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

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

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

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

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

Those interested in joining *The Analyst's* pool of authors to contribute articles, field reports, or contacts of potential writers, please send your CV to: <scornell@jhu.edu> and suggest some topics on which you would like to write.

Svante E. Cornell

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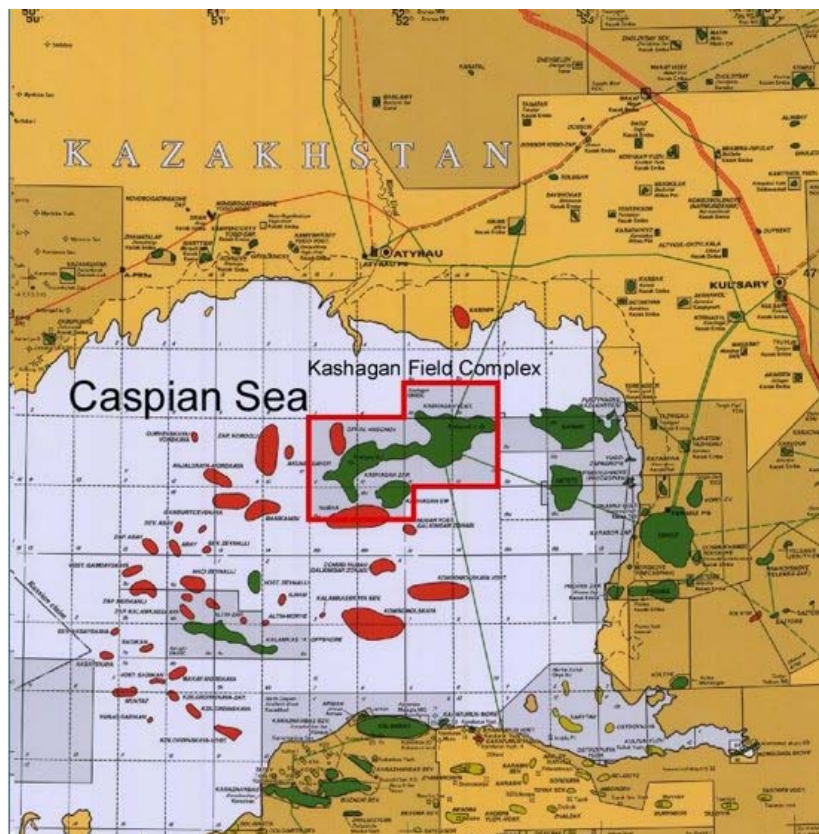
KASHAGAN LEADS KAZAKHSTAN TO INCREASE TRANS-CASPIAN OIL EXPORTS

Robert M. Cutler

Kazakhstan and Azerbaijan have culminated years-long negotiations with agreements that increase the amounts of Kazakhstani oil to be shipped across the Caspian Sea, supplementing Azerbaijani crude in the Baku-Tbilisi-Ceyhan (BTC) pipeline. Still more significant, redevelopment and expansion of ports on Georgia's Black Sea coast now prepare the way for Kazakhstani crude to enter the Odessa-Brody pipeline (OBP), which will be reversed again so as to flow east-to-west, and so to reach world markets by way of Gdansk. This oil will come from the massive offshore Kashagan field or even the onshore Tengiz field itself.

BACKGROUND: The Kashagan field in the Kazakhstani sector of the Caspian Sea remains the largest oilfield discovered since Prudhoe Bay, Alaska, in 1968. Measuring 25 by 45 miles, two and a half times the size of the nearby and better-known onshore Tengiz field, it is routinely ranked as the fifth or sixth biggest in the world and has the largest reserves of any oilfield outside the Middle East. These reserves are currently estimated at 38 billion barrels, of which up to 13 billion are judged recoverable. However, a combination of formidable technical obstacles has delayed the field's entry into production. The field was captured rather than flared, and it also has provisions requiring appropriate care be taken not to damage the

For example, temperature extremes range from -25 to +100 degrees Fahrenheit (-30 to +40 Celsius). The waters are shallow, generally no more than 10-12 feet deep, and freeze over for at least four months of the year on average. Also, the reservoir itself is rather deep and under very high pressure. Moreover, the sulfur content is estimated to be between 16 and 20 per cent, and would corrode pipelines if not treated and removed beforehand. Finally, Kazakhstani law requires that the associated natural gas be



environment, including delicate, protected plants and animals.

About 80 percent of Kazakhstan's oil has nowhere to go today, other than through Russia's pipeline system. Half the remainder is exported through the Georgian Black Sea port of Batumi, the seaside capital of the Georgian autonomous province of Ajaria; the rest goes to China. So Kazakhstan has now decided to construct a 590-mile pipeline, for Kashagan oil in particular, running from Eskene, where Kashagan's onshore processing facility will be located once full-field development gets under way, to the port of Kuryk, near Aqtau. Starting at 500,000 barrels per day (bpd), its volume would later be increased to 750,000 bpd; to this, another 400,000 bpd may be added by doubling the

KazMunaiGaz, holding 16.81%; Eni, Total, and ExxonMobil, and Shell, each holding 16.66%; and ConocoPhillips and Inpex, each holding 8.28%).

IMPLICATIONS: Earlier this decade, when it was thought that Azerbaijani offshore oil might not be plentiful enough to fill the BTC to maximum capacity, and when Kashagan seemed on-track for early development, oil from Kashagan was considered a prime candidate for topping off the BTC. That is because the Kazakhstani government had been counting on Russia to make good on its promises to double the volume of the pipeline of the Caspian Pipeline Consortium (CPC) from 615,000 to nearly 1.3 million bpd, so as to accommodate increased production at the onshore Tengiz field. Yet despite

such promises, as well as repeated public statements by Russian leaders at the highest level, Russia's commitments to expand CPC pipeline volume have not materialized.

Regardless whether this failure is due to internal Russian bureaucratic and interregional squabbling or to the unwillingness of the Russian leadership to act on its words, the



capacity of the Aqtau port itself.

This pipeline, provisionally estimated to cost US\$3 billion, will be the main section of a projected Kazakhstan-Caspian Transportation System (KCTS) that will include expanded and upgraded ports as well as construction of tanker fleets and, if necessary, additional pipelines within Kazakhstan itself. Parties to this agreement are the national energy trust KazMunaiGaz, TengizChevrOil (the consortium developing the Tengiz field, led by Chevron), and Agip KCO (the consortium developing the Kashagan field, formerly led by Eni; comprising the national company

result for Kazakhstan has been the same.

TengizChevrOil already exports about 120,000 bpd of Kazakhstani oil across the Caspian Sea by barge to the Sangachal terminal at Baku, whence then overland by railcar to Batumi. Kulevi, on the Georgian coast near Poti on the Black Sea, is the site of a new export terminal opened only two months ago. It is planned to handle about 100,000 bpd of "late oil" from Azerbaijan to start with, but its capacity can be doubled within two years, and then doubled again if necessary to handle further oil from Kazakhstan. It is not out of the question that Kazakhstan later adds further elements to

the Eskene-Kuryk pipeline, effectively expanding the KCTS so as to decrease its dependence on the pipeline of the Caspian Pipeline Consortium (CPC), which runs from the Tengiz into Russia and then across to Novorossiisk on the Black Sea.

Tankers from Batumi and Kulevi/Poti can take Kazakhstan's as well as Azerbaijan's oil to Ukraine over the Black Sea for insertion into the Odessa-Brody pipeline (OBP). This pipeline, finished in 2001, lay empty for three years because Russia refused to allow transit of oil from Kazakhstan that would have been destined for Europe. So instead of flowing southeast-to-northwest, the OBP has since 2004 instead flowed northwest-to-southeast, carrying Russian oil domestically inside Ukraine. Now that Kazakhstani oil will have another route to the OBP, its flow will be reversed back to the originally intended direction. From Brody, the oil will flow to Plock, Poland, since higher world prices have made this continuation of the OBP economically justifiable to construct; from Plock, an existing pipeline goes to the port of Gdansk and thence to world markets. Since Kashagan is now not planned to enter production until 2013, this project can, if necessary, use oil from Tengiz or even the Azerbaijani offshore in the meantime.

CONCLUSIONS: Both Tengiz and eventually Kashagan oil could conceivably reach China. Already, a pipeline runs to the Caspian port of Atyrau from Kenkiyak in the Aktobe region of western Kazakhstan, where China has industrial interests in the country's hydrocarbon industry. Also, the Kazakhstan-China pipeline finished in 2006 runs from Atasu in the center of the country to the Dushanzi refinery in China. Between Aktobe and Atasu, an existing pipeline already runs roughly halfway, from Kumkol to Atasu.

For China to receive Tengiz oil, then, it would need only to build the missing segment from Kenkiyak to Kumkol, and reverse the Aktobe-Atyrau pipeline so

that it flows from west to east. The result could eventually boost Chinese imports of Kazakhstani oil from 100,000 to 400,000 bpd, but whether it happens, or how fast, depends crucially on the accessibility of oil from Kashagan. Kazakhstan's decision in favor of the KCTS and its westward route for Kashagan suggests that the Kazakhstani leadership may not be too keen to repeat with China its mistake of depending too much on Russia.

The date for Kashagan's first production was originally set at 2005, but this has been ratcheted back several



times over the years until, less than ten days ago, the year 2013 was finally established. This is likely to be definitive, as Kazakhstani law will subject the members of Agip KCO to fines and penalties otherwise. Another field near Kashagan, called Kalamkas, has 500 million barrels of non-sulfurous oil that is relatively easy to lift, not to mention 3.5 trillion cubic feet (100 billion cubic meters) of natural gas. If it were desired to give KCTS an earlier launch, then Kalamkas could be developed faster than Kashagan and would produce 100,000 bpd within four years from the start of development.

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MONGOL-RUSSIAN URANIUM COOPERATION

John C.K. Daly

Foreign investment in Mongolia is largely directed towards the country's vast, largely untapped mineral resources. Russia, Mongolia's second largest trading partner, has an inside advantage, as it provides approximately 90 percent of the country's oil imports and nearly all of its wheat imports. Moscow is now focusing on acquiring a dominant position in developing Mongolia's uranium resources, but Russia's heavy-handed capitalist policies are provoking a political backlash.

BACKGROUND: Russian interest in Mongolia's uranium ore deposits dates back to the early 1980s, when joint Mongolian-Soviet geological teams prospected for uranium in the eastern aimags, or provinces. Geological studies determined that Mongolia currently contains six uranium strata and more than 100 uranium deposits. Mongolian geologists now believe that Mongolia has 60,000 metric tons of uranium reserves, while Russian experts have much higher estimates, ranging from 120,000 to 150,000 metric tons. The higher Russian estimates place Mongolia high on the list of global uranium reserves, after Kazakhstan, Australia, South Africa, the U.S., Canada, Brazil and Namibia. Only 35 countries worldwide possess reported uranium reserves.

Seeking to ingratiate itself with the Mongol leadership, Moscow has made a number of gestures to invoke Mongolia's goodwill. Five years ago, Russia wrote off \$11 million of Mongolia's Soviet-era debts, 98 percent of the outstanding amount. Bilateral trade subsequently developed quickly, reaching \$593 million in 2006 and in 2007 increased by 33 percent to \$785 million.

Soaring prices, however, threaten Mongolia's economic gains. The World Bank reports that while Mongolia's real GDP grew by 9.9 percent in 2007, inflation soared to a decade-high level of 15.1 percent, driven by rapid monetary growth, public sector wage increases and price hikes on a number of imports, notably food and fuel. Russia is using its position as a primary supplier of Mongolia's food and energy needs to leverage additional concessions.

Inflation over the last two months has seen Rosneft, which supplies more than 90 percent of Mongolia's

oil, increase its prices by 14-26 percent. Mongolia imports nearly all of its wheat from Russia; in April alone the price of bread increased by 50 percent and the cost of a 55-pound bag of flour tripled. Last month, consumer prices increased by 5.1 percent over those of March, with food increasing overall by 11.1 percent.

IMPLICATIONS: Soaring inflation and its attendant economic unrest are threatening Ulaan Baatar's efforts to assert increasing control over its mineral resources. At issue is Mongolia's 1997 Mineral Law. In May 2006, the law was amended to include a windfall tax, which raised tariffs to 68 percent on gold when its world market price exceeds \$500 an ounce, and copper when it surpassed \$2,600 per ton. For the last several years, the intertwined issues of state ownership and taxation of minerals deemed of strategic importance to the state have become increasingly contentious political concerns.

D. Bayar, an adviser to Minister of Trade and Industry Khaltkhuu Narankhuu said, "If a mineral has an impact on the economy, it is a strategic deposit. The Mongolian people want to have better living conditions, so we aim to use the revenues to benefit the regional economy."

Ulaan Baatar defines "strategic" mining projects as those with revenue exceeding five percent of Mongolia's gross domestic product, currently around \$3 billion. According to Mongolia's Mineral Resources and Petroleum Authority chairman Bold Luvsanvandan, "There are about 15 projects and they are valued in the tens of billions of dollars. These are very big projects."

In January 2006, the government identified 49 strategically significant mineral deposits; the uranium sites included were Mardai, Dornod and Gurvanbulag, all located in Dornod aimag. In urging Parliament to consider the government's list, President Nambaryn Enkhbayar said, "I direct the Government of Mongolia to follow policy to set state shares of strategic mineral deposits, whose resources were uncovered during geological exploration funded by the state budget, at more than 50 percent of the deposits and negotiate with license owners about this," while the government should negotiate with the license owners about deposits uncovered by privately funded research to determine the level of state shares "in accordance with the interests of the country." Enkhbayar envisaged using profits from state shares to develop a "treasure fund," similar to a sovereign wealth fund, from which the government would annually give each Mongolian citizen a "gift." Enkhbayar directed his government specifically to consider uranium deposits in their deliberations to develop state policy prior to opening negotiations with foreign and state-owned companies.

Two years later, however, Parliament is still gridlocked over the Mining Law's proposed amendments, as parliamentarians continue to debate whether the government can claim a minimum of 51 percent and 34 percent of strategically "significant" mineral deposits explored by state and private funding, respectively.

Enkhbayar used the fact that the country's Mining Law is vague about uranium to play for time in negotiations; besides Russia, Japanese, Canadian, Kazakh and French companies are interested in the country's uranium. Enkhbayar said, "Mongolia at present has no clear legal guidelines on the extraction of nuclear fuel. Partnership proposals can be seriously discussed only after a proper legal framework is set up."

Russia is in a unique position to benefit from the mounting food and energy crises, as they have weakened Mongolia's negotiating position. Moscow regards Mongolia's uranium reserves as the country's biggest mineralogical prize, since their

development dovetails nicely with the Kremlin's own plans for economic expansion.

The collapse of the USSR left Russia isolated from deposits discovered by Soviet geologists in Central Asia. Currently Russia's sole uranium deposit is its Streltsovsky mining and chemical plant in Chita.

Furthering strengthening the Kremlin's hand, in February wheat shortages forced Mongolia to seek emergency imports from Russia; the government struck a deal for 200,000 tons of wheat at subsidized prices.

In April, Mongolian Prime Minister Sanjaa Bayar made a three-day official visit to Moscow. Bayar's trek resulted in a Russian agreement to supply Mongolia immediately with the first tranche of 100,000 tons of wheat on preferential terms.

Russia's payback for the largesse was not long in coming. On April 11, the two countries signed agreements for Russian specialists to assist in the prospecting, production and reprocessing of Mongolia's uranium. According to Rosatom state corporation chief Sergei Kirienko, the document "should secure a comprehensive approach to the development of the nuclear industry in Mongolia. Mongolia should not only produce uranium, but also conduct the initial ore processing."

Spurred by still-rising fuel and food prices, Enkhbayar hastened to Moscow, where he met Russian President Dmitrii Medvedev on May 16. According to a Russian presidential administrative source, Medvedev and Enkhbayar had "a substantial dialogue concerning joint initial steps in the Mongolian mining sector." Besides Rosatom, other Russian companies interested in Mongolian mineralogical resources include Basic Element, Renova, Severstal, Polimetall and Gazprombank.

CONCLUSIONS: The amendments to Mongolia's Mineral Law are part of a government effort to use rising mineral prices to reduce poverty, but even if they now pass, it seems likely that Russia will receive preferential treatment.

Luvsanvandan believes that once the amendments to the country's Mining Law are codified, foreign investors will pump more than \$10 billion into

Mongolia's mining sector. According to government data, mining accounts for 30 percent of Mongolia's gross domestic product and 78 percent of exports.

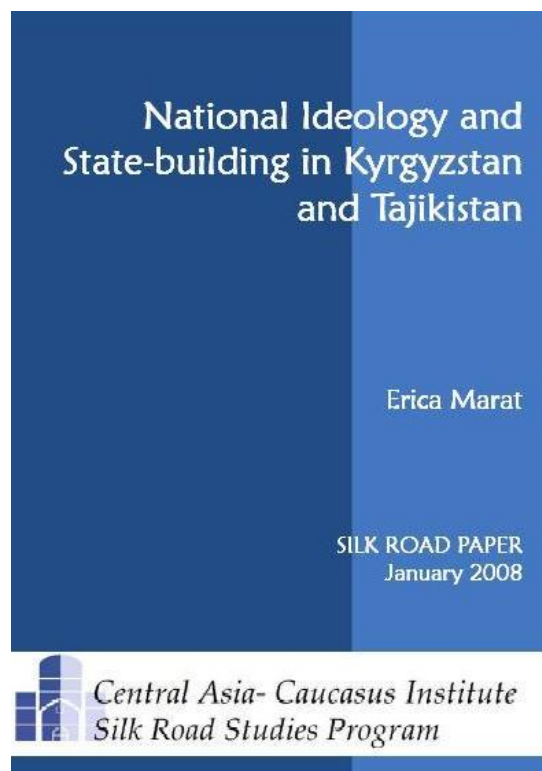
Russia's commanding lead in the race to exploit Mongolia's minerals can only increase, not least because Russia owns a 49 percent share in the Ulaan Baatar Railway Joint Stock Company, founded in 1949. The railroad serves as the country's main export route for minerals, but it needs substantial upgrading. Another example of Russia's penetration of the Mongolian economy is the state-run Erdenet Mining Corp., a copper mining venture in production since 1978. Mongolia owns 51 percent of Erdenet and Russia owns the remaining 49 percent.

Russia has competition in the race to exploit Mongolia's uranium resources. In 2006 France's Areva nuclear concern signed a memorandum of understanding concerning the Mardai and Sainchand uranium mines but there has been little progress, despite a visit by Enkbayar to Paris in February 2007. Russia will not have to compete with Mongolia's largest trading partner, as in February

China National Nuclear Corp. said that Inner Mongolia's Ordos Basin has enough uranium to meet China's current demands.

Russian dominance over Mongolia's additional uranium assets mean that by 2030, Russia's potential natural and weapons-grade uranium reserves will give the Kremlin control of 45 percent of the world's uranium enrichment market and 20-25 percent of the world's nuclear plant construction market. Further enriching Russia, a market is next door, as in East and South Asia there are currently 109 nuclear power stations, 18 under construction and plans to build 110 more. Worldwide uranium prices over the past three years have doubled. Under current arrangements Mongols will be lucky to see 51 percent of the profit on their uranium. The flipside for Russian and Mongolian politicians is that hungry and cold Mongolian voters have now displayed displeasure at such sweetheart deals over their "strategic" minerals.

AUTHOR'S BIO: John C.K. Daly is an international correspondent for UPI.



New Silk Road Paper:

National Ideology and State-Building in Kyrgyzstan and Tajikistan

This 99-page Paper discusses the policies adopted, and the challenges confronted, by the weak and multi-ethnic states of Kyrgyzstan and Tajikistan to build national ideologies catering both to the titular nationality and to the inclusion of ethnic minorities.

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STAKES AND IMPLICATIONS OF THE CONSTRUCTION BOOM IN TURKMENISTAN

Sébastien Peyrouse

Since the beginning of the 1990s, the Turkmen capital Ashgabat, regarded as a new Dubai, has been being remodelled in line with the first president's, Saparmurat Niyazov's, taste for giant-scale projects. If there is one area in which Gurbanguly Berdymukhammedov's policies have not changed from his predecessor but have actually magnified them, it is precisely in the construction sector. The economic stakes of this boom are important, and have provoked a growing competitiveness between French company Bouygues and Turkish firms. The capital is not the only town to be impacted: through the immense Avaza project in Turkmenbashi, the main Turkmen port in the Caspian, the construction boom has also reached provincial towns.

BACKGROUND: The hotels and offices constructed in Ashgabat under Niyazov in the 1990s, which have remained empty, are today little by little being resold by the municipality to western embassies and international institutions. The representation of the European Union, for example, moved into one of these buildings in April. However, more hotels and offices are already under construction in the city center and the southern districts. At the foot of the mountains rising above the outlying residential areas of Arshabil and Ruhabat, a series of 'resort'-type complexes (with swimming pools, tennis courts, etc.) are either being built or are already finished, as are several leisure centers for children which take soviet-era pioneer camps as their model. Here, too, the establishments are only running at a third of their capacity in the

best of cases, and some of them indeed appear closed.

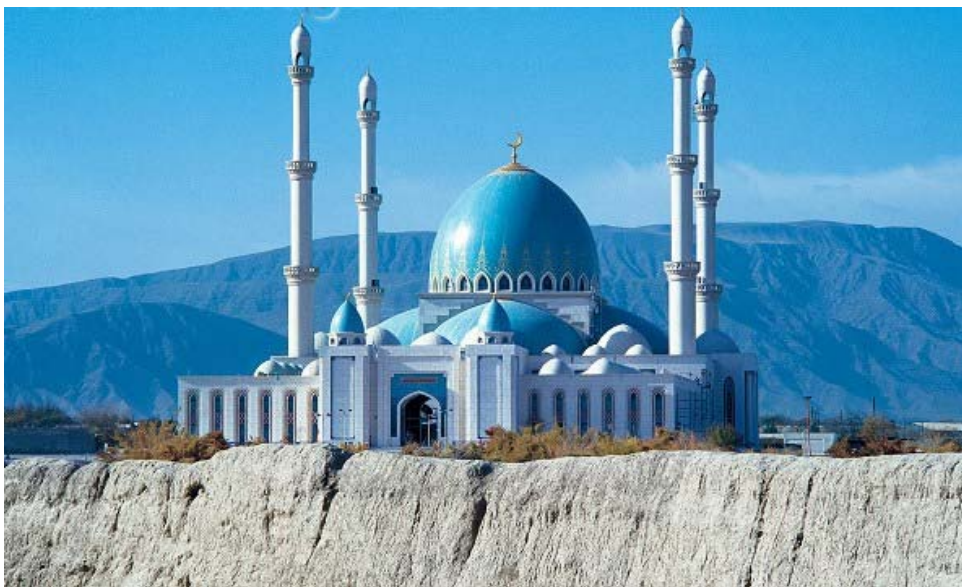
In the city center, expropriations are continuing as former Soviet quarters are razed to make way for grand, green esplanades and new building-lined avenues. Apart from administrative buildings, dozens of residential buildings with marble facades have also materialized. These have been commissioned by ministries and are intended for sale at commodity rates to their functionaries. However, they still remain largely empty, since even at such rates, they are too expensive. At the city's southern edges, toward the Iranian border, the "green belt" stretching for 200 km is designed to be the capital's lungs. But Niyazov's decision, which has not yet been re-evaluated, to plant only pine-trees and not broad-leaved trees has proven counter-

productive, since the pines wither during the summer.

Ashgabat is today divided into several new districts, primarily constructed by the French company Bouygues and by Turkish firms. Bouygues has constructed the Presidential Palace, an immense mosque in Niyazov's native town, the Bank of Foreign Trade, the Academy of National Security, the Administration Center for Agriculture, the Exposition Palace, and so on. It is currently in charge of renovating the premises of Turkmen television, of constructing buildings for Magtymguly University and the Gas and Oil Institute, of renovating and extending the Ashgabat International Airport, as well as building the ministries of Foreign Affairs and Education, the National Carpet Company, and the Capital Carpet Museum. The president has also asked the French company to construct a new memorial complex which is to be finished for the jubilee of the 20th anniversary of independence in 2011, and has commissioned a new thirteen-storey high, five-star hotel of 95,000 m² which will be the most luxurious in the country, at a cost of US\$270 million. However, it seems unrealistic that the construction will be able to be properly completed by 2011, even though Bouygues has planned to double the number of French workers present on site (300 instead of the usual 150 stationed there). The French company nevertheless lacks qualified Turkmen workers in the building and civil engineering sector and currently only employs 3,000 persons.

IMPLICATIONS: Competition between Bouygues and Turkish companies is gaining in intensity.

Between February 2007 and February 2008, the French company landed contracts worth about a billion euros, but Turkish companies have reached levels of between 1.3 and 1.5 billion euros. Though Bouygues is largely ahead in the building of administrative buildings, it faces stiff competition from Turkish enterprises, which have been awarded many contracts to construct residential buildings



Gök-Tepe Mosque

and are very present in the provinces. The Turkish company Polimeks, for example, has won a bid to construct several medical buildings in Ashgabat for a sum of US\$103 million. Another Turkish company, Belda Insaat ve Taahhut, has been awarded contracts to renovate the Ashgabat Railway Station and to construct the State Commerce Bank at Turkmenbashi. The Sehil Insaat company, for its part, has won a tender to construct a cultural complex that will house the Institute of Culture and a music boarding school, as well as three twelve-story residential buildings, all for a sum of US\$130 million. Another company, Tema Muhendislik, has been entrusted with constructing a complex of 36 luxury apartments for a cost of US\$10 million. The Gök-Tepe Mosque, which Niyazov had built in the 1990s, is to be renovated by SUR Turizm Insaat Ticaret ve Sanayi. Lastly, businessman Ahmet Çalik, who was a close advisor to former president Niyazov, has been awarded a

contract to construct a complex that includes a mosque, a hotel, and a congress center at the Mausoleum of the Sufi Saint Sheikh Nejmuddin Kubra in the Dashoguz province.

The real estate boom is also starting to reach the port city of Turkmenbashi, formerly Krasnovodsk. An immense project for a tourist area has recently been launched. This seaside station, called Avaza, is the site for an immense complex that will include sixty hotels, as well as restaurants, shopping centers, activities and leisure centers, an artificial river, and also a free trade zone to encourage foreign firms to set up there. The total cost of the complex is estimated at US\$5 billion, four billion of which are to be financed by foreign companies including Bouygues, companies from Turkey, Iran, and Russia, as well as South Korean firms such as Samsung and LG. The supposed Turkmenistani "Tourism Mecca" nevertheless does not pertain to commercial logics: the area is not favorable to tourist development (the sea there is cold and polluted); it has minimal road and railway infrastructures and air connections; quality service will be in shortage given the country's lack of training facilities in the tourism sector. Instead, the objective lies elsewhere: at issue is to increase the country's international prestige at a time when its Kazakh neighbor is massively developing similar projects in the port towns of Atyrau and Aktau. The foreign companies involved in the Avaza project have signaled that their participation in the venture was meant as a gesture

to Turkmenistan's political authorities, designed to win further construction contracts. However, none of them want to be involved in the management of the hotel complexes, for they are unlikely to be profitable.



Ahmet Çalik

CONCLUSIONS: President Gurbanguli Berdymukhammedov's keen interest in the agricultural sector has spread the benefits of this construction boom to rural areas. Many projects have been launched including the construction of several grain silos in the provinces of Ahal, Dashoguz and Mary to increase the storage capacity of flour; the construction of a factory for potassium fertilizer in the Lebap province; the enlargement of the Shasenem canal in the Dashoguz province, with the aim of making 10,000 hectares of virgin lands

cultivable; the construction of a 400 km (300 miles) long gas pipeline between Gumdag and Ashgabat; the construction of several health centers, such as maternity hospitals, in provincial towns; and the purchase of several thousand sowers, harrows, and rotary cultivators from the United Kingdom. The authorities thus seem determined to address some of the country's most glaring problems, in particular in the sectors of health and food, and concerned about the development of rural areas.

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KADYROV BRAWL WITH YAMADAEV POINTS TO RUSSIAN DILEMMA IN CHECHNYA

Dmitry Shlapentokh

In spring 2008, an unprecedented event took place in Chechnya when a quarrel between President Ramzan Kadyrov and Sulim Yamadaev, the commander of the Vostok battalion, almost led to military action when Kadyrov's paramilitary detachments surrounded the Vostok base. In the clashes, several people were killed, and several officers of the Russian forces were arrested. The event is Kafkaesque given that Kadyrov's forces and the Vostok are both legitimate military detachments supposedly fully controlled by Moscow, the latter even an integral part of the Russian army. Yet Moscow chose to ignore the event as a minor brawl. Understanding the meaning of the event requires placing it in a broad context that indicates further problems and, paradoxically, opportunities, for Moscow.

BACKGROUND: Since the collapse of the USSR, Chechnya – in fact, the entire Russian Northern Caucasus – has been one of the unstable regions of the Russian Federation. Chechnya's attempt to secede led to the first Chechen War (1994-1996). In 1999, several Moscow apartment buildings were blown up, killing several hundred people; the crime was attributed to Chechens. Putin, at that time striving for the presidency, proclaimed that he would "bump off terrorists even when they are in the toilets." He immediately acquired the aura of a tough leader who would defend Russians and end the anarchy and crime so characteristic of the Yeltsin era.

Following his election, Putin started a war in Chechnya in earnest, capturing Grozny, the capital, reducing it to ruins, and driving the insurgents into the mountains. But he was not able to prevent spectacular terrorist attacks. In 2002, Chechen terrorists took over a theater in downtown Moscow, and a rescue attempt led to numerous deaths among the hostages. In 2004, several hundred children died in a daring attack on a school in Beslan. Putin

realized that relying mostly on Russian troops would not work and set out to "Chechenize" the conflict.

The leading role was assigned to the Kadyrov clan; first to Akhmad, then president of Chechnya and the republic's former mufti, and after his murder, to his son Ramzan. At the beginning, the plan worked well. Ramzan Kadyrov gave amnesty to thousands of members of the resistance, who became part of his paramilitary detachments and engaged in most of the fighting with the insurgents. While outwardly expressing complete dedication to Putin, Kadyrov acted as a shrewd politician. He used a lavish subsidy from Moscow to restore Grozny and bring visible improvements in the life of Chechens. For a considerable number of Chechens, he also emerged as the protector from Russians. During the recent violence between Chechens and local Russians in Kondopoga and Stavropol, Kadyrov proclaimed that if Moscow would not protect the local Chechens from the Russian mob, he would take justice in his own hands; and, in fact, some Russians in Stavropol claimed that several armed

Chechens, indeed, emerged in the city with implicit threats against Russians. They also complained that those Chechens who committed crimes had escaped to Chechnya.

Finally, Kadyrov skillfully played on the conflict between Akhmad Zakaev, the leader of the moderate Chechen nationalists, and Doku Umarov, the president of virtual Chechen government, who recently transformed himself into “emir” and effectively made Chechens as well as the other members of the resistance just a branch of the global jihad. Kadyrov emerged as proposing the middle way, a compromise solution. On the one hand, he resolutely rejected jihadism as foreign to Chechnya and dragging Chechens into endless war for a mystical Caliphate – pleasing those who might have gravitated to Zakaev – at the same time emphasizing his adherence to Islam by introducing Islamic regulations, making him acceptable for those Chechens who might have been lost to Umarov. Not only had Kadyrov acquired support among certain segments of the Chechen populace but also increasingly exercised direct control over all Chechen military forces in Chechnya except Vostok. The military/paramilitary forces in Chechnya either became absorbed into Kadyrov’s controlled forces or virtually disbanded. Moreover, Kadyrov showed an ability to physically eliminate his enemies even if they found refuge in Moscow.

Vostok, led by Sulim Yamadaev, seems to be the only viable force directly controlled by the Russian Ministry of Defense. Kadyrov’s conflict with Vostok is part of his broad plan to eliminate it as the only Chechen military force not directly under his command. Moscow’s apparent acquiescence could have given him absolute control over both the Chechen civil administration and its military force, a force that could well be a match for the Russian army in the region.

While closing its eyes on Kadyrov’s direct use of violence against Ministry of Defense units and implicit direct challenge to the Center, Moscow still was not anxious to give Kadyrov complete carte blanche and rejected his demand to disband Vostok. Still, the entire incident was rather a victory for

Kadyrov. First, it demonstrated that he could openly attack the detachments under the direct control of the army without any negative repercussions for himself. Moreover, he was accepted as a member of the State Council, as a sign that he has not done anything outrageous. Moreover, the growing flow of funds to Chechnya continues.

IMPLICATIONS: Moscow clearly demonstrated the central government’s weakness by accepting Kadyrov as the *de facto* independent ruler of Chechnya. Putin, who started his presidency with the promise of bringing Chechnya under the control of the center, may well have left Chechnya virtually independent by the end of his official term as President. More importantly, it sends the message to the other members of the Russian federation that Putin’s “vertical of power”, which appeared to have been completed after the Beslan outrage in 2004, is not all that strong. It provides to other rulers of ethnic enclaves, such as Tatarstan’s president Mintimer Shaimiev, the right to challenge Moscow’s power. Recently, Shaimiev made a public statement asking Moscow to return to the policy of elected governors that prevailed before Beslan and which provides local governors much more autonomy from Moscow than now. Still, another interpretation of the events is possible. It implies that Moscow has actually pursued a different policy and depends largely on the level of resistance of the ethnic enclaves. In the case of comparatively weak rulers and where Moscow assumes that the populace would in general be compliant, it tries to increase the “vertical” pressure. In other cases, where armed resistance is possible, as it is in Chechnya, Moscow tries to ease control and buy the local elite. In any case, Kadyrov’s increasing assertiveness hardly bodes well for Moscow’s control of the Northern Caucasus.

Yet, Kadyrov’s rise does not only carry negative implications for Moscow. To begin with, because of the lavish subsidies, Kadyrov most likely will not rebel openly; and he will still fight against the insurgents who regard him as a Moscow Quisling. This is especially the case with *Kavkaz Center*, the vehicle of Umarov’s “emirate.” Contributors to the

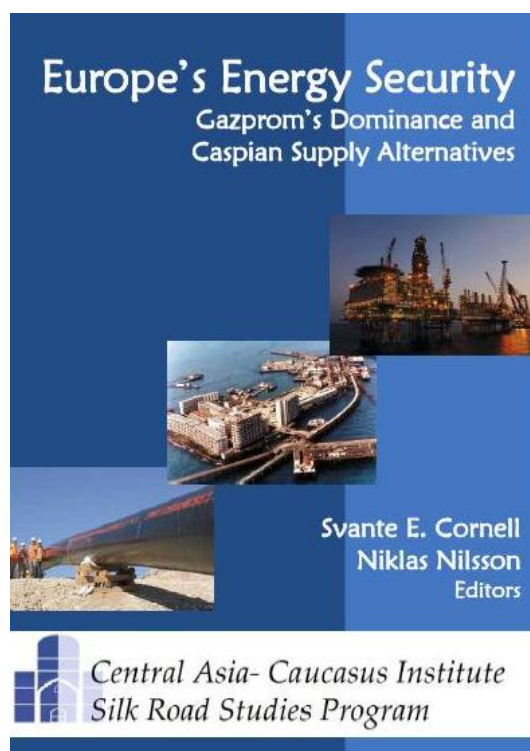
publication continue to blast Kadyrov and Zakaev, whom they regard as traitors and infidels. In this situation, Kadyrov might have no choice but to fight them and thus follow Moscow's policy of "Chechenization" of the conflict.

Moreover, his militia and similar loyal Chechen detachments could be used as crack troops in the event of a Russian war with Georgia over Abkhazia and South Ossetia. Finally, Chechens could well be janissaries to quell potential revolts of ethnic Russians if other forces fail. Thus, recent events are not just one-dimensional and could have a variety of outcomes.

CONCLUSIONS: The recent conflict between Ramzan Kadyrov and the Vostok battalion led by

Sulim Yamadaev reflects not only the internal strife between the various Chechens clans, but also Kadyrov's lingering proclivities to ensure absolute control over Chechen forces in Chechnya and to challenge the Ministry of Defense and thereby the central government. While Kadyrov was unable to achieve his plans completely and "Vostok" survives, one could still regard Kadyrov as the winner in the conflict. Despite his direct attack against Vostok, he preserved his position and assured his leadership. It indicates that at least in the case of Chechnya, the "vertical of power" is hardly viable.

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New Book!

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FIELD REPORTS

TENSIONS MOUNTING IN SOUTH OSSETIA

Johanna Popjanevski

A series of shootings and explosions in the Georgian separatist region of South Ossetia in the last week have given rise to increased tensions between Tbilisi and the secessionist South Ossetian authorities. The first of the recent incidents took place on July 3, when local police chief, Nodar Bibilov, was killed in an explosion outside his home in the South Ossetian village of Dmenisi. In a subsequent press statement, the South Ossetian de facto government accused the Georgian secret service for the attack, which it referred to as a “next step in Georgia’s policy of state terrorism against the people of South Ossetia”.

Only hours later, three Georgian policemen were injured when a convoy, carrying Tbilisi-backed South Ossetian Provisional Administration leader Dimitri Sanakoev, hit a remote-controlled mine while traveling through the conflict zone en route to Batumi. The incident was followed by a shootout between Sanakoev’s bodyguards and unknown gunmen firing from the South Ossetian villages of Kokhati and Sarabuki. Sanakoev himself was not injured in the attack.

Ever since the establishment of the alternative, Sanakoev-led administration in May 2007, the secessionist government in Tskhinvali has disputed its legitimacy and denounced Sanakoev as a puppet of Tbilisi. Tskhinvali has nevertheless denied any involvement in the July 3 assassination attempt. In a July 4 statement, the Russian Foreign Ministry

instead accused the Georgian side of staging the attack and exploiting the incident to justify military mobilization in the conflict zone. Russia has on several former occasions directed similar accusations against the Georgian authorities, particularly in connection with clashes in the Abkhaz conflict zone.

The standoff between Georgian and South Ossetian militia escalated on July 4, with overnight exchanges of fire between the South Ossetian-controlled territory and Georgian villages. As a result, two ethnic Ossetians were killed (in Tskhinvali and the village of Ubiat) and several were injured. The Russian federation immediately blamed Tbilisi for the clash and declared it an open act of aggression by the Georgian side. Tbilisi on its part maintained that it had returned fire only after Georgian villages had been attacked by South Ossetian militia. Over the following days, sporadic shooting continued but with no confirmed casualties.

On July 8, the secessionist authorities declared that they had detained four Georgian police officers on an alleged reconnaissance mission in the Znauri district on South Ossetian controlled territory. The Georgian authorities later confirmed that the officers had been arrested but maintained that they had been abducted while patrolling the Kareli district, located on the Georgian side of the administrative border. At a National Security

Council emergency session in the afternoon of July 8, Georgian President Saakashvili directed strong criticism towards the secessionist authorities for the incident, which he referred to as kidnapping, and called on the Ministry of Internal Affairs to use all legal means available to secure the release of the detained Georgian officers. Shortly thereafter, the Georgian side announced that the officers had been released and that negotiations regarding their return to Georgia were underway.

Meanwhile, also on July 8, the South Ossetian presidential envoy Dmitry Medoyev reported in Russian media that Georgia had recently evacuated around 300 children from the villages of Tamarasheni, Nuli, Eredvi and Kurta in the Georgian controlled part of the conflict zone, in alleged preparation of an armed attack against South Ossetia. He moreover accused Georgia of expanding its military presence and equipping gun posts in the conflict zone.

The recent incidents in South Ossetia constitute a troublesome set-back in the South Ossetian peace process. Ever since its failure to regain control of South Ossetia by force in 2004, Saakashvili's

administration has gradually moved towards a more incentive-based approach to conflict resolution in the region, rehabilitating areas of the conflict zone and establishing an alternative administration representing the ethnic Ossetian community in Georgia at large. Only last summer, hundreds of ethnic Ossetians assembled in the village of Kurta to express support for the Sanakoev-led administration, indicating success in Tbilisi's campaign for the hearts and minds of the Ossetian population. The recently erupted violence in South Ossetia, and the simultaneous unrest in Abkhazia over the last few weeks, risks overshadowing such progress and overall clouds the prospect of resolving the conflicts by peaceful means. It is significant, moreover, that such tension takes place just as U.S. Secretary of State Condoleezza Rice is scheduled to visit Tbilisi. Meanwhile, Moscow continues to exploit the ongoing instability, justifying its military presence in the region through pointing at alleged Georgian aggression against Russian citizens in both South Ossetia and Abkhazia. As western trepidation following Russia's recent assertive steps does not appear to translate into concrete action, events in the conflict zones are clearly escalating.

TAJIKISTAN'S WATER WOES

Sergey Medrea

On June 27, a two-day International Conference devoted to the reduction of natural disasters caused by water took place in Dushanbe, Tajikistan. Representatives of 35 countries and 38 leading international organizations took part in the conference, the upshot of which being the signing of the Dushanbe Declaration. This declaration states perplexity in the face of the growing frequency of natural disasters related to water in the region of Central Asia. To achieve such an attitude, participants were asked to develop regional water doctrines that would balance the conflicting needs in energy and agriculture of the countries involved,

and that would conform to universal principals of water politics.

At the conference, Tajik president Emomali Rahmon reported that 300 people have perished in the last eight years in Tajikistan because of mudflows in early spring. Overall, damage from water-related cataclysms in the country was estimated at around \$65 million. In the president's speech, special emphasis stressed the growing problem of drought and its severe consequences, especially this year. To this end, the president somberly reported that the total shortage of water

for 2008 constitutes 30-35% compared to the average annual level of water. With such water shortages, more than 60,000 hectares of land were left uncultivated. President Rahmon ended his speech by once again asking neighboring countries to join efforts to resolve regional water issues, suggesting a UN General Assembly sitting on the issues of water in the region as well.

The problem of water shortages has plagued Tajikistan for at least 10 last years, but it became especially acute in the last two years. The shortage of water resources was presented as the main reason for this year's prolonged energy cuts, which lasted almost until June, instead of the usual April. Low influx of water into rivers has also been an important reason for Tajikistan's late repayment of its energy debt to Uzbekistan and Turkmenistan. Uzbekistan and Turkmenistan provide Tajikistan with electricity during winter on the agreement that it will return double that quantity in summer. Finally, the water shortage is bankrupting the rural economy that is the main consumer of water, in the circumstances that even minute reductions of water to the fields causes tremendous negative consequences.

It is estimated that when the deficit of water constitutes 10%, it reduces crop capacity by 8%, the latter increasing disproportionally to the first number. At the current state of affairs, when water shortage constitutes 30%, up to 40% of agricultural grounds met losses in the country. This year is marked as one of the most arid of the last decade and the level of water in the Nurek reservoir alone is 9 meters lower than this time last year.

Water shortages have also brought cotton-growing farms in the Soghd Region close to the critical point. There are two main problems that farmers encounter: first, water shortages and droughts; second, lack of finances for minerals and fertilizers to inject into cotton. Consequently, around 8,000 hectares still did not sprout, an unusually high

figure for the region. Desperate farmers asked bankers and water-transport officials to lend them the missing resources – water and finances. Many regional experts criticize farmers for not sowing crops less water-demanding than cotton. However, cotton, unlike other agricultural goods, does not require a lot of hand work and is always in demand. These characteristics make cotton very attractive to farmers, especially when taking into account the huge outflow of labor and the fewer hands thus left for field work, as well as farmers' desire to assure themselves that their crops will sell.

Regional experts see several solutions to the low water inflow into rivers, one of which is the gradual transition to drip irrigation. It is estimated that transition to the drip irrigation will cost somewhere from \$3,000 to \$9,000 per hectare of land, depending on the nature of the crop. Drip irrigation will reduce water expenditure by a factor of 2 or 3, thus saving vast amounts of water. Lack of long-term forecasts is another reason for the severity and unpredictability of droughts. The creation of hydro-posts and thorough research on climatic conditions should become a priority to forecast and fight droughts. Finally, construction of big reservoirs is another method; however its realization is rather problematic since the interests of the neighboring countries is involved.

According to Malik Azizov, head of the regional water industry, prices for water should be raised. In 2007, water was sold to farmers at a value of 2.6 million Somoni, while energy use amounted to 3.5 million Somoni: but the repair and maintenance system cost 6-7 million Somoni. In the current state of affairs, the artificially low prices for water make individual, industrial and agricultural users behave irrationally, ignorant of and providing inadequate funds for the water quality system's improvements.

KYRGYZ GOVERNMENT PREPARED FOR HOT POLITICAL PERIOD THIS FALL

Erica Marat

Rapidly increasing prices for food, gas and electricity in Kyrgyzstan provide a fertile ground for public discontent with the government. That the Kyrgyz President is preparing for a hot political period in the coming months is evident from his recent government reshuffles and his public politics. But Kurmanbek Bakiyev is not the only one to worry about the implications of rapid inflation, as opposition camps are consolidating their forces as well.

Two days after electricity tariffs were raised yet again on June 1, Bakiyev appointed his brother, Zhanysh Bakiyev, to head the National Guard. He thus secured his personal bodyguard in the face of an armed state structure. Furthermore, he increased the salaries of the internal troops, making sure that they remain loyal in case mass protests unravel later this year.

In his public policies, Bakiyev recently announced his “Kyrgyzstan-2020” development plan that is poignantly reminiscent of Russian Prime Minister Vladimir Putin’s program “Russia-2020” program and Kazakhstan’s President Nursultan Nazarbayev’s “Kazakhstan-2030” strategy. By creating a development plan, Bakiyev tried to calm public worries about the deteriorating economy, mismanagement of the energy sector and suspicions that the government is incapable of producing effective policies.

Kyrgyzstan’s opposition from various backgrounds, in turn, has tried to consolidate into a “United Kyrgyzstan” bloc. The bloc unites supporters of former President Askar Akayev, former members of Bakiyev’s government, and political leaders who have been in perpetual opposition. For instance, the bloc includes Osmankul Ibraimov, former State Secretary under Akayev; Bolot Januzakov, former Secretary of the Security Council; Naken Kasiyev, a

former governor; Askar Aitmatov, the former Foreign Minister; and Temir Sariyev, a former MP. The uniting trait among them is perhaps their wealthy financial background and ambition to represent the ruling regime.

Most of “United Kyrgyzstan’s” members belong to different political parties with their own political, economic and cultural agendas. But they jointly declare that rapid inflation should be prevented and the poor should be rescued from total economic deprivation and starvation. The calls indeed meet the popular worries among ordinary citizens who notice the price hike for food each month.

In the past three years, fall and spring seasons have been rich in political showdowns and mass demonstrations in Kyrgyzstan. This year the opposition has inflation working in its favor. On the wave of such populism, the United Kyrgyzstan (or any other anti-government force) is sure to collect crowds this fall. Alas, the culture of protest is well developed in Kyrgyzstan, and people will likely walk out on the streets frustrated with deteriorating living conditions. The situation might be that even those who refrained from walking out to Bishkek central square before for political motives might do so this fall.

The price hike earlier this year will be felt acutely in the fall, when energy bills will start increasing. Rolling blackouts have already become an everyday matter this year and the government is trying to save electricity in the summer for the colder period. “Food prices, except for bread, are nearly equal and sometimes above those in the U.S. with local salaries being far lower,” says one Kyrgyz observer. Another local expert comments that “those who condemn inflation these hard times will be able to promote any other political issue with the crowds.” Similar to calls to reduce corruption in the

government, anger with rapidly deteriorating living conditions can easily serve as an instrument to politicize the population.

Increasing energy costs sparked public debates in local mass media on the government's effectiveness in managing the energy sector, and the devastating corruption that has been revealed by several experts in the field in the past two years. Experts in the energy sector have been expressing their concerns with the decomposing infrastructure at the hydropower plants and corruption pyramids that disallow the sector's development.

This public debate has not yet led to any substantial changes in the sector's management or greater transparency. But Bakiyev often notes that two hydropower plants, Kambarata-1 and Kambarata-2, are the country's strategic assets and his government will make sure that they are developed wisely. However, Bakiyev might face defeat in this battle of ideas and resort to more shrewd strategies. The stakes are high for him and the members of United Kyrgyzstan, less than two years before the presidential elections in summer 2010.

REGIONAL ASPECTS OF MILITANCY IN PAKISTAN

Zahid Anwar

A workshop on 'Regional Aspects of Militancy' was held at the Area Study Centre, University of Peshawar, Pakistan on Wednesday, May 14, 2008. Dr. Azmat Hayat Khan, the University's vice-chancellor and director of the Area Study Centre, chaired the workshop and welcomed the invitees who included retired civil and military officers, diplomats, journalists, university faculty and research scholars. The American expert on the region, Dr. Barnett Rubin, in his talk said that one reason for the growing insurgency in Afghanistan was the unhappiness of the Afghan people with their government, but even then it cannot be described as a national liberation movement. He also said that the insurgency in Afghanistan was confined to only one ethnic group and that too in rural areas. He said there were ethnic and local reasons for the insurgency in certain areas, and the conflict in Afghanistan was magnified in the past and even now due to outside interference. The Taliban may not have been aware of al-Qaeda plans for launching the September 11 attacks, but they harbored Osama bin Laden, who claimed responsibility for those terrorist strikes. He said the Taliban were able to cross the Pakistani-Afghan border and launch attacks on U.S.-led coalition

forces in Afghanistan. The presence of transnational groups of militants is a threat. The U.S. scholar expressed dissatisfaction over the lack of coherence in the spending of donors' money for the reconstruction of Afghanistan and for meeting the needs of the Afghan people, and referred to rampant corruption in the country. He explained that in a hypothetical scenario of the U.S. and NATO withdrawing from Afghanistan under a deal with the Taliban guaranteeing that Afghanistan would not be used for international terrorism, Russia, Iran and India might see it as a realignment rather than a peace process, and could see the U.S. going back to aligning itself with Pakistan, and they might respond in their own way.

Ahmad Rashid, journalist and author of several books on the region, suggested the need for improved ties between Kabul and Islamabad to jointly fight militancy and extremism as Pakistan's economic well-being is dependent on peace in Afghanistan. Rashid contended that India's role as spoiler of Pakistani-Afghan relations is hugely exaggerated. He supported the idea of joint Indo-Pakistani dialogue on Afghanistan to reconcile differences. He asked the Pakistani Army to stop giving sanctuaries to the Afghan Taliban, support

political reforms in the Federally Administered Tribal Areas (FATA) and share intelligence on issues related to the threat by extremists with political parties. Political parties should take ownership of the war on terror. He underscored that the Taliban were displaying brutality which was not part of Pashtun culture, the Taliban were an aberration and said that brutalization did not start in 2001 – the Soviet invasion killed 1.5 million Afghans.

Afrasiyab Khattak of the Awami National Party and NWFP president said that critical evaluation of past policies will help us to corrective measures. Pakistani society was militarized with active U.S. support, and Talibanization was an extension of Pakistani society's militarization. Pakistan should close down sanctuaries on its soil for militants fighting in Afghanistan, while Afghanistan should address Pakistan's concerns about anti-Pakistan activities in Kandahar and Jalalabad. He said that the NWFP government's policy of negotiating with the militants was working. He disclosed that one of the major demands of the militants in Swat was withdrawal of the army, particularly the army's role as policing the streets. Afghans are averse to the presence of foreign forces. Khattak asked Afghanistan's President Hamid Karzai to support the Pakistan government's efforts of reforms in FATA.

Former Pakistani ambassador to Afghanistan Rustam Shah Mohmand said the weakness of the Afghan regime was not the cause of the insurgency.

"We have to look deeper; occupation is occupation, for good or for bad, and that leads to insurgency." The Taliban would not agree to stop their attacks until the U.S. and NATO provide a timetable for the withdrawal of their troops from Afghanistan. He denied the presence of al-Qaeda/Taliban training camps in FATA. He argued that we have to look at the brutalization of Afghan society in totality; he referred to the killing of 1,500 prisoners in containers, the Qala-Jungi killings, prisons at Bagram, and Guantánamo. Dr. M. Anwar Khan, former vice-chancellor of Peshawar University, said that measures should be adopted to increase the mutual understanding between the people of Pakistan and the U.S..

Rahimullah Yusufzai, journalist and expert on Afghanistan, pointed out the complexity of ethnic politics in the context of south-western Afghanistan, and said that the brutalization of Afghan society is due to foreign elements. The Taliban were brutal, he said, but so were the American and NATO forces in Afghanistan. In this connection he referred to the Musa Qala operation and others. Sarwar Momand, former President of the Peshawar Chamber of Commerce and Industry, said peace without regional cooperation is highly unlikely. Dr. Ijaz Khan in his comments highlighted the independence of the judiciary in the context of Pakistan's current political crisis. Prof. Adnan, Chairman of the International Relations department, said U.S./NATO forces are failing to win hearts and minds in Afghanistan.

NEWS DIGEST

GUAM SUMMIT IS MAJOR STEP FORWARD – AZERBAIJANI PRESIDENT

1 July

The Batumi summit of GUAM is a major step forward in the development of the regional organization, Azerbaijani President Ilham Aliyev told a Tuesday press conference. The presidents of Georgia, Ukraine, Lithuania, Poland and Azerbaijan were the press conference speakers. "A year that passed since the Baku summit showed that GUAM was an effective international organization," he said. "GUAM member countries cooperate actively and help each other at various international organizations." "Azerbaijani authorities will continue the active promotion of the peaceful settlement of the Karabakh conflict within the limits of the internationally recognized borders. We will restore the territorial unity of our country for sure," Aliyev said. (Itar-Tass)

BISHKEK NOT NEGOTIATING EXPANSION OF U.S. AIRBASE WITH WASHINGTON

2 July

The Kyrgyz authorities are not holding any negotiations with the U.S. on reconsidering the agreement on the presence of an airbase for coalition forces near the Manas airport, the Kyrgyz government said in a statement on Wednesday. "The Kyrgyz government is not holding any negotiations with the U.S. government on revising the existing agreement on the presence of the Manas airbase on the republic's territory," it said. The government said it had to make the statement in response to "reports in a number of media outlets alleging that more land had been allotted for expanding the airbase belonging to the Manas antiterrorist coalition." "There is no question of allotting more

land for expanding the Manas airbase or increasing the number of parking slots for military planes of the antiterrorist coalition," it said. (Interfax)

ASIAN GAS PIPELINE TO RAISE AT LEAST \$6 BILLION BY SEPTEMBER 2008

2 July

TOO Asia Gas Pipeline, the operator of the Kazakhstan-China gas pipeline, plans to raise at least \$6 billion in loans by this summer repayable in 15 years, the company told Interfax. TOO Asia Gas Pipeline plans to put the funds towards the construction of the Kazakh section of the gas pipeline. According to a company's representative, negotiations have been held with several foreign banks for project financing. "The process of selecting a bank is currently in its final phase. It is necessary to go through several agreements with overhead organization. As soon as it [authorization] has been received, operations will commence for signing a corresponding loan agreement. We expect that the signing will take place by the end of the year," the spokesperson said. TOO Asia Gas Pipeline was founded in February 2008 on a parity basis between KazTransGas, a subsidiary of KazMunayGas, and Trans-Asia Gas Pipeline Company Limited. The company is based in Almaty. The project will be implemented in two steps. The first segment of the pipeline will go from the Uzbek-Kazakh border to the Kazakh-China border through Shymkent, the administrative center of the South Kazakhstan region and reach China's Horgos. It will have an annual capacity of 40 billion cubic meters and a length of 1,300 kilometers. The segment will be built in 2008-2009. The second segment (Beineu - Bozoi - Kyzylorda - Shymkent) will have an annual capacity of 10 billion cubic meters and a length of

1,480 kilometers. It will be built if a feasibility study shows its efficiency. The only shareholder of Trans-Asia Gas Pipeline is CNODC, a subsidiary of CNPC. KazTransGas was established in 2000 to acquire, operate and service trunk gas pipelines in Kazakhstan. The company controls the main network of gas pipelines with an overall length of 11,000 kilometers and an annual capacity of 190 billion cubic meters. (Interfax-Kazakhstan)

KAZAKHSTAN'S OSCE PRESIDENCY IN 2010 UNQUESTIONABLE - OSCE HEAD **2 July**

Kazakhstan will assume the presidency of the Organization for Security and Cooperation in Europe in 2010 irrespective of whether or not it lives up to its obligation regarding democratic reforms by this year, OSCE Secretary General Oliver Spencer said. The decision has been made and Kazakhstan will assume the presidency in 2010, Spencer said at a news conference in Astana. Kazakhstan, at the same time, will find itself in the thick of events, and everything happening in it will be closely scrutinized in all of the OSCE's member-states, Spencer said. (Interfax-Kazakhstan)

KYRGYZSTAN PROPOSES CREATION OF CENTRAL ASIAN FOOD SECURITY FUND **2 July**

Kyrgyz Prime Minister Igor Chudinov has said he favors the establishment of a Central Asian food security fund at a meeting with UN Secretary General Special Representative and Head of the UN Regional Centre for Preventive Diplomacy for Central Asia Miroslav Jenca, announced press service of the Kyrgyz government. According to the press release, the prime minister noted at the meeting that such a fund, which is proposed to be established within the global economic program, would accumulate financial assistance from international organizations and distribute it efficiently between the countries in the region. The parties also discussed the rational use of water resources at the meeting. Kyrgyzstan understands the growth of hydrocarbon prices but at the same time believes that neighboring countries understand that water is also an energy resource, the service

said. "The price of natural gas tripled in the past few years, while the price for services to regulate water flows in Kyrgyz reservoirs has remained the same. We would like this issue be revised, because growing energy prices influence the price of exported Kyrgyz electricity," Chudinov said. (Interfax)

KAZAKHSTAN JOINED WORLD PETROLEUM COUNCIL

2 July

Kazakhstan has joined the World Petroleum Council (WPC), according to KazEnergy. "WPC membership provides a maximum access to the up-to-date information regarding the advanced research and engineering know how and breakthroughs in the oil and gas sector worldwide as well as current production and economic data; it will raise the image of the local oil industry, secure new contacts in the international cooperation and will be another step in reinforcement of the country's image on the international scale," reads a Tuesday news release from KazEnergy. According to the press release, Kazakhstan joined the WPC within the World Petroleum Congress held on Tuesday in Madrid. The broad program of participation of the Kazakh delegation in the congress provided for meetings of KazEnergy Chairman Timur Kulibaev and Kazakh Vice Minister of Energy and Mineral Resources Bulat Akchulakov with EU Commissioner for Energy Policy Andris Piebalgs and WPC Director General, Dr. Pierce Riemer," it is indicated in the statement. According to KazEnergy, EU Higher Commissioner for Energy and WPC General Director were invited to Astana to attend the Third Eurasian Energy Forum due on September 4 and 5. Set up in 1933 WPC embraces 60 national committees that represent 95% of O&G producing and consuming countries, including OPEC and non-OPEC nations. KazEnergy association of entities was founded in November 2005 to bolster dialogue between petroleum, energy companies and government agencies and public. (Interfax-Kazakhstan)

MOSCOW, BAKU CALL ON CASPIAN STATES TO SIGN ACCORDS ON THE USE OF SEA SUBSOIL RESOURCES

3 July

Moscow and Baku have confirmed their commitment to the current international legal order in the Caspian Sea and called on other Caspian states to achieve mutually acceptable agreements on the use of the subsoil resources of the Caspian Sea. "The parties confirm their adherence to the current international legal order of the Caspian Sea, including to the agreements on the delimitation of the Caspian Sea bottom for the subsoil use signed by Azerbaijan, Russia and Kazakhstan," the declaration of Friendship and Strategic Partnership signed by Russian President Dmitry Medvedev and Azeri President Ilkham Aliev in Baku on Thursday says. The Russian and Azeri leaders call on other Caspian states "to sign similar mutually acceptable agreements," the document says. Moscow and Baku undertook the obligation to "work out and sign cooperation agreements in certain spheres of activity in the Caspian Sea, including navigation and fishery." The parties also undertake the obligation to fulfill all agreements reached at the second Caspian Summit in October 2007 for "the quickest possible comprehensive resolution of the Caspian Sea's legal status." (Interfax)

EDB LOOKING FOR EXPERTS TO ASSESS CASPIAN-AZOV-BLACK SEA CANAL PROJECT

3 July

The Eurasian Development Bank (EDB) has opened a bidding process to find experts to carry out a feasibility study of the project for the construction of a navigation canal between the Caspian Sea and the Azov-Black Seas, the bank says in a Thursday statement. EDB is receiving bids from interested companies and associations of experts till August 4, 2008. As reported, Kazakhstan and Russia are considering two options: mapping the route through the Volga-Don canal or construction of a new canal called Eurasia. The idea of building a new canal, Eurasia, between the Caspian Sea and the Black Sea belongs to Nazarbaev who voiced it in mid June this year when speaking at the international economic forum in St. Petersburg. The Kazakh president referred to the information provided by the experts who say that the canal would be 1000 km shorter than the Volga-Don canal and would

provide best access for all Central Asia to the seas through Russia. In August the Council of the Eurasian Development Bank allocated about \$3 million to fund the feasibility study of the projects for the construction of a new navigable canal between the Caspian Sea and the Azov and Black Seas. (Interfax-Kazakhstan)

OSCE PA URGES GOVERNMENTS TO INTRODUCE REGULATIONS TO MAKE INCOME OF OIL COMPANIES PUBLIC INFO

3 July

The 17th OSCE Parliamentary Assembly adopted "Draft Resolution on Encouraging Transparency in the Extractive Industries" in Astana on Thursday. The OSCE Parliamentary Assembly "suggested that governments from oil and gas producing countries introduced regulations that require all companies operating in their territories to make public information relevant to revenue transparency." OSCE "encouraged governments and companies involved in the extractive industries to proactively report in all areas relevant to revenue transparency on a country-by-country basis." The OSCE Parliamentary Assembly recommended "governments and appropriate regulatory agencies to introduce mandatory revenue transparency reporting for the operations of companies at home and abroad." (Interfax-Kazakhstan)

EXXON ATTACKS KAZAKH OILFIELD DELAYS, FT

3 July

ExxonMobil, the world's biggest listed integrated energy group, on Tuesday blamed the government of Kazakhstan for delaying the development of the world's biggest new oilfield, significantly raising the level of acrimony surrounding the troubled project, writes the Financial Times. Rex Tillerson, Exxon's chief executive, barely contained his anger as he warned the Kazakh government to stop delaying the development of the field, into which he said a consortium of the world's biggest energy companies had already invested \$17bn but which has yet to produce a barrel of oil or a dollar of revenue. He said: "It is time for the government of Kazakhstan to stop delaying the project,[to] be

supportive of the consortium and see the project through to a successful start-up." Christophe de Margerie, chief executive of Total - which is also in the consortium with Eni, Royal Dutch Shell and ConocoPhillips among others - said that he agreed with Mr Tillerson and that Exxon and Total had long believed that earlier start-up dates had been far too optimistic. However, the usually blunt Mr de Margerie sounded uncharacteristically diplomatic in comparison with his US counterpart. Previous tensions surrounding the Kashagan project have stayed behind closed doors as oil executives are generally loathe to antagonise governments on whom they depend for access to oil reserves. Kashagan, which at its peak is expected to pump 1.5m barrels of oil a day, so becoming one of the world's three largest fields, is now expected to start operations in 2013, two years later than previous forecasts and eight years later than the initial target of 2005. The field, which lies in the shallow waters of the Caspian Sea, is a huge technical challenge because of floating ice, high reservoir pressure, lethal levels of hydrogen sulphide gas and the environmental sensitivities surrounding native sturgeon and other species. How an industry can develop the field when its costs are escalating and supplies of labour and equipment are tight has been a large issue of contention among both the partners in the project and between the oil companies and the Kazakh government. But the relationship became even more strained when Kazakhstan began to demand a bigger slice of the partnership, insisting that Kazmunaigas, its national oil company, joined the group and then raised its share by forcing the other companies to take a smaller stake. Meanwhile, following the trend of oil-rich states demanding a greater share of the profits that come with \$140-a-barrel oil prices, the government has also toughened its contract terms. (Interfax)

IRAN, TAJIKISTAN, AFGHANISTAN TO LAUNCH JOINT TV

6 July

Representatives of the Islamic Republic, Tajikistan and Afghanistan in their first working group session inked an agreement here Sunday to establish a joint Persian-language TV network in the near future. The agreement envisages taking

some steps into consideration to launch the TV. The Tajikistan capital, Dushanbe, was chosen as the network's hub of activity and the legal address. The second working group session will be held on August 7. The joint Persian-language TV network will play a key role in promoting trilateral cultural relations. (IRNA)

FOUR BLASTS THUNDER IN ZUGDIDI DISTRICT, GEORGIA

6 July

Four explosions ripped the air virtually simultaneously on Sunday at 08.00 between the village of Rukhi and a police precinct in the Zugdidi district of Georgia, Southern Security Zone, Itar-Tass learnt from assistant to the commander of the Collective Peacekeeping Force in the zone of the Georgian-Abkhazian conflict Alexander Novitsky. "According to preliminary data, splinters of shells or mines were found. One of shells was coated in the uniform of Georgian commandos, since rags of a black uniform remained at the place of a blast," Novitsky noted. "The shells were planted on the right side of the road in the direction from the city of Zugdidi, Georgia, to an Inguri River bridge." According to Novitsky, "representatives from the Georgian mass media turned up at the place of the incident seven minutes later, though it takes place 15 minutes to drive a car from Zugdidi to the place of the blasts." A group of reconnaissance and demining of the sapper outfit of the CIS Collective Peacekeeping Force, stationed in the village of Urta, Zugdidi district (security zone), drove to the place of the incident. "The CPKF command notified military observers of the UN Mission of this incident in good time and started immediately an investigation. There are no casualties as a result of the explosion," the assistant to the commander reported. (Itar-Tass)

IRAN SAYS DEMAND TO HALT ENRICHMENT "ILLEGITIMATE"

7 July

Iranian President Mahmoud Ahmadinejad said on Monday his country would not stop enriching uranium and rejected as "illegitimate" a demand by major powers that it do so, the official IRNA news agency reported. It was Ahmadinejad's first comment on the dispute since Iran delivered its

response on Friday to a package of incentives offered by world powers seeking to curb its nuclear activities. Details of the response were not made public. "They offer to hold talks but at the same time they threaten us and say we should accept their illegitimate demand to halt (enrichment work)," Ahmadinejad told reporters in Malaysia, where he was attending a summit of eight developing countries. "They want us to abandon our right (to nuclear technology)," he said. Iran's state broadcaster later quoted him as telling a gathering of Iranian expatriates: "We would not compromise the slightest on our rights ... if the enemies imagine they can force us to retreat through threats they are badly mistaken." The United States, China, Russia, Britain, France and Germany demand that Iran suspend its enrichment work before formal talks can start on their revised package, which includes help to develop a civilian nuclear program. Iran, the world's fourth-biggest oil exporter, says its nuclear activities are peaceful. The United States and its Western allies suspect they are a cover to build atomic bombs. Tehran has repeatedly refused to stop producing enriched uranium, which can be used as fuel for power plants, or, if refined much more, can provide material for nuclear weapons. The offer of trade and other incentives proposed by the world powers was presented last month by EU foreign policy chief Javier Solana to Iran's chief nuclear negotiator Saeed Jalili. Iran has put forward its own bundle of proposals aimed at resolving the dispute and has said it was encouraged by common points between the two separate packages. (Reuters)

KAZAKHSTAN POSITS NEW BLACK SEA PIPELINE

7 July

The chairman of the Kazakh state-run energy firm said Astana spoke with Azerbaijan and Georgia regarding a new oil pipeline in the Black Sea. Timur Kulibaev, head of KazEnergy Association, an association that includes all foreign and local energy companies, said he approached leaders from the two countries on the possibilities of building a new oil pipeline from the Azeri capital, Baku, to Batumi in southwest Georgia, the Trend Capital News Agency said Monday. "Azerbaijan and Georgia support the

project of construction of a new oil pipeline from Baku to Batumi," he said. Nearly 7 million barrels of Kazakh oil per year, along with additional supplies from the ChevronTexaco-operated Tangiz field, would run through the pipeline in its first stage. (UPI)

GAZPROM COURTS AZERBAIJAN

8 July

Russian gas giant Gazprom plans to launch talks with Azerbaijan to broker gas purchases from the energy-rich nation, Russian officials said Tuesday. The announcement followed a visit between Russian President Dmitry Medvedev and his Azeri counterpart, Ilham Aliyev, Trend Capital News said. "The issue was discussed between the Azerbaijani and Russian presidents during President Medvedev's official visit to Baku. (Both) presidents backed continuation of negotiations," Russian Ambassador to Azerbaijan Vasiliy Istratov said. The proposal came from June negotiations brokered between Gazprom chief Alexei Miller and Aliyev to purchase Azeri gas at market prices on a long-term basis. "We are ready to purchase gas on the basis of market pricing and in possible maximum volumes from Azerbaijan and other countries in which Gazprom operates," Miller said in June. Production from the Shah Deniz natural gas field in Azerbaijan could reach 7 trillion cubic feet of product per year by 2012. (UPI)

GAZ DE FRANCE CEO REPEATS INTEREST IN GAS PIPELINE

8 July

Gaz de France is still keen to acquire a stake in the prospective Nabucco pipeline to deliver gas from Central Asia to Europe, the company's chairman said Tuesday. "We're still very open to participating in Nabucco," Jean-Francois Cirelli said at a hearing at the French Senate on the natural gas company's pending merger with electric utility Suez. "A new route for gas is in the interest of Europe," Cirelli said. "But if GDF Suez is not in the pipeline, we're still a candidate to buy some of the capacity that will pass through it," Cirelli said. The European Union and the United States have strongly backed Nabucco, which would deliver gas from Turkmenistan and other Central Asian and Caspian countries

westward, bypassing Russia. The project, however, has been slowed by high costs and uncertainty over sources of supply. All Central Asian natural gas exports to the EU currently flow through Russia, which has sought to cement its grip on energy supplies to Europe. The West hopes to use gas from Azerbaijan's Shah Deniz fields to feed the Nabucco pipeline, but Russia has also been courting Azerbaijan, hoping to buy all of the estimated annual output of 12-13 billion cubic meters of gas at Shah Deniz's second stage where production is expected to start in 2012. Moscow dealt a heavy blow to Nabucco last fall after reaching a deal with Turkmenistan and Kazakhstan for those countries' Caspian Sea gas supplies to flow through Russia. It is also backing a rival pipeline route from the Caspian via Russia. Nabucco is being developed by a consortium led by Austria's OMV. The consortium also includes Hungary's Mol, BOTAS of Turkey, Bulgargaz of Bulgaria and Transgaz of Romania. GDF's Cirelli said the Nabucco project faces two difficulties -- the size of the investment needed, which he estimated at between \$7.8 billion and \$9.4 billion, and finding gas to fill the pipeline. (AP)

AFGHANISTAN SAYS EMBASSY BOMBERS TRAINED IN PAKISTAN

9 July

Militants who carried out this week's suicide bomb attack on the Indian embassy in the Afghan capital received their training at camps in Pakistan, Afghanistan's interior minister said on Wednesday. On Monday, a car bomb rammed into the Indian embassy's gates and killed dozens of people in the deadliest attack in Kabul since U.S.-led and Afghan forces overthrew the Taliban in 2001. "Unfortunately dozens of people who died or were injured during the explosion were civilians," Zarar Ahmad Moqbel said on a visit to neighbouring Tajikistan. "Some nations are keen to derail the process of stabilisation in Afghanistan. The training centre for the terrorists who carried out the latest act of violence in Kabul at the Indian embassy is in Pakistan," he said. Moqbel did not elaborate. Pakistan strongly condemned Monday's attack and denied any involvement. Afghanistan has said the attack bore the hallmarks of a foreign intelligence agency. The explosion killed two Indian diplomats and

two Indian guards. Most of the other victims were people waiting in line for visas or shoppers at a nearby market. Afghanistan has accused Pakistani agents of being behind the April assassination attempt against President Hamid Karzai, a mass jail break in Kandahar last month and other attacks. Karzai has threatened to send troops across the border to attack militants there if Pakistan did not take action. (Reuters)

IRAN TEST-FIRES MISSILES IN PERSIAN GULF

9 July

Iran test-fired nine long- and medium-range missiles Wednesday during war games that officials said aimed to show the country can retaliate against any U.S. or Israeli attack, state television reported. Oil prices jumped on news of the missile tests, rising US\$1.44 to US\$137.48 a barrel in electronic trading on the New York Mercantile Exchange. The military exercise was being conducted at the Strait of Hormuz, a strategic waterway at the mouth of the Persian Gulf through which about 40 percent of the world's oil passes. Iran has threatened to shut down traffic in the strait if attacked. It was not clear, however, whether the missile test also took place near the strait. Gen. Hossein Salami, the air force commander of Iran's elite Revolutionary Guards, said the exercise would "demonstrate our resolve and might against enemies who in recent weeks have threatened Iran with harsh language," the TV report said. Footage showed at least six missiles firing simultaneously, and said the barrage included a new version of the Shahab-3 missile, which officials have said has a range of 1,250 miles (2,000 kilometers) and is armed with a 1-ton conventional warhead. The television report did not specify where the launch took place. That would put Israel, Turkey, the Arabian peninsula, Afghanistan and Pakistan within striking distance. "Our hands are always on the trigger and our missiles are ready for launch," the official IRNA news agency quoted Salami as saying Wednesday. Footage showed at least six missiles firing simultaneously, and said the barrage included a new version of the Shahab-3 missile, which officials have said has a range of 1,250 miles (2,000 kilometers) and is armed with a 1-ton conventional warhead. The television report did

not specify where the launch took place. That would put Israel, Turkey, the Arabian peninsula, Afghanistan and Pakistan within striking distance. "Our hands are always on the trigger and our missiles are ready for launch," the official IRNA news agency quoted Salami as saying Wednesday. (AP)

KAZAKHSTAN: WORK BEGINS ON GAS PIPELINE TO CHINA

9 July

Construction on a gas pipeline linking energy-rich Kazakhstan with China started Wednesday, a Kazakh construction company said. The pipeline should be completed by June 2010 and will have an initial annual capacity of around 160 billion cubic feet of natural gas, Kazstroiiservis said. The new transit route is part of a larger project to build two parallel pipelines connecting China with Central Asia's vast natural gas reserves. The pipes will stretch more than 1,100 miles from the Turkmenistan, cross Uzbekistan and Kazakhstan, and will enter China's northwestern Xinjiang region. China hopes the pipelines will reach annual capacity of around 30 billion cubic meters of gas within the next three decades. China is growing increasingly reliant on natural gas supplies and its annual demand is expected to reach more than 200 billion cubic meters by 2020. The pipeline will also ensure diversity of export routes for Central Asia's vast gas reserves. Most of regional gas exports are controlled by Russian gas giant OAO Gazprom, and the West is also vying for large-scale energy supplies from the region. Work on the 325-mile Uzbek section of the pipeline has already got under way. (AP)

UNIDENTIFIED GUNMEN INJURE 3 GEORGIAN POLICEMEN IN KODORI GORGE

9 July

Three Georgian policemen were injured in the Kodori Gorge on Wednesday as a result of "an armed attack of unidentified gunmen," sources in the Georgian Interior Ministry said. According to them, "A Georgian policeman was severely wounded, and two other policemen received light injuries" in an armed attack in the vicinity of the

village of Kvabchara. Georgian policemen, who were on a patrolling mission, had to return the fire. After that the attackers escaped in the forest. Possible losses among the attackers are unclear yet. "Georgian policemen were on a patrolling mission as part of the preparations for a scheduled inspection in this area by UN military observers in the conflict zone," the sources said. The attack was committed in the upper part of the Kodori Gorge, where the Georgian control zone is situated and the so-called neutral territory begins. The Abkhazian control zone stretches out after the neutral territory. (Itar-Tass)

GEORGIA SAYS RICE'S VISIT SHOWS U.S. SUPPORT

9 July

Georgia's foreign minister said Wednesday that the current visit of U.S. Secretary of State Condoleezza Rice shows Washington's support for Georgia as a democratic state. Rice arrived in Tbilisi earlier in the day, and will meet with Georgian President Mikheil Saakashvili on Thursday for closed-door talks. "The visit of the U.S. Secretary of State undoubtedly demonstrates the U.S. support of Georgia as a democratic state and the support of Georgia's peaceful intentions, which may bring positive results," Yekaterina Tkeshelashvili told reporters in Tbilisi. Rice's visit to Georgia will take place amid rising tensions between the post Soviet Caucasus country, which seeks NATO membership, and its breakaway regions, Abkhazia and South Ossetia, which have recently seen several bombings and disputes over peacekeepers. Russia has provided aid to Abkhazia and recently sent additional peacekeepers into the area, saying they are needed to deter new bloodshed, and accusing Tbilisi of escalating the conflict. Georgia has charged Moscow with trying to annex the two breakaway territories. "With this visit the American side clearly shows its support of Georgia's peaceful plans to resolve the conflicts with both [breakaway] regions," Tkeshelashvili said. (RIA Novosti)