

# CENTRAL ASIAN REGIONAL ENERGY INITIATIVES: CHALLENGES AND OPPORTUNITIES

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# INTRODUCTION

## CENTRAL ASIAN REGIONAL ENERGY INITIATIVES: CHALLENGES AND OPPORTUNITIES





## ABSTRACT

Central Asian energy sectors were designed in such way that turned regional state actors into interdependent units of a complex Central Asian Energy System. Resource-sharing mechanism ensured stability and reliability of energy supplies in the region. However, over the last decade the energy system has undergone significant transformation and the resource sharing mechanism could not withstand geopolitical realities. Disintegration of the Central Asian Energy System to a different extent affects the level of energy security in Central Asia. In an attempt to respond to energy insecurities several regional level energy mechanisms were put in place. Despite the fact that these mechanisms operate within a well-developed conceptual framework, they lack effective enforcement mechanism to implement regional level projects.

**Key words:** energy security, regional cooperation, water-energy nexus, and the CAES



## INTRODUCTION

The Central Asian Energy System (CAES) was designed and built during the Soviet period, when political borders and sovereignty issue were not an obstacle to ensure parallel operation of national energy sectors. Resource sharing mechanism ensured stability and reliability of energy supplies to meet population and economic needs. The mechanism was quite simple: upstream countries of Kyrgyzstan and Tajikistan ensured a continuous flow of water to the downstream countries and downstream countries of Kazakhstan, Turkmenistan and Uzbekistan channeled fuel and gas to their upstream neighbors. However, over the last two decades the CAES has undergone structural transformation forcing regional state actors to pursue policies that distance them from each other in energy sector. Disintegration of the CAES is negatively affecting the level of energy security in Central Asia and thus, requires urgent attention to be dealt with. However, due to financial and technological limitations as well as political constraints Central Asian countries are sometimes not capable or often unwilling to address energy security problems through regional cooperation. Acknowledging the importance of such cooperation several regional level governance mechanisms were put in place to strengthen it. State actors as well as international institutions, NGOs and private companies are encouraged to pull their resources to address energy security challenges in the region through a number of multilateral programs in energy sector. However, the fact that the CAES is in the process of disintegration implies that these programs are not sufficient enough to facilitate energy trade and improve the level of energy security in Central Asia. This paper aims to analyze regional programs and initiatives designed to improve the level of energy security and facilitate energy led economic growth of the Central Asian countries.



REGIONAL ENERGY GOVERNANCE  
MECHANISMS IN CENTRAL ASIA

I  
SECTION



Cooperation between energy state actors and international institutions in the areas of oil, natural gas and hydropower (major projects) production and transportation aims to contribute to improve security of the CAES. There are a number of multilateral institutions that promote initiatives and implement projects in energy sector in Central Asia such as European Bank of Reconstruction and Development, International Monetary Fund, UNDP, Islamic Development Bank and etc. However, the Asia Development Bank within the Central Asia Regional Economic Cooperation (CAREC) and the World Bank through Central Asia Energy-Water Development Program, Central Asia South Asia Regional Electricity Trade Project, Rogun Regional Water Reservoir and Hydropower Project in Tajikistan are the most active ones.<sup>1</sup> In addition to these programs there are also intergovernmental organizations such as the Shanghai Cooperation Organization, the Commonwealth of Independent States and the Eurasian Economic Union, which can provide regulatory mechanism to improve regional cooperation in energy sector.



1 Deniz, Derya, "Top development aid groups in Central Asia: A primer," *Devex*, 2011 <<https://www.devex.com/news/top-development-aid-groups-in-central-asia-a-primer-74324>>

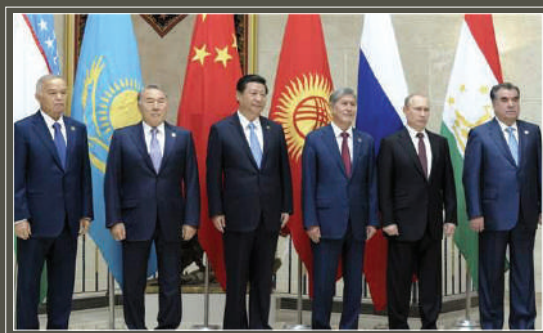


These programs and intergovernmental platforms are supposed to bring together state actors and multinational institutions so that they can accumulate resources and coordinate their responses to energy security threats. However, the above-mentioned platforms lack effective enforcement mechanism to implement terms of agreements and ensure the realization of regional level projects in energy sector. None of the existing mechanisms is specifically designed to improve energy security through facilitating regional cooperation. Even though the name of some programs and institutions focus on Central Asia it mainly represents geographical scope within which various projects in energy sector are implemented. While projects developed to engage representatives of several Central Asian states or tackle regional level problems remain in the form of recommendations.



THE CENTRAL ASIAN REGIONAL  
ECONOMIC COOPERATION

II. SECTION



## THE CENTRAL ASIAN REGIONAL ECONOMIC COOPERATION

The Central Asian Regional Economic Cooperation is probably the largest and the most effective regional initiative in terms of a number of practically implemented projects in energy sector. The CAREC is a program of partnership among 10 countries (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, People's Republic of China, Tajikistan, Turkmenistan and Uzbekistan) supported by 6 multilateral institutions (Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Program, World Bank).<sup>2</sup> The initiative "CAREC 2020 - Good Neighbors, Good Partners, and Good Prospects"<sup>3</sup> perfectly lines up with the idea that the regional cooperation in energy sector contributes to reliable, secure and stable supplies of energy sources, which in its turn is believed to lead to economic growth and development. The CAREC has indeed developed conceptually quite an impressive mechanism to promote regional trade and improve the level of energy security. However, the analysis shows that to a large extent regional level energy projects have been avoided or limited to technical assistance. In this sense, Central Asia is currently perceived more as a geographical territory composed of separate units within which the institution implements local and national energy projects.



2 "Regional Cooperation at Work in Central Asia," CAREC official website, <<http://www.carecprogram.org/index.php?page=carec-program>>

3 "A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020," 10 <<http://www.carecprogram.org/uploads/docs/CAREC-Publications/2012/CAREC-2020-Strategic-Framework.pdf>>

The overall input of the CAREC for thirteen years amounted 24,6 billion USD worth 158 projects in such areas of cooperation as transport, trade facilitation, trade policy and energy.<sup>4</sup> And the energy sector received 4.6 billion USD of the total investment package.<sup>5</sup> What distinguishes the CAREC from most of the regional initiatives in Central Asia is the fact that it is first, practical results oriented and second, based on mutually beneficial cooperation. Projects are implemented based on the following principles: a) country ownership; b) pragmatism and result orientation; c) 2+X principle - development of strengthened partnership. Central Asian governments and non-state institutions successfully pull their resources through Public Private Partnership initiative.<sup>6</sup>

While conceptually the CAREC has developed a very comprehensive framework to promote projects designed to contribute to energy security and energy led economic growth through regional cooperation, there have been a very few regional level initiatives in energy sector.<sup>7</sup> Analysis of projects initiated within the CAREC and separately promoted by ADB shows that out of 83 projects for the last 2 decades only 4 are regional and three more engage several Central Asian states. And all these projects are in the form of technical assistance.<sup>8</sup>

| Title                                                                                           | Country | Funding Agency     | Funding Type         | Year | Status    |
|-------------------------------------------------------------------------------------------------|---------|--------------------|----------------------|------|-----------|
| Central Asia Regional Economic Cooperation: Power Sector Regional Master Plan                   | REG     | ADB                | Technical Assistance | 2010 | Ongoing   |
| Central Asia Regional Economic Cooperation (CAREC) Members Electricity Regulators Forum (CMERF) | REG     | ADB                | Technical Assistance | 2007 | Ongoing   |
| Establishment of the CAREC Members Electricity Regulators Forum                                 | REG     | ADB, Shared, PPIAF | Technical Assistance | 2005 | Completed |
| Regional Power Transmission Modernization Project in the Central Asian Republics                | REG     | ADB, Shared        | Technical Assistance | 2000 | Completed |

4 "At a glance" <<http://carecprogram.org/>>

5 "Energy results" CAREC official website <<http://www.carecprogram.org/index.php?page=energy>>

6 "A Strategic Framework for the Central Asia Regional Economic Cooperation," 17

7 "All Key Energy Projects," <<http://www.carecprogram.org/index.php?page=all-energy-projects>>

8 "CAREC Energy Projects in Detail" <<http://www.carecprogram.org/index.php?page=energy-projects>>

| Title                                                                        | Country            | Funding Agency                    | Funding Type         | Year | Status    |
|------------------------------------------------------------------------------|--------------------|-----------------------------------|----------------------|------|-----------|
| Central Asia-South Asia Regional Electricity Market Project                  | AFG, KGZ, TAJ      | ADB, Shared                       | Technical Assistance | 2007 | Ongoing   |
| Improved Management of Shared Water Resources in Central Asia                | KAZ, KGZ, TAJ, UZB | ADB, Shared                       | Technical Assistance | 2003 | Completed |
| Regional Gas Transmission Improvement Project in the Central Asian Republics | KAZ, KGZ, TAJ, UZB | ADB, GKAZ, GKGZ, GTAJ, GTKM, GUZB | Technical Assistance | 2002 | Completed |

*Source:* <http://www.carecprogram.org/index.php?page=all-energy-projects>

Among economically sound initiatives the CAREC distinguishes those that will require domestic investments (energy efficiency and clean energy) and those that can be realized through the cross-border investment measures (cross-border energy transmission, facilitation of access/transit to third-country energy market, production for export, integration of energy markets and etc). Tensions in relationships among Central Asian countries over some major energy projects and other political factors force regional state actors to pursue energy policies, which distance them from each other. As a result, Central Asian countries' energy policies prioritize local and country level energy development initiatives. Since the CAREC usually respond to governments' request to assist in implementation of energy projects, which are usually local in nature, it is not surprising that small projects constitute the absolute majority of the CAREC initiatives.



Another challenge preventing the implementation of regional level energy initiatives is the fact that the CAREC prioritizes cooperation with external customers, which are competing for Central Asian energy resources. It is argued that integration of energy markets will solve the problem of uneven distribution of energy resources among the CAREC countries and address some problems in energy sector though optimizing existing energy interre-

lationships. Greater regional cooperation and trading energy resources are indeed possible for two reasons: first, the fact that Central Asian hydrocarbon producers are surrounded by countries thirsty for energy resources either due to rapidly growing energy intense economies (China, Europe, Turkey), inherited energy infrastructure and interdependent energy sectors (Russia) or simply because they lack energy resources to meet their basic energy needs (South Asian countries); and, there is also yet unexploited hydropower potential of Kyrgyzstan and Tajikistan that can increase the level of renewable and clean energy sources in the overall energy balance in all CAREC member states.

However, with the current pace of natural gas export capacity increase, Central Asian states would not be able to meet the demand in all directions including (Russia 45 bcm/y, China 80 bcm/y, Iran 8 bcm/y, South Asia 33 bcm/y, Europe around 30 bcm/y). Natural gas export capacity of Kazakhstan, Uzbekistan and Turkmenistan combined does not exceed 60 bcm/y. In this regard, regional energy trade within one corridor may negatively impact availability of energy resources in other directions. While more powerful states use economic and political leverage to influence decision-making and ensure energy flows towards their direction, less powerful countries are counting on multilateral institutions to secure energy supplies. In this competition the latter is progressing comparatively slowly. Russia inherited energy transporting infrastructure and China has connected its market with energy producing Central Asian regions via newly built pipeline networks. And the energy trade between regional producers and two major external customers is conducted on the bilateral basis separately from CAREC framework. Unfortunately, energy projects in the South Asian and European directions are still in the process of negotiations.



ENERGY CLUB OF THE SHANGHAI  
COOPERATION ORGANIZATION

# III SECTION



## ENERGY CLUB OF THE SHANGHAI COOPERATION ORGANIZATION



The Shanghai Cooperation Organization was created on June 15, 2001 with full membership of the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan. Having started as a security organization with a particular focus on joining forces to fight against three — isms (terrorism, extremism and separatism), its activity was soon extended to economic cooperation. A political scientist Mr. Zhao Huasheng once argued that “if the SCO is unable to bring economic benefits to the Central Asian member states, it is likely that they will focus their attention elsewhere, away from the SCO, leading to the weakening and irrelevance of the organization”.<sup>9</sup> Energy as a strategic commodity had immediately drawn attention of state actors within the organization. Governmental representatives of the SCO member states many times declared the necessity to establish an effective regional mechanism regulating energy sector. However, it is the bilateral agreements that are being ascribed to the achievements of the organization in Central Asian energy sector.

Russian President Vladimir Putin first presented the idea to create the SCO Energy Club during the International Conference on “Central Asian Energy market: tendencies and

9 Zhao, Huasheng “The Shanghai Cooperation Organization at 5: Achievements and Challenges Ahead,” *China and Eurasia Forum Quarterly* 4, no. 3. 2006 p. 13

perspectives” back in 2005 in Tashkent, Uzbekistan.<sup>10</sup> But, it is only eight years later in December 2013 SCO member states signed a memorandum on formally creating the SCO Energy Club. According to the Russian Minister of Energy Anatoliy Yanovskiy the main objective of the Club is to form recommendations to the SCO member states on how to behave in dynamically changing regional energy markets and ensure stability of energy demand/supply balance. Since it is a club decisions taken within the Energy Club do not have an enforcement power.<sup>11</sup> Even though this mechanism of the SCO to deal with energy security issues is still quite vague, this is the only organization that encompasses almost all Central Asian states and two major external energy importers (Russia and China), while holding other states interested in region’s natural resources (India, Iran, Pakistan, Afghanistan, etc.) in the status of observers.

There is an overall agreement among heads of states that “reliable and mutually beneficial partnership in energy sector strengthens security and stability across the SCO region”.<sup>12</sup> This partnership (among producing, transit and consuming states), however, is limited to ensuring stability in moving energy out of the region to China and Russia from and through Central Asian states. The SCO member countries signed a “Treaty on Long-Term Good-Neighborliness, Friendship and Cooperation Between the Member States of the Shanghai Cooperation Organization” according to which they base their relationships on principles of equality and mutual benefit.<sup>13</sup> However, both Russia and China consider Central Asian countries as sources of energy and the partnership is limited to moving energy out of the region. This in its turn does not directly contribute to improve the level of energy security of the Central Asian states.

Despite many declarations by heads of states and governments that they support regional cooperation, most of the energy projects are implemented on a bilateral or trilateral basis.<sup>14</sup> Bilateral agreements separately with several member states that in combination cover a wider range of a particular issue make the illusion of ongoing regional cooperation. For instance, China signs contracts with Central Asian states to secure the movement of natural gas through transit countries. Bilateral format of negotiations and conducting agreements is then presented as an achievement of the SCO regional mechanism. An agreement to build a gas pipeline (the D pipeline) from Turkmenistan via Uzbekistan, Tajikistan and Kyrgyzstan to China was recently concluded. The total value of the project

10 “Putin suggested to establish an Energy Club of the SCO,” <[http://www.sco-ec.gov.cn/crweb/scor/info/Article.jsp?a\\_no=33618&col\\_no=64](http://www.sco-ec.gov.cn/crweb/scor/info/Article.jsp?a_no=33618&col_no=64)>

11 “SCO member states agreed to establish Energy Club,” 2013 <<http://kazenergy.com/ru/press/2011-04-21-10-41-35/12013-2013-12-09-04-09-08.html>>

12 “Bishkek Declaration of the Heads of the Member States of the Shanghai Cooperation Organization,” 2007

13 Treaty on Long-Term Good-Neighborliness, Friendship and Cooperation Between the Member States of the Shanghai Cooperation Organization” 2007 <<http://www.sectsco.org/EN123/show.asp?id=71>>

14 “The Shanghai Cooperation Organization — flurry of activity or its imitation?” (Шанхайская организация сотрудничества — бурная деятельность или ее имитация?), 2013 <<http://arkz.info/news/shanhayskaya-organizaciya-sotrudnichestva-burnaya-deyatelnost-ili-ee-imitaciya>>

has not been specified yet. But it is expected that the construction of transit sections will cost around 6,5 billion USD. The break up of the total sum: the Kyrgyz section - 1.3 billion USD, the Uzbek section - 2.2 billion USD, and the Tajik section - 3 billion USD. Line D of the CAGP will be financed 100 % by China.<sup>15</sup> The SCO achievement is in fact active Chinese energy policy realization in Central Asia.

China does not invest in Central Asian energy sector through the SCO regulatory mechanism. It invests using a bilateral format. During the last visit of Chinese leader, Xi Jinping, to Turkmenistan, Kazakhstan, Uzbekistan and Kyrgyzstan from 3-13 September 2013 signed investment and loan agreements worth 48 billion USD out of which Kazakhstan gets 30 billion USD, Uzbekistan 15 billion USD and Kyrgyzstan 3 billion USD.<sup>16</sup>



And again, what represents more sort of a bilateral cooperation, in the end is presented as the cooperation within the SCO member states. Despite long lasting negotiations on establishing the SCO Bank this level of integration has not been achieved yet and cooperation in energy sector remains in the format of interbank relationship. Chairman of Kazakhstan's Development Bank, Jamishev has stressed the importance of four investment projects within the SCO framework worth 3.5 billion USD initiated with Kazakhstan's contribution through the Development Bank of Kazakhstan of

900 million USD.<sup>17</sup> However, most of the projects are financed through bilateral interbank agreements, which are then presented as the investment initiatives within the SCO.

The SCO member states sometimes engage in the dialogue with different expectations, which prevents reaching consensus on a number of issues and develop energy strategy and action plan on further implementation of regional level energy projects. In 2007 during the 2nd session of the Eurasian Economic Forum in Xi'an the SCO Secretary-General Bolat Nurgaliev stated that "for the time being the member states of the Shanghai Cooperation Organization do not have a united position over the common strategic energy concept".<sup>18</sup> Apparently they still do not have it.

15 Jarosiewicz, Alesandra, "A Chinese tour de force in Central Asia," *Ośrodek Studiów Wschodnich*, 2013 <<http://www.osw.waw.pl/en/publikacje/analyses/2013-09-18/a-chinese-tour-de-force-central-asia>>

16 Yakobashvili, Temuri, "A Chinese Marshal Plan for Central Asia?" CACI Analyst, 2013 <<http://cacianalyst.org/publications/analytical-articles/item/12838-a-chinese-marshall-plan-for-central-asia?.html>>

17 "KBD allocated 900 million USD for projects realization within the framework of the SCO member states' cooperation," (БРК выделил 900 млн долларов на реализацию проектов в рамках взаимодействия стран ШОС) 2014, Prime Minister official website, primeminister.kz <<http://www.primeminister.kz/news/show/70/brk-vydelil-900-mln-dollarov-na-realizatsiju-proektov-v-ramkah-vzaimodejstviya-stran-shos-/11-09-2014>>

18 "Chronicle of main events at SCO in 2007," <<http://www.sectsc.org/EN123/show.asp?id=97>>



The SCO Energy Club as it was mentioned earlier is just a formally existing agency main objective of which is to recommend which path to be taken in regional energy sector cooperation. There is, however, another framework for cooperation, which can choose energy sector as a priority area. Most of the economic and as a result energy projects are being slowed down due to the fact that decisions taken by the SCO bodies must be implemented in accordance with the procedures of member countries' national legislation.<sup>19</sup>

<sup>19</sup> Ingmar, Oldberg, "The Shanghai Cooperation Organization: Powerhouse or Paper Tiger?" *FOI Base data report, Defense Analyses* (June 2007): 1-60, 22



THE EURASIAN  
ECONOMIC UNION

# IV SECTION



## THE EURASIAN ECONOMIC UNION



The Eurasian Economic Union (EEU) will be launched on January 1, 2015 according to the agreement signed by the leaders of Armenia, Belarus, Kazakhstan and Russia. An agreement to incorporate Kyrgyzstan in the EEU was signed on December 23, 2014 and it is expecting to be joining the Union on May 1, 2015.<sup>20</sup> Tajikistan is another candidate. The EEU is the final stage of an economic integration process, which started back in 2000. In 1999 Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed an agreement on Customs Union and Common Economic Space.<sup>21</sup> The document determined three levels of integration: Eurasian Economic Community; Common Economic Space and the Customs Union of Belarus, Kazakhstan and Russia; and the Common Economic Space.

As a successor of the Eurasian Economic Community (EurAsEC) and the Customs Union (CU) the EEU has inherited a mechanism designed to regulate a wide range of intergovernmental relations. The only pressing issue that has always been on the agenda and is not yet resolved is the free movement of energy resources. In this regard, to have a clear vision of what to expect from energy export/import relationships by the newly established EEU, it is important to understand how does regional level cooperation in energy sector used to operate within the EurAsEC and the CU.

The EurAsEC was created in 2000 with full membership of all five countries. For the period of ten years the EurAsEC had developed two conditions that can potentially turn the organization into an effective mechanism in promoting regional cooperation in energy sector: its vision of economic (including energy sector) integration; and, institutional mechanisms.

The Council on Energy Policy is the main agency responsible for the development and implementation of regional level energy projects. Along with the Council on Energy Policy

20 Eurasian Economic Union heads of state sign 20 documents," Itar-TASS, 2014 <<http://itar-tass.com/en/economy/768795>>

21 "Eurasian Economic Integration in Progress," 2013 <[http://www.rfembassy.kz/eng/Im/integracija/evraziiskaya\\_integraciya/](http://www.rfembassy.kz/eng/Im/integracija/evraziiskaya_integraciya/)>

other agencies had been involved in the process of establishing a unified energy system: a) Electricity and Nuclear Policy Department; b) Oil and Gas Policy Department; c) Advisory Committee for Electricity; d) Advisory Committee for Oil and Gas.

In 2003 the Council on Energy Policy adopted fundamentals of EurAsEC's energy policy aimed at establishing unified energy, information and transportation systems.<sup>22</sup> The policy prioritizes joint activity oriented towards rational use of energy resources and formation of the common complementary fuel-energy complexes of the Community member states based on increasing efficiency of energy systems, development of transit potential and creation of favorable conditions to increase intergovernmental supply of energy resources.

It was expected that the next stage of economic integration, which was the Customs Union of Belarus, Kazakhstan and Russia of 2010<sup>23</sup>, would turn plans to liberalize energy markets into reality. Even though to certain extent barriers preventing free movement of resources have been eliminated, neither the EurAsEC nor the CU succeeded to develop an effective regional mechanism regulating energy trade. Russia being the strongest supporter of an economic integration confronts the formation of common energy markets, which bear additional financial loss.

Energy (re) export/import as well as transit relations have always been an important issue on the CU agenda. Belarus imports Russian energy resources for discounted price and large quantities based on annually renewed bilateral agreements. Russia and Kazakhstan agreed to regulate current supplies of crude oil and oil products for a year starting from January 1, 2014. However, Russia keeps the bilateral format for regulation of the movement of these particular types of energy resources. Out of 140 products of the group 27 only 6 of them do not fall under the regulation of the Union, including natural gas in a gasified form, crude oil and oil products and electricity.<sup>24</sup> Absence of common oil, gas and electricity markets within the Customs Union raise concerns in both Kazakhstan and Belarus.

A country that imports more energy resources, not regulated by the CU than exports them loses more, because custom tariffs increase the price for a unit of energy sold to external markets. For instance, for January-March 2013 the volume of Kazakhstani crude oil and gas condensate supplies to Russia accounted for 17 692,8 (8 207,1 thousand USD) tons, while Russian export to Kazakhstan was almost 100 times more - 1 977 205,7 (769

22 "Fundamentals of Energy Policy of the Eurasian Economic Community," 2003 <<http://evrazes.org/print/docs/152>>

23 "The Customs Union and the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation," <<http://www.mfa.kz/index.php/en/foreign-policy/integration-processes/customs-union>>

24 Group 27: Mineral fuels, oil and products of its distillation; Bituminous substances; mineral waxes (ГРУППА 27: ТОПЛИВО МИНЕРАЛЬНОЕ, НЕФТЬ И ПРОДУКТЫ ИХ ПЕРЕГОНКИ; БИТУМИНОЗНЫЕ ВЕЩЕСТВА; ВОСКИ МИНЕРАЛЬНЫЕ) <<http://www.tsouz.ru/db/ettr/PSN/Pages/psn27.aspx>>

268,6 thousand dollars) tons.<sup>25</sup> In this regard, Kazakhstan would want these items of the 27 Group to move freely within the territory of the Union. Currently, Russia — Kazakhstan energy export/import relations are regulated by a bilateral agreement signed only for the year of 2014. Even though Russian government applies preferential pricing policy towards members of the Union, in the absence of an effective/multilateral mechanism designed to regulate energy movement most of the CU/EEU member states will remain vulnerable.

Unregulated major energy supplies, however, are negatively affecting the volume of energy trade among Union member states. The volume of energy trade among Customs Union member states is accounted for 34,9% in 2011, 33,4% in 2012, and 28,9% in 2013. This contradicts one of the main principles of the Union interaction, which are the increasing trading dynamics and energy trade driven economic development. Besides, slowly decreasing energy trade patterns, in the absence of common terms of regulation protectionist measures are sometimes employed. For instance, import of Russian oil products was restricted by the government's decree of the Republic of Kazakhstan in April 23, 2013.



Minister of Energy and Infrastructure of the Eurasian Economic Committee, Danial Akhmetov once claimed that common oil and gas market between Belarus, Kazakhstan and Russia could be formed by January 1, 2015.<sup>26</sup> This statement was followed by the announcement that the Union member states are not yet ready to completely liberalize energy markets. The chairman of the

Eurasian Economic Commission, Viktor Xristenko, later announced that common oil and gas market would be formed by 2025. And here is how the President of Belarus reacted to it: "We bought the product, processed and then sold it — the gain is ours. We are told that this is a specific product and thus we'll do it this way Russia first suggested taking it to the level of bilateral agreements. That is why we started these negotiations".<sup>27</sup> Same was the reaction from Kazakhstan side.

25 "The volume of import supplies of the Republic of Kazakhstan from states — members of the CU and Single Economic Space for January-March 2013" in <[http://www.tsouz.ru/db/stat/iCU201303/Documents/i201303\\_10.pdf](http://www.tsouz.ru/db/stat/iCU201303/Documents/i201303_10.pdf)> and The volume of export supplies of the Republic of Kazakhstan to states — members of the CU and Single Economic Space for January-March 2013 in <[http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/trade/vzaim\\_stat/iCU201311/Documents/i201311\\_11.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/trade/vzaim_stat/iCU201311/Documents/i201311_11.pdf)>

26 "Common oil and gas market of Belarus, Russia, and Kazakhstan could be formed by January 1, 2015." (Общий рынок нефти и газа Беларуси, России и Казахстана может быть сформирован к 1 января 2015 года - министр ЕЭК) Belta, 2013 <[http://www.belta.by/ru/all\\_news/economics/Obschij-rynok-nefti-i-gaza-Belarusi-Rossii-i-Kazaxstana-mozhet-byt-sformirovan-k-1-janvarja-2015-goda---ministr-EEK\\_i\\_623314.html](http://www.belta.by/ru/all_news/economics/Obschij-rynok-nefti-i-gaza-Belarusi-Rossii-i-Kazaxstana-mozhet-byt-sformirovan-k-1-janvarja-2015-goda---ministr-EEK_i_623314.html)>

27 "Lukashenko is heading to Kazakhstan to sign not the same agreement on the EEU that Belarus was expecting" (Лукашенко направился в Казахстан, чтобы подписать "не совсем тот договор о ЕАЭС, на который рассчитывала Беларусь) 2014 <<http://news.tut.by/politics/400916.html>>



Russia strongly opposes liberalization of energy trade within the Union. One could argue that an economic loss forces Russia to confront customs tariffs removal for those particular items. But the fact that annually renewed bilateral agreements with Belarus, Kazakhstan and a future member Kyrgyzstan already exclude export tariffs for oil products, gas and electricity, imply that it is not the financial loss but rather a political leverage that Russia is not ready to give up.

Terms of the EEU will come into force on January 1, 2015. Within the EEU members states will use single mechanism regulating economy, harmonize their legislation, create unified energy — transport — communication infrastructure, coordinated tax system, trade and customs policy aiming at ensuring the free movement of goods, services, capital and labor force. But the Concept of establishing common energy markets will be adopted in 2016 and the program will be developed by 2018. It is also expected that common electricity market of the EEU will be formed by 2019 and oil and gas market only in 2025. And the liberalization of energy markets should be accompanied by harmonization of legal basis of the Union member states and establishing supra national financial centers to implement regional level energy projects.<sup>28</sup> Even though Russian government applies preferential energy pricing and customs tariff-free policy towards members of the Union, in the absence of an effective/multilateral mechanism designed to ensure free movement of energy resource most of the EEU member states will remain vulnerable. Unfortunately, there should be a very good reason for Russia, such as to keep the Union afloat, to let the common energy markets of the EEU be formed.

<sup>28</sup> "Important events in the activity of the Department of Energy," 2014 <<http://eurasiancommission.org/ru/act/energetikaiinfr/energ/events/Pages/default.aspx>>



COMMONWEALTH OF  
INDEPENDENT STATES

# V SECTION



## COMMONWEALTH OF INDEPENDENT STATES



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V. SECTION

The Commonwealth of Independent States is the oldest institutional framework founded on December 8, 1991. All five Central Asian states joined it two weeks later on December 21, 1991. Except Turkmenistan other states ratified the CIS charter and keeps the status of associate member of the organization. The CIS's competence is extended to activities in the realm of trade, finance, security, human rights, social and economic development, including cooperation in energy sector. But since it does not possess an effective enforcement mechanism it is often considered a loose association of states rather than an organization capable to strengthen regional cooperation. However, over the quarter of century of its existence the CIS succeeded to develop a comprehensive legal basis to regulate a wide range of intergovernmental activities including in energy sector, which can be and often is used by other regional institutions in the process of development of their own conceptual framework of activity in the region.

The CIS energy sector governance apparatus encompasses: Intergovernmental Council for Oil and Gas; Electric Power Council of the CIS; Intergovernmental Council on cooperation in the spheres of chemicals and petro-chemicals; CIS member states' Committee on using nuclear power for peaceful purposes.<sup>29</sup> These agencies are supposed to promote regional cooperation in energy sector within the framework of below mentioned agreements.

<sup>29</sup> "Information on Bodies of the Commonwealth of Independent States," <<http://www.e-cis.info/page.php?id=2374>>

|                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Agreement on Coordination of Interstate Relations in the Power Sector of the Commonwealth of Independent States signed by the Council of Heads of Governments on February 14, 1992                                                                                      |
| 2. Treaty on ensuring parallel operation of power systems of the states - members of the Commonwealth of Independent States signed by the Council of Heads of Governments on November 25, 1998                                                                             |
| 3. Decision of the Council of Heads of Governments on implementation of the Treaty on ensuring parallel operation of power systems of the states - members of the Commonwealth of Independent States on November 28, 1998                                                  |
| 4. Agreement on transit of electricity and state's power capacities - members of the Commonwealth of Independent States on January 25, 2000                                                                                                                                |
| 5. Agreement on mutual assistance in cases of accidents and other emergency situations at electric power facilities of states - members of the Commonwealth of Independent States on May 30, 2002                                                                          |
| 6. Agreement on cooperation of states - members of the Commonwealth of Independent States in the field of energy efficiency and conservation, signed by the Council of Head of Governments on October 7, 2002                                                              |
| 7. Agreement on the establishment of reserves of resources and their effective use to ensure stable parallel operation of power systems of states - members of the Commonwealth of Independent States, signed by the Council of Heads of Governments on September 15, 2004 |
| 8. Decision of the CIS Economic Council of the Regulation on the Energy Council of the Commonwealth of Independent States in the new edition of March 11, 2005                                                                                                             |
| 9. Decision of the CIS Economic Council on the main directions and principles of cooperation of states - members of the Commonwealth of Independent States in the field of energy efficiency and conservation from March 11, 2005                                          |
| 10. The Concept of common electricity market formation of states - members of the Commonwealth of Independent States, approved by the decision of the Council of Heads of Governments on November 25, 2005                                                                 |
| 11. Decision of the Council of States of Governments on establishing a common time for reading electric power meters of electricity moving through interstate transmission lines in states — members of the Commonwealth of Independent States of November 24, 2006        |
| 12. Agreement on harmonization of customs procedures when moving electricity across the customs borders of states - members of the Commonwealth of Independent States on November 22, 2007                                                                                 |
| 13. Protocol on amendment and additions to the agreement on coordination of interstate relations in the field of energy of the Commonwealth of Independent States from February 14, 1992 on November 22, 2007                                                              |
| 14. Agreement on the formation of a common energy market of states - members of the Commonwealth of Independent States of May 25, 2007                                                                                                                                     |
| 15. Agreement on cooperation among states - members of the Commonwealth of Independent States in the field of exploitation of interstate transmission lines of national electric power systems from November 20, 2009                                                      |
| 16. Protocol on the stages of the formation of the common energy market of the CIS member states on May 21, 2010                                                                                                                                                           |

Having such a wide-ranging conceptual framework, the CIS decided to move to a practical realization of its main objectives in energy sector. On November 20, 2009 the CIS member states have even adopted the energy sector cooperation Concept. Having input strategic importance in energy development the CIS Council declared energy sector to be key sphere of interaction in 2009. Trans-boundary transmission lines connecting several countries received a particular attention by the Council, because such networks require

coordinated actions to be taken and the CIS offers platform for joint regulation.<sup>30</sup> The action plan adopted on May 21, 2010 took a practical approach to address first priority projects.<sup>31</sup>

Member states of the CIS still cannot agree upon using balanced methods for oil, gas, and electricity production and supply. And the main reason is that the organization encompasses most of the former Soviet republics energy systems which have broken down over two decades of independent policies in energy sector. Since regional energy systems are not properly connected it turned to be quite difficult to ensure parallel operation of CIS member states' power systems. In case of the Central Asian region, only Kazakhstan's Western and Northern power grids are connected to the Russian energy system. Southern Kazakhstan together with all other Central Asian countries works in coordination within the Central Asian Power Grid. On top of that the Central Asian Power System is in the process of disintegration. Turkmenistan left the power system in 2003. However, it is the withdrawal of Uzbekistan that impacted the parallel operation of the CAES the most. Uzbekistan's withdrawal left the energy sector of Tajikistan in complete isolation. Only Kazakhstan, Kyrgyzstan and Uzbekistan to certain extent sustain energy trade on annually prolonged bilateral contracts. In this sense, as its main objective the CIS should focus on ensuring parallel operation of sub-regional energy systems rather than focusing on the unity of the energy system over the territory of all CIS countries.

One of the main drawbacks of quite an impressive conceptual basis of the CIS is the fact that most of signed intergovernmental agreements only lack enforcement power. Rec-



30 "Energy is the key area of cooperation of the CIS countries in 2009," <<http://www.cis.minsk.by/page.php?id=13376>>

31 "On development of cooperation among states — members of the CIS in field of energy. Problems and Perspectives," 2013 <<http://www.e-cis.info/page.php?id=23654>>

ommendations provided by those agreements require signing additional documents with detailed action plan. Moving to this level of interaction proved to be quite challenging. The Concept of cooperation of the CIS member states in energy sector adopted in 2009 determined a wide range of activities including nuclear power sector. In an attempt to contribute to improving the level of energy security by adding power production capacities the CIS countries approved the framework program on cooperation in developing nuclear power.<sup>32</sup> Within the framework of the CIS cooperation “Rosatom” and “Kazatom-prom” on May 29 signed a Memorandum on cooperation in the construction of the first Kazakhstani NPP using Russian energy reactors with the capacity from 300 up to 1200 Megawatts.<sup>33</sup> It was presented as one among many achievements of the organization.

Development of hydropower potential of Kyrgyzstan is also to certain extent ascribed to the fruitful cooperation within the CIS. Kyrgyzstan has prioritized construction of Kambarata-1 and 2 HPP with total capacity of 2260 MW. First aggregate of Kambarata-2 was put into operation in 2010 with the capacity of 120 MW. In 2012 Russian company “Inter RAO UES” signed agreement with Kyrgyzstan on terms of construction Kambarata-1 HPP. It was expected to start the construction by 2013, but due to political and financial constraints it is still on the level of negotiations. Governments of Russia and Kyrgyzstan also signed agreements on building and exploitation of Upper Naryn cascade HPPs (Akbulun HPP, Naryn HPP-1, Naryn HPP-2 and Naryn HPP-3) and etc.<sup>34</sup> However, it is still difficult to distinguish between projects realized through bilateral agreements and those within the framework of the CIS. To the question of whether the above-mentioned projects could have been agreed upon and implemented without the CIS, the answer is probably “yes”. Besides the CIS institutional apparatus does not possess an effective enforcement mechanism.

32 “For the last 20 years and objectives for the future,” 2011 <<http://www.cis.minsk.by/news.php?id=289>>

33 “Russia and Kazakhstan will sign an agreement to build in the near future Nuclear Power Plant in the city of Kurchatov in Kazakhstan,” (Россия и Казахстан в ближайшее время подпишут соглашение о строительстве в казахском городе Курчатова атомной электростанции), 2014 <<http://sng-atom.com/?q=node/448>>

34 “On development of cooperation among states”



THE WORLD BANK'S  
REGIONAL PROJECTS  
IN ENERGY SECTOR

# VI. SECTION



## THE WORLD BANK'S REGIONAL PROJECTS IN ENERGY SECTOR



The World Bank is one of the main contributors to improve the level of energy security, promote energy led economic growth and encourage addressing water-energy nexus problems in Central Asia is the World Bank. The World Bank has been co-chairing and partnering with a wide range of multilateral institutions as well as international non-governmental organizations in promoting and implementing energy projects on the local, national and regional levels in the region. The WB engages in Central Asian energy sector development through three main initiatives: Central Asia Energy-Water Development Program (CAEWDP); Central Asia South Asia Regional Electricity Trade Project (CASA-1000); and, the Assessment Studies for Proposed Rogun Hydropower Project in Tajikistan.

But the most important, the WB has itself initiated several regional level programs to improve energy security and stimulate energy development in the region. Saroj Kumar Jha, World Bank Regional Director for Central Asia argued that the WB is currently supporting 32 country-specific investment projects in energy and water sectors in Central Asia.<sup>35</sup> Most of these projects have regional significance. The Central Asia Energy-Water Development Program is one of those WB initiative designed not only improve water management and development of hydropower potential, but also promote regional cooperation in energy sector.

<sup>35</sup> "Q&A with Saroj Kumar Jha, Regional Director for Central Asia, on the current status of the Rogun Assessment Studies," <<http://www.worldbank.org/en/news/speech/2013/02/21/saroj-jha-q-and-a-rogun>>

The CAEWDP is a four-year project from January 2010 to January 2014 co-financed by the World Bank and national governments of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.<sup>36</sup> It has three pillars of activity.

- Energy Development - to promote highest value energy investments and management. Areas of focus include: infrastructure planning, winter energy security, energy trade, energy accountability, and institutional development;
- Energy-Water Linkages - to improve the understanding of linkages between water and energy at the national and regional levels. Areas of focus include: energy-water modeling, regional hydrometeorology, climate vulnerability, and energy-water dialogue;
- Water Productivity - to enhance the productivity and efficiency of water use in both agriculture and energy sectors.<sup>37</sup>

Since 2007, the World Bank has been facilitating extensive consultations with governments of Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan, Turkmenistan, and Afghanistan to ensure riparian's views and concerns are taken into account in the Terms of Reference (TOR) for the assessment studies of the Rogun Hydropower Project in Tajikistan: Techno-Economic Assessment Study (TEAS); Environmental and Social Impact Assessment (ESIA)<sup>38</sup>. Consultations were also undertaken with civil society and representatives of potentially affected communities within Tajikistan. The World Bank and the Government of Tajikistan reached an agreement that starting from 2010 no new construction will commence until assessments are complete and communicated to the representatives of all countries involved.<sup>39</sup>

Upstream Kyrgyzstan and Tajikistan have a surplus of power production in the summer period. With Uzbekistan's withdrawal from the CAES, which cut the power supply possibility these countries were forced to spill water. To facilitate energy export-led economic growth the World Bank has been supporting the Central Asia-South Asia Regional Electricity Market (CASAREM) initiative to move extra-power to South Asian energy markets and generate revenues to the budget. As a first phase of the initiative it is agreed to build a CASA-1000 transmission line to transit 1,300 MW of electricity.<sup>40</sup> 1,222 km long, run-

36 "Central Asia Energy-Water Development Program," 2013 <<http://www.worldbank.org/en/region/eca/brief/caewdp>>

37 "Central Asia Energy-Water Development Program" <<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:22743346&pagePK:146736&piPK:146830&theSitePK:258599,00.html>>

38 "Final Reports Related to the Proposed Rogun HPP," 2014 <<http://www.worldbank.org/en/country/tajikistan/brief/final-reports-related-to-the-proposed-rogun-hpp>>

39 "Assessment Studies for Proposed Rogun Hydropower Project in Tajikistan," <<http://www.worldbank.org/en/region/eca/brief/rogun-assessment-studies>>

40 "World - Central Asia South Asia Electricity Transmission and Trade Project (CASA 1000)," 2012 <<http://documents.worldbank.org/curated/en/2012/06/16435491/world-central-asia-south-asia-electricity-transmission-trade-project-casa-1000>>

ning through Kyrgyzstan, Tajikistan, Afghanistan and Pakistan (PS Datka (Kyrgyzstan) - PS Khujant (Tajikistan) - Rogun HPP (Tajikistan) - Kabul - Peshawar), including: 500 kV DC line 750 km long through Tajikistan (117 km) - Afghanistan (562 km) - Pakistan (71 km); 500 kV AC line through Kyrgyzstan (substation Datka, 452 km) - Tajikistan (PS Khujant, 20 km) with total length of 472 km CASA-1000.<sup>41</sup>

All three projects are closely interlinked. Improving the livelihood of people in Central Asia through the development of upstream countries' hydropower potential, export led economic growth and energy security was chosen to be a priority in WB's activity in Central Asia. Construction of giant HPPs will largely be justified only in combination with the possibility to export power to external markets. It is also argued that the development of Rogun and Kambarata dams will strengthen water management in the region.

Stability of water and energy supplies within the Central Asian region was ensured by resource-sharing mechanism developed in the Soviet era. This mechanism turned the whole region into a system of interdependent entities. When the Soviets designed this system they did not take into account country borders of the Central Asian states. Rational use of resources was the main objective. Central Asian upstream river states of Tajikistan and Kyrgyzstan released water and electricity in exchange of electricity and hydrocarbons from downstream countries. However, resource-sharing mechanism could not withstand current geopolitical realms. Independent policies of the Central Asian authorities are negatively affecting security of the Central Asian energy system causing shortage of energy and irrational use of water resources in the region. Acknowledging the seriousness of the problem, regional state actor still fail to achieve solution amenable to all. Fundamental disagreements between region's water demand for irrigation and the use of water for hydropower plants, along with disagreements over the price for fossil fuels and many other factors have led to a latent conflict between upstream and downstream countries. In this regard, the WB has chosen promotion of water-energy nexus development projects as a priority for its activity in the region.

There are two main projects capable to impact the water-energy balance in the region: Rogun and Kambarata-1. Disintegration of the CAES forced Kyrgyzstan to refocus on energy supplies from Russia and Kazakhstan and development of coal-fired TPPs to meet its growing energy needs. Uzbekistan's withdrawal from the system, however, left Tajikistan in complete isolation. Having experienced significant shortage of energy the Tajik government turned Rogun - the highest HPP in the world into a strategically important national project expecting that it will help Tajikistan get out of energy crisis.

However, since these two projects can impact water balance in the region Uzbekistan stands against them. Uzbek authorities believe that both Rogun and Kambarata-1 in case of dam failure will flood 1,5 million hectares of land causing human casualties in all countries along

41 "CASA-1000 Project Risk Assessment," <<http://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/CASA-1000-Project-Risk-Assessment-en.pdf>>



the way.<sup>42</sup> But the main reason for confronting these projects is the fact that Rogun and Kambarata dams may affect water availability for Uzbekistan's irrigation purposes. Tajikistan's officials as long as independent experts look at this project from a different angle. Having optimistic expectations that there will be no natural disaster capable to destroy the Rogun dam, Tajik authorities are focusing prospects that this project brings to not only Tajikistan but also

other Central Asian states. The primary object of Rogun is to generate power to meet energy needs of Tajikistan. Surplus of electricity would allow Tajikistan gain economic revenues from exports to its neighbors.<sup>43</sup>

There is currently a surplus of electricity production in Tajikistan and Kyrgyzstan in summer period and it is argued that CASA-1000 is supposed to transport that energy to Southern neighbors. However, Afghanistan and Pakistan are mostly in need of electricity import in winter and the only projects that provide these opportunities are Rogun and Kambarata-1.<sup>44</sup> In this sense, following the policy of other Central Asian producers, Kyrgyzstan and Tajikistan will increase export of electricity even at the expense of domestic consumption. Desire to export electricity in wintertime will turn Rogun and Kambarata-1 into economically attractive, but with limited contribution to energy security projects.

The final reports were released on July 2014.<sup>45</sup> According to the assessment the highest possible option of the dam was found the most economically efficient with acceptable environmental and social impact. The assessment, however, did not solve the problem of non-cooperation in the region. Assessment has been conducted over the area of upper Amudarya River and did not take into account possible consequences for downstream Central Asian countries, which was an excuse for Uzbek authorities to keep blocking those projects.

42 "To Executive Secretary, The Inspection Panel," 2010 <[http://siteresources.worldbank.org/ECAEXT/Resources/258598-1297718522264/Request\\_for\\_Inspection\\_Eng.pdf](http://siteresources.worldbank.org/ECAEXT/Resources/258598-1297718522264/Request_for_Inspection_Eng.pdf)>

43 Environment and Social Impact Assessment for Rogun Hydro Power Plant, Environmental and Social Impacts, July 14-19, 2014

44 "The annual message to the Majlisi Oli of the Republic of Tajikistan" 2011, <<http://www.prezident.tj/en/node/2189>>

45 "Report on the 5th Riparian Information-Sharing and Consultation Process on the Assessment Studies of a Proposed Rogun Hydropower Project," June 16 — July 29, 2014 <[http://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Rogun%20Assessment%20Studies%20Fifth%20Consultation%20Report\\_eng.pdf](http://www.worldbank.org/content/dam/Worldbank/document/eca/central-asia/Rogun%20Assessment%20Studies%20Fifth%20Consultation%20Report_eng.pdf)>



# CONCLUSION

CONCLUSION



## CONCLUSION



There are several regional level energy mechanisms in Central Asia, which have developed a comprehensive conceptual framework to approach energy security challenges, cooperation in energy sector and energy led economic growth. However, implementing regional level energy projects turns to be quite challenging. The CAREC institutional framework has developed an action plan on promoting and enforcing regional cooperation in energy sector. But due to a number of interstate disagreements among Central Asian countries and the fact that the CAREC mostly respond to governments' request to engage in energy projects realization of re-

gional level initiatives in energy sector proved to be problematic. Central Asian state actors have been counting on the SCO framework to ensure stability and reliability of energy supplies between Central Asian exporters and two major consumers. However, a long awaited Energy Club of the SCO still lacks enforcement mechanism. Having the status of a club its main contribution does not go beyond providing recommendations. The Eurasian Economic Union inherited governance mechanism of the EurAsEC and the CU. But since such a vital sources of energy as natural gas, electricity, oil and oil products do not fall under the regulation of the Union it does not significantly affect regional trade in energy sector. The CIS is considered to be the oldest and the largest institutional framework in Central Asia. It has an extensive legal basis, which supposed to promote and regulate regional cooperation in the areas of oil and gas and electric power sectors. However, providing recommendations is the only tool at the CIS disposal to influence regional level cooperative dynamics. Besides, most of the CIS member states' energy sectors are physically isolated from each other, thus making it difficult to coordinate responses to energy security threats. One of the main International Institutions that actively engage in the regional level energy projects is the World Bank. The World Bank has been actively engaging in energy sector within its CAEWDP, CASA-1000 and Rogun assessment initiatives. However, disagreements between Central Asian downstream and upstream countries does not allow to practically implement initiatives designed to improve energy security and energy led trade development.

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Group 27: Mineral fuels, oil and products of its distillation; Bituminous substances; mineral waxes (ГРУППА 27: ТОПЛИВО МИНЕРАЛЬНОЕ, НЕФТЬ И ПРОДУКТЫ ИХ ПЕРЕГОНКИ; БИТУМИНОЗНЫЕ ВЕЩЕСТВА; ВОСКИ МИНЕРАЛЬНЫЕ) <<http://www.tsouz.ru/db/ettr/PSN/Pages/psn27.aspx>>

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