“FRIENDSHIP OF NATIONS” IN THE WORLD OF ENERGY

By Martha Brill Olcott

Energy is one of the cornerstones of the new Russian geopolitics, and nowhere has it been used with greater effectiveness than in the Kremlin’s relationships with the five Central Asian states. Over the past five years Russian energy companies have deepened their cooperation with Central Asian partner firms, in oil, in gas and in hydroelectric energy. All this is part of a general reassertion of Russian influence in the region, in which economic partnerships are being advanced as part of a broader package security guarantees. For Russia, certainly, these partnerships have real economic benefit as well, and many offer substantial benefit to the Central Asian economies and not infrequently to prominent political figures as well. These partnerships also reinforce Soviet-era dependencies and create levers that Russia can use to try and influence domestic developments in these states as well.

This is all well and good if all the economies grow stronger as a result of the cooperation, and regional security is strengthened, but no one will benefit in the long run if these levers are used to increase the economic isolation of the states of Central Asia, or to lead their domestic or regional problems to fester.

Most likely of all, though, is that Russia’s increasing presence on Central Asia’s energy scene will not be able to serve as a decisive factor in the evolving economic and political fates of these nations, but will be diminished through the growing rule of any number of other international actors—from China, India, U.S. and Europe---- who will offer new alternatives to Central Asia’s leaders. And as Central Asia’s leaders and their advisors begin to be replaced by those from a younger and more highly skilled generation, such alternatives may seem increasingly attractive.

Gas

Russia’s President Vladimir Putin, has put great importance on strengthening ties between Russia’s gas industry and those of the Central Asian states, making this a major focus in bilateral meetings with the region’s various heads of state, and in the visits by senior Russian officials, but first and foremost Gazprom CEO Aleksei Miller to the region. As the accompanying box makes clear, Gazprom’s position in this region has been greatly strengthened in recent years. Central Asian gas provides a cheap source of energy for Russia’s European customers while keeping the status quo in the Russian gas industry----it allows Gazprom to maintain its monopoly over transport, and takes some of the pressure off Gazprom to find the capital necessary to reinvest in Russian domestic production. It also reduces pressure on the Russian government to reform the domestic gas sector, where the slow move to world prices is of much greater disadvantage to Russia’s independent gas companies (who are forced to sell domestically because of limited export transport options) than to the state-run monopoly.
Russia is eager to sew up Central Asia’s gas in long-term transport contracts. Kazakhstan is likely to be Russia’s most dependable gas partner in the Central Asian region. The size of Kazakhstan’s gas reserves are smaller than those of either Uzbekistan or Turkmenistan (see Table 1), but Kazakhstan could have much greater volumes of gas to export than earlier expectations, given that the full measure of Kazakhstan’s undersea gas reserves are not yet known, nor how much of the associated gas in the oil projects will be made available for export.

Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>Proven Gas Reserves (tcf)</th>
<th>Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td></td>
<td>30.0</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td></td>
<td>65.0</td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td>1,680.0</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td></td>
<td>71.0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td></td>
<td>65.7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,911.7</td>
</tr>
</tbody>
</table>

Source: U.S. Energy Information Administration

While Kazakhstan’s leaders and foreign investors all complain about the low purchase price offered by Gazprom for the country’s gas, the leadership in Astana recognizes the country’s non-advantageous geographic position, landlocked, and with fewer routes to the open sea than competing gas producer Turkmenistan to its south. So they are relatively resigned to take a lower purchase price for their gas than they might like, as they want to insure that some of their gas reaches the European market along Gazprom’s routes. This disadvantages Kazakhstan’s foreign investors more than it does Kazakhstan’s government, as the latter receives transit fees from Gazprom for Uzbek and Turkmen gas.

The legal relationships between Gazprom and the Kazakh state oil gas company, Kazmunaigaz, that have been elaborated since 2004, seem much less linked to political vicissitudes in either country than the Russian-Turkmen or Russian-Uzbek relationships. It is important for Kazakhstan leadership to remain on good terms with the Russian oil and gas industry. Kazakhstan’s off-shore reserves will be problematic to develop without Russia’s consent. Those developing Kazakhstan’s large off-shore deposits must either flare or reinject this gas for oil production to be maintained, which could have an impact on the ecology of the Caspian basin. Antagonizing Moscow through supporting an undersea TransCaspian pipeline may seem like bad politics to the Kazakhs, even if it is good business, as Russian authorities might then decide to object more strongly to Kazakhstan’s off-shore oil and gas projects more generally.

And for several of these land-locked states selling through Russia is not such a bad deal. This is particularly true for Uzbekistan, which will be trading limited access to European markets for bad-paying customers in Central Asia, as Uzbekistan provides gas to Kyrgyzstan, Tajikistan and southern Kazakhstan. The Uzbeks and Russians negotiated a
$1 billion 35 year production sharing agreement to develop a number of very promising Uzbek deposits in 2004, including the Shakhpakhty field in the Ust-Urt peninsula, and the list of projects was expanded again in 2005, when among others the Kandym-Khauzuk-Shady gas field in central Uzbekistan was added. While Uzbek President Islam Karimov has tried to depict the turn to Russia as an energy investor as part of his country’s strategic reorientation, in reality there was only limited western investment in Uzbekistan’s oil and gas sector during Uzbekistan’s years.

As one Uzbek diplomat said, with more attractive gas projects available, what other investors would put money into Uzbekistan’s gas industry save Russia, let alone put these projects on a developmental fast track—with making much needed investment money quickly available. But Moscow’s interest in Uzbekistan’s gas seems to have sparked increased Chinese interest as well, with the China National Petroleum Company (CNPC) signing a $600 million dollar agreement with Uzbekneftegaz, for some 23 smaller oil fields in the Bukhara area. Very little information has been made public about this agreement, but the location of these fields (near the main gas pipeline) suggests that Beijing is hopeful that there will be large amounts of associated gas available from these projects.

Investing in Uzbekistan makes good sense for Gazprom, for unlike in the Russian domestic fields Gazprom is sharing investment costs and getting reliable supplies of gas to market through the Russian pipeline system. While Turkmenistan’s transport options may change in a post-Niyazov world, should a more market oriented and less erratic leader succeed him, Uzbekistan’s transport options will not change as dramatically, as they cannot ship directly through Iran, or through an undersea Caspian route, and building a trans-Afghan gas pipeline is more economical through Turkmenistan than through Uzbekistan (see Illustration 1). The challenge, though, will be to manage the threat of internal strife in Uzbekistan. The current agreements between Uzbekistan leadership and Gazprom effectively bind Moscow to the Karimov regime, or to its designated successor. Much like the stories that regularly circulate about Niyazov and his family benefiting from his arrangements with Russia, there is also room for speculation on whether there has been some personal gain—tangible or intangible for the Uzbek ruling family in this transaction as well, as the President’s daughter Gulnara Karimova, was responsible for much of the gas negotiation when she was posted to the Uzbek Embassy in Moscow.

Niyazov’s Turkmenistan has been a difficult partner for Moscow. Although how difficult is a subject of some speculation, as those complicated cash and barter deals through which Moscow purchased Turkmen gas seem almost certainly to benefit President Niyazov directly or through his family members. But there is no question that the opportunity for such corruption was there as the Turkmen President personally has to approve any transactions involving the transfer of foreign currency. As already noted, in the near and medium term low purchase prices for Turkmen gas maximize the

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profit of Gazprom’s sales in Europe, as it permits the cheaper and more efficient Turkmen gas to be used in the Russian economy, and the Russian gas to be shipped abroad. The current sales agreement between Russia and Turkmenistan for the sale of gas to Ukraine, negotiated in late 2005, and up for renewal in June 2006, is even more profitable, as it sets up an old-Soviet style ledger-based asset swap, allowing Turkmen reserves to nominally be sold to Ukraine, while in fact they are being used in Russia. This is a “game” which is currently advantageous to all concerned, as the Ukrainians “buy” lower priced Turkmen gas, and though they are receiving 100 percent of their gas from Russian fields they are only paying the higher tariff for 25 percent of the gas received, Gazprom is able to record as income the transit fees it receives for Turkmen gas, which in fact goes to destinations in Russia, freeing Russian sources of gas for export throughout the CIS. And in addition Gazprom also benefits from the transit fees that the rather mysterious RusUkrEnergo of which Gazprom is part owner, is collecting for being the transit agent.

While this particular iteration of Russian-Turkmen gas transport may prove short-lived, it is almost guaranteed that all the key actors will strive to replace it with an alternative transit arrangement that maximizes personal and if possible both institutional and national interests as well. For this appears to be an important part of the Turkmen-Russian gas relationship. But there is reason to question how long this will be sustained.

It is one thing for the Turkmen to simultaneously sell the same gas to both Russian and Ukraine, given the relatively fixed number of players (and that it moves across the same pipeline) but it is quite another to sell the same gas to Russia, and to China, which they have contracted to do starting in 2009. The test of that arrangement---presuming that the Turkmen President’s health holds out---will come when the construction of the pipeline begins, for most energy analysts are skeptical about Turkmenistan’s ability to increase production.²

The Chinese have contracted to begin moving up to 30 bcm of Turkmen gas annually in 2009, through a pipeline which will go through Kazakhstan, linking up with the existing Bukhara-Tashkent-Almaty pipeline and extending it to the border at Alashankou. The Chinese also are negotiating to get Kazakh gas shipped along this route or through a new pipeline from Ishim in Russia, to Astana, through Karaganda and eventually to Alashankou as well. It is hard to believe that the Chinese would support both options simultaneously, and Russia will certainly be lobbying hard for the second route to be built first, as most industry analysts do not believe that Turkmenistan will have enough production to support contract obligations to both Russia and China.

Иллюстрация 1. Нефтепроводы в Центральной Азии и соседних странах.
This means that the Kremlin will have to continue to nurture the Turkmen-Russian relationship, which is currently synonymous with staying on good terms with President Saparmarad Niyazov. It would be an understatement to say Russia will use every lever at its disposal to try and insure that political succession in Turkmenistan produces an outcome supportive of Russian national interests. But, new leaders often create surprises for even the most watchful of earlier patrons, and a more competent and economically savvy Turkmen President could prove capable of getting major investors involved in developing his country’s major fields. The prospect of new supply from Turkmenistan could breathe new life into the Trans-Afghan Pipeline project, which has formal backing of the governments of Turkmenistan, Afghanistan and Pakistan, as well as the real prospect of credit guarantees through the Asian Development Bank. It also could create new sources of support for the U.S.-sponsored TransCaspian Pipeline.

**Oil**

Unlike in gas, Russia has had to play “catch-up” in oil (see Table 2). Kazakhstan’s three largest fossil-fuel projects, Kashagan, Karachaganak and Tengiz, are all being developed by largely foreign owned and foreign dominated consortia. These projects were all put together in the early and mid-1990s, when Western companies, interested in securing exploitation rights for major Soviet-era assets, were still largely closed out of Russia. While this Western investment brought much needed capital and technology, it did not bring ready solutions to the challenge of transporting Kazakh oil and gas---these required cooperation with Russia.

### Table 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Proven Oil Reserves (billion barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimates</td>
</tr>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>7.0</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>9.0</td>
</tr>
<tr>
<td>Russia</td>
<td>60.0</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.5</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76.8</td>
</tr>
</tbody>
</table>

Source: U.S. Energy Information Administration

At a state-to-state level the Russians have often tried to be tough negotiators with the Kazakhs, slowing the initial construction of the Caspian Pipeline Consortium (CPC)

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3 The Kashagan consortium includes: Agip Caspian Sea B.V. (Operator, Italy) 18.52%, ExxonMobil Kazakhstan Inc. (U.S.) 18.52%, Shell Kazakhstan Development B.V. 18.52%, Total E&P Kazakhstan (France) 18.52%, ConocoPhillips (U.S.) 9.26%, KazMunaiGaz (Kazakhstan) 8.33%, INPEX North Caspian Sea, Ltd. (Japan) 8.33%.

4 The Karachaganak consortium includes: Agip (Italy) 32.5%, BG (U.K.) 32.5%, ChevronTexaco (U.S.) 20%, Lukoil (Russia) 15%.

5 The Tengiz consortium includes: ChevronTexaco (U.S.) 50%, ExxonMobil (U.S.) 25%, KazMunaiGaz (Kazakhstan) 20%, LukArco (Russia) 5%.
pipeline by several years, still currently the only pipeline across Russian territory not managed by Transneft). While the US and Azerbaijan lobbying hard for Kazakhstan to commit large volumes of oil to the Baku Tbilisi Ceyhan (BTC) pipeline route, Russia continues to make shipping higher volumes of oil across Russia problematic; permission to expand CPC’s capacity was slow in coming, and Transneft remains being a tough negotiator during talks on transit fees and increased volume for Kazakh oil through its transit network.

The ultimate profitability of the BTC route, which cost over $2 billion to build, and which will require further expansion, may depend upon the ultimate volume of Kazakh oil transiting on this route. Kazakhstan will commit some reserves to BTC route, starting in 2008, but remains reluctant to further antagonize Russia, by agreeing to the U.S. proposed TransCaspian oil and gas pipelines, which would substantially increase the volumes of Kazakh oil, which goes by freighter across the Caspian, that could be transported through BTC. Citing ecological concerns, Russia remains vociferously opposed to the proposed undersea routes. Given the fact that off-shore development of Caspian reserves is going on without the existence of an agreed upon legal regime governing the use of the Caspian sea by the five littoral states (Russia, Iran, Turkmenistan, Azerbaijan and Kazakhstan), and the continued economic interdependence of the post-Soviet states, there is a good deal of prudence behind Kazakhstan’s actions. For much the same reason, Kazmunaigaz, the Kazakh state oil company, is eager for engaging in development projects with Russian firms, partnering with Rosneft and Lukoil. The Kurmangazy field in the north Caspian And the private Kazakh oil company Nelson Resources (rumored to have been partly held by members of the Nazarbayev family) was sold to Lukoil in 2005. Nazarbayev’s family remains active in Kazakhstan’s oil industry, and his son-in-law Timur Kulibayev is a frequent point of contact for Russian oilmen.

By contrast to Russia, cooperation with China does allow Kazakhstan new transit options (see Illustration 2). The Chinese National Petroleum Company (CNPC) owns a controlling interest in Aktobemunaigaz, a production company in Western Kazakhstan. But Chinese ambitions vis a vis Kazakhstan extend a lot further. In 2003 China National Offshore Oil Corporation (CNOOC) and China Petroleum and Chemical Corporation (Sinopec) made a bid to buy British Gas’ (BG) share of Kazakhstan’s massive off-shore Kashagan deposit, a bid that was blocked by the consortia partners, who in the end were forced to allow Kazakhstan’s own national company (Kazmunaigaz) to acquire half the BG stake, and absorbed the other half themselves. CNPC did manage to acquire the small North Buzachi field, and then finally in 2005 CNPC purchased the assets of

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6 The CPC consortium includes: Russia 24%, Kazakhstan 19%, ChevronTexaco (U.S.) 15%, LukArco (Russia/U.S.) 12.5%, Rosneft-Shell (Russia-U.K./Netherlands) 7.5%, ExxonMobil (U.S.) 7.5%, Oman 7%, Agip (Italy) 2%, BG (U.K.) 2%, Kazakh Pipelines (Kazakhstan) 1.75%, Oryx (U.S.) 1.75%.
7 The Kurmangazy consortium includes: KazMunaiGaz (Kazakhstan) 50%, Rosneft (Russia) 50%.
8 CNPC has an 88.2 percent stake in Aktobemunaigaz, which produced 106,000 barrels per day of oil in 2004, and has the rights to Zhanazhol and Kekiyak deposits as well, and in 2005 entered into a joint venture for the development of the newly discovered Umit oil field.
9 Oil reserves at the North Buzachi field are estimated at 1 to 1.5 billion barrels of oil. Development is carried out jointly by LukOil (50% ownership) and CNPC (50% ownership).
PetraKazakhstan, giving them the assets from the Kumkol field, and shared control of the Shymkent refinery (with Kazmunaigaz). The Chinese have made a major financial commitment to securing oil from Kazakhstan, paying over $4 billion for PetraKazakhstan, and planning a pipeline which will run from Atyrau through Kenkiyak, on to Kumkol, Atasu, and then Alashankou the Kazakh-Chinese border. By late 2005 two stretches were already operational, with the most expensive link from Kenkiyak to Kumkol authorized for construction to begin.

China’s rise need not be at Russia’s expense, but might well contribute to Moscow, Astana and Beijing’s mutual advantage. Should Russia move forward with plans to construct a new pipeline to link Western Siberian oil with the China, there may well be extra capacity for Kazakhstani oil to move north to add supply to this route as well.

*Hydroelectric Power*

Russia’s ambitions with relationship to hydroelectric power are much like those in gas---sopping up Central Asia’s excess capacity creates new opportunities for using Russia’s reserves more profitably. The old Soviet grid system, in which there was a unified energy system in the region, creates the potential for Central Asian energy to be used in nearby Russia, allowing excess Russian capacity to be exported to more lucrative markets (see Table 3). But Russia does not enjoy the same potential transport monopoly on Central Asia’s hydroelectric resources that it has on gas; decentralization of electrical energy transmission is technically rather easy, and the old network cannot move greatly increased volumes of energy, making investment in this sector a precondition to any effort to control output. But maximizing investment in Central Asia’s enormous hydroelectric sector, does not make good economic sense until RAO UES completes the reform of Russia’s own electrical energy sector and may not make much sense unless electricity prices both within and beyond the region increase dramatically. Hydroelectric power has a more potentially fragile price structure than does either oil and gas, particularly in the former Central Asian states where industry was sustained through cheap power. But Russia wants to remain the customer with rights of first refusal for any major power project in this region.

**Table 3**

<table>
<thead>
<tr>
<th>Country</th>
<th>Hydroelectric Potential Estimates</th>
<th>GWh/year</th>
<th>MTOE/year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td></td>
<td>27000</td>
<td>2.3</td>
<td>5.2</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td></td>
<td>163000</td>
<td>14.0</td>
<td>31.1</td>
</tr>
<tr>
<td>Tajikistan</td>
<td></td>
<td>317000</td>
<td>27.3</td>
<td>60.4</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td></td>
<td>2000</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td></td>
<td>15000</td>
<td>1.3</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td>524000</td>
<td>45.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: UNDP Central Asia Human Development Report 2005, p. 94

GWh stands for gigawatt hours, MTOE for million tons of equivalent.
Illustration 2. Oil and Gas pipelines in the Central Asian Region. (In Russian. English-language illustration will be available shortly).
China too is an interested client for surplus electric power. The Russians themselves are interested in supplying this market, as are the Kazakhs, who are planning a joint project with China to develop a $4 billion coal-fired power plant at Ekiastuz, near the Russian-Chinese border.\(^{10}\) Kyrgyzstan also is interested in selling hydroelectric power to China (which seems more interested in developing its own hydroelectric power than buying foreign produced electricity). And in both the Kazakh and Kyrgyz cases the hope is that such purchases might make China less aggressive about diverting upstream water that traditionally flowed into Central Asia which would create serious problems with water shortages in these countries. Tajikistan too is attracted by the Chinese market, and even more so by the prospects of exporting surplus energy to Afghanistan, and then on to the large markets in India and Pakistan. The latter being a project that is particularly interesting to U.S. authorities; it would have a developmental impact in Afghanistan, and because it would lead Tajikistan to diversify its resource ownership base beyond Russia.

The Iranians have signed a number of agreements with Tajikistan, including promising investment for the construction of the Sangtuda II power station, to provide electricity to a trinational power grid shared with Afghanistan,\(^{11}\) and the U.S. company AES is interested in construction of Sangtuda I, in possible partnership with RAO UES. But the U.S. government is eager for AES, a Texas based energy company to create an integrated South Asian regional energy grid, rather than see RAO UES decide on Tajikistan’s export routes. Foreign interest, such as that of Iran, or of A.E.S. sparks Russian activity in this sector, but in general Moscow has been able to play a waiting game, signing long-term contracts in which the down-payments came at least in part in the form of Russia’s forgiveness of Tajik sovereign debt owed to it., and require minimal short term investment on the Russian side.

Russia has also done a good job of getting the Kyrgyz and Tajiks to compete for Russian investment priority, which because of Oleg Deripaska’s purchase of hydro-electric dependent Tursuzade Aluminum works, has gone largely to Tajikistan.

The Kyrgyz very much want Russia to invest in Kambarata-1 and Kambarata-2, Soviet-era projects stalled with independence, as well as to build an aluminum factory in Kyrgyzstan. But it is very unlikely that the Russian government or private investors will commit anywhere near the kind of resources to the metals or hydroelectric sector in Kyrgyzstan that have been invested in Tajikistan.

Russian Aluminum (Rusal) is Tajikistan’s largest foreign investor. Rusal committed to investment in Tajikistan in an October 2004 agreement with the government of Tajikistan, and in September 2005 to complete the construction of the Rogun Hydroelectric Power Station, a Soviet-era project, which by 2010 is intended to provide 4 billion kw per hour. There has been speculation in the west about ultimately how profitable it would be to complete Tajikistan’s two unfinished power complexes (Rogun

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http://www.rferl.org/featuresarticle/2006/02/CE4A7ABB-8E8F-4A98-89E6-1CA67434ECD6.html
and Sangtuda, on the Vakhsh river),\(^{12}\) even for smelting aluminum, but for now, at least Rusal seems firmly committed to this investment, whether strictly for economic reasons, or because it helps build good will with the Kremlin for their multitude of projects in Russia. And whether or not Russia is the ideal partner for Tajikistan in the long-run, for the Kremlin’s first priority does seem to be tying up rights to most projects, rather than moving quickly to realize them. And in the short-run Tajikistan has been able to rid itself of part of its foreign debt, as Russia wrote off $50 million of Tajik debt for an equity stake in the Sagtuda project.

**Looking Ahead**

One of the things that might be gained through Russia having a dominating position in Central Asia’s gas and hydroelectric sectors is Moscow using its good auspices to help regulate water-usage problems within the region. This was a role which of course it served during the Soviet period, for the unified and at that time much more heavily agriculturally-driven economy. Then, Central Asia’s gas producers served local energy needs, with Uzbekistan being the principal gas supplier for Tajikistan, Kyrgyzstan and southern Kazakhstan, while Tajikistan and Kyrgyzstan supplied water for irrigation for the entire region (save northern Kazakhstan). Independence obviously transformed all of these relationships, and left the water-producers in particular in a weaker bargaining position, because they were left with the costs of maintaining the reservoirs system, and received no compensation for their water. So, faced with the high cost of gas, and the difficulty of developing barter-style relations which satisfied all concerned, Kyrgyzstan (and to a lesser extent Tajikistan) sought to increase hydroelectric production in the winter rather than pay for Uzbek gas, which in turn released excess water at the wrong times of the year for farmers, creating flooding in spring rather than irrigation in autumn. The creation of new power plants further upstream (Kambarata and Sangtuda) would help deal with the flooding. But it would not be sufficient to restore good faith between the different economic (and ethnic) communities served by the Syr Darya and Amu Darya river basin, as it would still leave the basic water usage issues unresolved, not addressing either national quotas for water or payment for the upkeep of the reservoir system. Similarly, Gazprom’s deal making with each of the Central Asian states creates new opportunities to regularize gas transit fees throughout the region, and a coherent investment and development plan for repairing and constructing new gas pipelines in which all the countries would have some form of equity ownership in.

To date Russia has not placed much priority in managing the conflicting needs of gas and hydroelectric energy producers, or even competing gas (or oil) producers from within the region. If anything, Moscow has fostered the atmosphere of competition, seeking to create incentives for Central Asian countries to sign on with Gazprom, RAO UES, Rosneft or Lukoil, faster than the neighboring Central Asian state. This kind of approach will never help solve the Central Asian countries’ common problems nor keep other foreign competitors to Russia at bay. It does virtually guarantee though that within

5-10 years, Russia will no longer enjoy the currently commanding position that Putin’s Kremlin has worked so hard to develop.