



## *The energy problematique in EU-Central Asia relations*

In discussing the opportunities for importing Central Asian energy opinion and policymakers can be divided in two groups. Those that are gloomy and sceptic on the prospects of Central Asia as an interesting energy market for the EU and those that are less gloomy (though not optimistic). In the EU Strategy for Central Asia, energy is one of the seven priorities. The EU states to be interested in Central Asian gas while it also offers assistance to Central Asia in developing exploitation of energy resources. Over the last few years the EU has stepped up talks with Central Asian leaders, especially on energy relations. EU Special Representative Pierre Morel is known for his 'realism' in pursuit of EU energy interests and has worked to strengthen ties that give EU companies better access. Also Memorandums of Understanding concerning energy were signed with Kazakhstan and Turkmenistan. Regardless of all this the EU has little concrete projects or deals to show. Both in working with the energy-rich Central Asian regimes of Turkmenistan and Uzbekistan in increasing exploitation of energy resources or in actually importing energy. Kazakhstan is the positive exception since practical ties are strengthened although Kazakh oil export to the EU remains modest. Brussels and other European capitals do not seem able to agree on key questions with relation to Central Asia's energy potential. Only in case the following four questions are answered positively might the gloomy become less so.

**First, are we actually interested in Central Asian energy?** Even if Central Asia would substantially export its gas to Europe it would still be less than 3-4 percent of Europe's energy needs. Why go through all this trouble of trying to transport oil by ship and gas through expensive and politically sensitive pipelines, surpassing Russia, when Brussels could also try to work increasingly to make Russia a reliable partner while strengthening ties with African and Middle East producers that are either closer by or have a better developed infrastructure. If the EU answers yes to this question it would only be worthwhile if Brussels and member states wish to be long-term engaged with Central Asia and risk to be further at odds with Russia.

**Second, is it realistic to expect concrete energy imports from Central Asia?** Turkmenistan that has an enormous gas potential and Uzbekistan (less so) will pose long-term headaches for the EU in getting the gas to Europe. Uzbekistan lies furthest away from Europe since it is not connected to the Caspian Sea which would make energy transport to Europe dependent on Russia or other Central Asian neighbours. More importantly, the Uzbek government has shown over the last ten years to be unreliable in its foreign policy direction, sometimes favouring Russia and at other times the EU and US. Turkmenistan is connected to the Caspian and could in theory transport gas by a pipeline through a Southern Corridor or the Caspian – that will take many years to built – and connect to the westwards network in Azerbaijan and Turkey. Otherwise huge investments should be made to make Turkmenistan able to transport LNG by ship. However, the new regime in Ashgabat remains relatively closed and difficult to work with. If the question is answered positively, long term risks need to be taken and investments should be made.

**Third, can the EU combine the promotion of human rights and democracy values with building concrete energy relations in Central Asia?** In the case of Central Asia the EU has chosen to work through a comprehensive political strategy that incorporates many aspects including values and energy interests. There is a key moral point for the EU to uphold these values towards potential partners that are run in a severe authoritarian manner. But next to that the EU would risk to loose credibility if it would downplay its rhetoric, projects and funds concerning democracy and human rights in order to strengthen the energy priority that derives from the same document. True, the EU is also not vocal on these values towards some other energy rich and authoritarian regions and countries, but then there are no broad strategies concluded which enables the EU to separate business interests from values (although not fully). It will take time and effort to convince Central Asian leaderships of the value of human rights and democratic reform while blending these sensitive issues with the pursuit of energy interests.

**Fourth, are these countries stable enough to do business with?** With the exception of Kazakhstan the Central Asian states are probably not sufficiently stable in the eyes of big long-term investors. So, only if a process of structural economic and governance reform takes place in Kazakhstan and especially Turkmenistan and Uzbekistan will they be able to create the stability they need to engage fully in the global economic arena. Reform of governance does not necessarily mean complete overhaul of governance or regime-change but would imply that these countries create a certain level of EU supported but home-grown good governance credentials; especially in the economic sector that is under scrutiny here and the security sector that needs to uphold national security instead of a more narrow regime security.

Clearly the EU is faced with internal disagreement on how to answer these questions. Thus the Central Asian leaders and populations have become confused from mixed messages and divergent views and actions. The best way forward seems to go beyond the Strategy and further embed the EU's values in a concrete way with the energy cooperation. The EU will need to convince the Central Asian republics that good governance is not only a good thing in itself but that it will increase efficiency and effectiveness in developing the energy sector and trade with a view to create long-lasting stability and prosperity.

This EUCAM Watch devotes special attention to the energy question, including the water-hydroelectric tensions that prevail in Central Asia. Much of the material is based on a high-level roundtable and subsequent seminar that EUCAM organised in Prague last April. Vaclav Hubinger of the Czech Republic Ministry of Foreign Affairs gives an insight to the EU Presidency; the work accomplished and the energy priority it has set. EUCAM expert Michael Denison explains the state-of-affairs of energy relations with Turkmenistan. Also we offer a comment by OSI expert Jacqueline Hale on the revision of EU Assistance documents and an interview with Rainer Behnke, Team leader of the Project: Development of Co-ordinated National Energy Policies in Central Asia within the INOGATE framework. Additionally, this bulletin is meant to update readers on EU-Central Asia relations and the work related to the EUCAM project.

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## EUCAM News

### Energy Seminar in Prague

*Seminar in Prague explores prospect of building an energy security relationship between the EU and Central Asia*

On 16-17 April EUCAM organised a roundtable and seminar in Prague entitled The European Union and Central Asia. Building an Energy Security Relationship together with the Institute of International Relations of the Czech Republic. The event was hosted by the Ministry of Foreign Affairs of the Czech Republic that currently holds the EU Presidency. This meeting brought European and Central Asian analysts and experts together to discuss energy related matters and to exchange views on the feasibility of the EU objectives to gain a share in the Central Asian energy export market and to further support positive development of the region.

The European Union faces a clear medium and long term energy

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challenge: declining domestic production, increasing demand and the urgent need to confront the pressing issue of global climate change. While the current world wide economic crisis will reduce European energy consumption, the medium and long term trend is for a growing interdependence between the energy consumer countries of the European Union and energy producers located in their immediate neighbourhood and beyond.

To mitigate the economic and political risks associated with an over reliance on one energy producer – as highlighted in the Russia-Ukraine gas dispute of January 2009 – the EU has sought to develop a more cohesive energy security strategy. Within this strategy, the issue of diversification of supply has become a key element, with the construction of the Southern Energy Corridor a priority.

Fashioning such a corridor will bring with it major challenges – notably in respect to raising the necessary investment, creating a durable international legal framework for investment and transit, and in ensuring security of transit across the South Caucasus. Providing energy resources from Central Asia that are necessary if the energy corridor is to function will also be complex. There will be a host of geo-political issues including the relationship with the Russian Federation, the status of the Caspian Sea, and relations between Central Asian countries and between Central Asian countries and those of the South Caucasus that will need to be resolved before energy can pass along the corridor.

Forging a closer energy linkage with the countries of Central Asia will bring the EU into a substantially different relationship with the states and societies of the region, notably in regard to Kazakhstan and Turkmenistan. The countries of Central Asia are often presented as amongst the most authoritarian in the world and they are regularly accused of the systematic and widespread violation of human rights. The region faces significant security challenges and the prospect of an unstable future. With the EU committed to the promotion of its 'values' abroad, will an engagement in Central Asia focused on energy issues be sustainable for the EU and at what political cost internally and abroad?

The European Union has up to now focused primarily on energy issues in Central Asia from the perspective of establishing links between the energy consumers in Europe and the energy producers in Central Asia, with a focus on hydro-carbons. Central Asia is, however, also a source for hydro-power and there is considerable potential to develop further this aspect of the region's energy mix. Strengthening the production of hydro-power in the mountainous areas of Kyrgyzstan and Tajikistan, the two poorest countries of the region and which also lack significant hydrocarbon reserves, would do much to promote a greater energy balance across the region and could also serve as the basis for cooperation between

the countries of Central Asia in the development of a regional electricity market.

EU support for hydroelectric initiatives in Central Asia would help to address a number of the priorities of the Union in the region, including promoting economic development and regional cooperation. The issue of the strengthening of an electricity sector based on hydropower is not, however, uncontroversial with the downstream states, notably Uzbekistan, questioning the impact of such projects on them and their predominately agriculture-based economies. The hydro-power issue thus touches upon a number of other EU priorities, including water management in the region and food security questions.

Most speakers and participants shared quite sceptical views on these the possibility to build a strong energy relationship with Central Asia. This applied to the Southern Corridor and thus actual imports of fossil energy but also to the EU's possibilities in helping to develop the hydroelectric energy sector in Kyrgyzstan and Tajikistan while helping to lessen tensions between the countries in the region over water resources.

## EU and Central Asia

### *Turkmenistan and the Southern Energy Corridor: Is this the Moment?*

*By Michael Denison, EUCAM Expert, London*

The stars appear to be coming into greater alignment for the movement of gas from Turkmenistan directly to Europe. A combination of technical, transit and geopolitical factors has created a window for a step-change in political-commercial relations between the EU and Turkmenistan. There is still a long way to go, and neither party is unequivocally committed to the other. Existing mind-sets on both sides have not been altered, but the objective conditions have been, at least for the moment. The task for the EU in the remainder of 2009 is to decide whether it really wants to pursue hard the southern gas corridor strategy and, if so, to close out the downstream concerns on financing, pricing and offtake that would generate sufficient confidence for gas producing and transit states to buy in to the strategy. Turkmen gas is not absolutely essential to the Nabucco project but securing some volumes would give the project momentum and long-term credibility. An important side-issue will be the extent to which the EU wants to act as a normative foreign policy power, making a commercial relationship contingent on improvements on human rights issues and, if so, deciding in which areas it could realistically seek and claim progress.

The realisation of the southern gas corridor is contingent on five factors: available reserves; transit issues; extrinsic geopolitical risks, the commercial offer; and financing/legal issues internal to the EU, but also encompassing Turkey and Azerbaijan.

An independent audit of Turkmen gas reserves conducted in 2008 by a reputable UK consultancy, Gaffney Cline Associates, using a mixture of Soviet and newer data, concluded that the South Yolotan-Osman and Yashlar fields in the south east of the country contained between four and 14 trillion cubic metres (tcm). A further audit of other gas fields may require an upward revision of overall proven reserves from the conservative 2.67 tcm figure estimated by BP, to a sum certainly above 6 tcm and possibly double that. Although some of the gas may prove difficult to extract and process, there appears to be enough available to justify doing business.

The transit side is problematic. In March 2009, the Turkmen government put out a tender for the construction of an internal East-West gas pipeline, with an annual capacity of 30 billion cubic metres

(bcm). So far up to 70 companies have expressed an interest in bidding for the project, although the fine details of the tender may deter some. Nevertheless, the project is likely to be realised. From Turkmenistan, the options become more complicated. Reviving a previous plan for a pipeline through Iran to Turkey would be an attractive option on paper. It cannot be put on the table unless and until there is embedded behaviour change on the part of the Iranian government, which is unlikely. Existing offshore infrastructure in the Azeri sector could perhaps be taken back to pick up Turkmen gas, but there may not be enough offshore Turkmen gas. An expensive option would be to transport gas in liquefied form by tanker. This would add value on the Turkmen side, an important consideration, but may be difficult to justify commercially. Ultimately, the most feasible option will probably be to construct a subsea gas pipeline across the Caspian Sea. This would attract hostility from Iran and Russia but, provided agreement could be reached bilaterally with Azerbaijan, it is difficult to envisage any direct intervention from the project's opponents, although some forms of covert influencing should not be discounted. The formation in December 2008 of the Caspian Energy Consortium by a group of European energy companies, supported by an imminent European Commission backed pipeline feasibility study, is therefore an important step forward.

Next are the political factors: the explosion on 9 April 2009 on the Central Asia-Center 4 section of the main export pipeline between Turkmenistan and Russia has halted gas deliveries and has the potential to further disrupt the wider bilateral gas relationship. Gazprom, which is short of cash, needs Turkmen deliveries in the long-term but not the short-term. While negotiations on resumed delivery volumes, pricing and compensation are ongoing, the incident has reminded the Turkmen government of the necessity of widening its export options. The practical manifestation of this has been the extraordinary outreach by the Turkmen government to the EU since April, including the reported willingness to put other issues, including human rights on to the agenda. This may be a game-playing tactic rather than a game-changing strategy, but the EU would be advised to strike while the iron is hot to try and lock Turkmenistan into a more comprehensive partnership. Against this, there appears to be some dissonance within the Turkmen elite at present, which may centre on preferred foreign policy orientations (with a subtext of gas trading rake-offs). President Berdymukhamedov appears to dislike making big decisions. He may try and hedge as long as possible, so the EU will have to be patient, understanding and willing to accept some setbacks along the way if it is to engage.

The commercial elements also need to be put in place. The decision to move ahead with an EU-Turkmenistan Interim Trade Agreement removes one obstacle. The creation of the Caspian Development Corporation in November 2008, a commercial instrument comprised of several European energy companies, helps take care of the Turkmen preference for selling its gas at the border to a single customer. It builds on the April 2008 EU-Turkmen Memorandum of Understanding earmarking 10 bcm per year of Turkmen gas to Europe. So far, Turkey has been the sticking point on downstream transit with its demand for a 15% offtake on Azeri gas. If any concessions on the Turkish side are to the satisfaction of the Azerbaijani government, and an intergovernmental agreement covering legal issues can be reached between the EU and Turkey on 25 June 2009, this would provide a great deal of reassurance to the upstream states who have more to lose by turning away from Russia. This still leaves the issue of overall financing for the Nabucco pipeline, which is where the EU has to step up to the plate to cover any gaps.

To summarise, there is a long way to go, but the environment for engagement is growing more favourable and there are numerous way-stations in 2009 that will provide opportunities to cement a commercial partnership with Turkmenistan on energy issues. Both sides will need a strong risk appetite; commercial and reputational

in Europe, political in Turkmenistan. The odds are still probably against Turkmen gas running through a pipeline connecting Europe to Central Asia, but they have definitely shortened considerably over the past few years.

### *Southern Corridor: A Strategy for Sustainable Energy Cooperation with Central Asia*

*By Vaclav Hubinger, Ministry of Foreign Affairs, Prague*

Further development of the EU energy policy has been one of the major priorities of the Czech Presidency of the Council of the European Union. Long before the gas crisis at the beginning of 2009 reminded everybody of the urgency of the matter, the Czech government – taking a lesson from its own experience of the previous years – had placed energy cooperation in the spotlight of its Presidency agenda. The Czech Presidency put emphasis on seeking the long term cost-efficiency and sustainability of the chosen policies, taking into account the situation of each member state.

Strong support was given to measures leading to the improved functioning of the internal energy market: increasing energy efficiency, effective use of energy sources and diversifying supplies from external sources (including transit routes). An integral part of the Czech Presidency's attitude was strong support to all activities that may lead to the completion of missing segments in the existing energy transmission and transport infrastructure in the EU, and to the improved coordination of the transmission system operators.

Diversification is supposed – in the end – to provide advantages for all. For the consumers, it will ensure alternative ways of procuring and transporting energy, thus increasing their energy security. For the producers, alternative markets mean a possibility to sell their products at world prices.

As far as external energy relations are concerned, the main external partners are Russia, Ukraine and the countries of the Caspian region – both as producers and transit countries. It goes without saying that the Central Asian countries are of great interest to the EU, not only because of their gas and oil reserves. On the other hand, the energy dimension is so important that it often dominates the agenda.

In order to push the EU a little bit more from words to deeds in the area of energy cooperation, the Czech Presidency has been gathering political support for a Southern Corridor. This project is considered to facilitate the gradual economic and political rapprochement of the EU member states with countries of the Southern Caucasus region and those of Central Asia. The "Southern Corridor Summit", that took place in Prague on 8 May 2009, emphasised the strategic significance of all the countries, be they producers or transit countries, between Europe and Central Asia.

The Czech Presidency is of the opinion that projects like the Southern Corridor can serve as a space for the broadest possible array of forms of cooperation, be it in the energy area, transport infrastructure, technologies, science and research, or the exchange of know-how. With a project of such significance as the Nabucco, the deepening of cooperation tends to progress more rapidly and with greater intensity. The Czech Presidency is convinced that for the initiative to be successful, it has to follow the win-win model for all the parties involved, with all parties feeling that their needs and expectations are met, and that the Southern Corridor initiative will bring long-term economic growth, enhanced stability and security to all countries involved.

When dealing with projects in Central Asia, one cannot ignore the political and social reality of each country of the region. The Czech Presidency is therefore paying great attention to other phenomena, such as border management or illegal drug production and trafficking. We are strongly supporting the political dialogue that includes human rights dialogue (e.g., with Uzbekistan and Turkmenistan), cooperation in supporting and strengthening the rule of law, education and protection of environment.

The importance of the Central Asian region is even more strengthened by the vicinity of Afghanistan and the omnipresent danger of the most aggressive forms of Islamic and separatist radicalism and of drug-related organised crime. These are the trickiest elements that complicate the implementation of the EU Strategy for Central Asia. And by implementing the Strategy, a more complex picture appears, since it takes into account the other regional players – Russia, China, the USA and Iran.

The Czech presidency is therefore aware of the strategic importance of Central Asia to the EU as a whole and is striving to make the first semester of 2009 a significant one in the history of our relations.

### *EU Assistance to Central Asia*

#### *EU reviews its Assistance to Central Asia*

*By Jacqueline Hale, Open Society Institute, Brussels*

On 17 April the Commission held a consultation meeting with civil society actors in Brussels as part of an ongoing review of centralised EC Assistance to Central Asia. The review is being undertaken over the course of 2009 on the basis of extensive consultations in Brussels, involving the Member States and the relevant Commission services and with governments and civil society in the region, with the aim of establishing programming priorities for assistance to the region in 2010-13.

Central Asia receives a total of 750 Euro under the European Union's Development Cooperation Instrument for the funding period 2007-13 with the funding priorities for half that amount at stake in this review. The three priority objectives of the assistance are: promotion of Central Asian Regional Cooperation and good neighbourly relations (approximately 30% total assistance until now); poverty reduction and raising living standards (45% total assistance); support for good governance and economic reform (25% total assistance). In the initial phase of the review the Commission has assessed that there is no need to alter fundamentally the assumptions and objectives of the overarching 2007-13 regional funding assistance strategy – given that some of the Annual Action Programmes are only now starting to be implemented. The Commission's description of the priorities largely corresponds to a continuity of past programming, involving a mix of capacity building project-based support; and focused budget support.

The Commission is proposing to concentrate on 3 thematic priority areas per country as well as 3 overarching priorities for the region: energy and water; education and border management and the fight against trafficking. The proposed bilateral assistance priorities focus on such areas as strengthening the judiciary; public administrative reform; social protection, education, health, rural development and trade. As stated during the consultation meeting the Commission prefers to retain the flexibility of a regional and bilateral mix of priorities in order to address overarching needs and concerns alongside more tailored bilateral programming. For example, in the field of education – which is also a regional priority

and subject to a new 'initiative' under the 2007 political Central Asia Strategy – proposed assistance ranges from extensive support to education reforms in Kyrgyzstan, to a limited notion of 'human capital development' involving the training of officials in Turkmenistan. At the same time regional programming can also be used to house some of the regional initiatives under the Strategy, notably the existing regional BOMCA and CADAP programmes in the field of border management and the fight against drugs.

The proposed regional and bilateral priorities, taken together, are broadly in line with the thematic areas outlined under the political Central Asia Strategy and seem on the whole better defined than those elaborated in the previous 2007-10 programming document. In addition to emphasizing this greater policy coherence, the Commission was keen to emphasize the focus on 'poverty reduction' and the need to take a 'generational approach' – a stance which in part acknowledges the constraints of achieving impacts in this region and in part affirms the EU's preparedness to commit over the long-term in Central Asia. It is certainly true that staying long-term will be an important indicator of EU commitment to the region at a time when individual bilateral EU donors are retreating or scaling back their assistance in Central Asia.

The focus on human development reflects the EU's 'soft power' approach and an attempt to add-value as a normative actor in the region. On the other hand, it is clear that the Commission is not playing a strong negotiating hand. In the presentations made during the consultation the issue of conditionality was largely skipped or dismissed. Rather, the emphasis is on the need to be responsive to the interest of governments instead of 'imposing' an agenda from outside. The overarching rationale appears to involve 'engaging' at all cost in order to create linkages between which might lead to more leverage and thereby fruitful and targeted cooperation in the future.

There is a danger in this soft approach in that the EU, perceiving itself to lack leverage in the region, will base its negotiations on aid priorities on a sense of what governments will agree to; rather than on the basis of real development needs. Such an approach risks lacking a unified strategic vision, whilst also undermining the 'poverty reduction' objective which underpins the development cooperation ethos so that, for example, assistance to renewable energy can be pursued in a middle-income country like Turkmenistan rather than public health – although, given the concerns about Turkmenistan's health sector the need there is arguably greater.

During the 17 April meeting civil society stakeholders were invited to comment on the proposals presented by the Commission. Speaking on behalf of the Open Society Institute, which has three locally-run grantmaking foundations working for over a decade to support the development of civil society in Kazakhstan, Kyrgyzstan and Tajikistan, I welcomed the majority of the proposed priorities – particularly some of the more detailed objectives, such as promoting public participation in environmental matters, mentioned as a goal under the energy priority. Nevertheless, in the absence of good governance, public participation is also needed to monitor infrastructure and expenditure relating to energy projects, so the EU would do well to translate the political support in the Central Asia Strategy for the Extractive Industries Transparency Initiative (EITI) into financial support; and as relates to hydro-electric power, endorse the Energy Governance Initiative process.

On education, our OSI partners continue to stress the need to look beyond the Bologna Process to the pervasive problem of access to quality education. Here, the institution-to-institution approach of the Tempus programme – which supports joint projects between EU and Central Asia Universities - can build much-needed

sustainable partnerships and networks between the two regions whilst strengthening institutions in Central Asia. By contrast, the EU should not place too much emphasis on scholarships (which are highly effective and motivating for individuals but remain a vehicle for the privileged few) at the expense of general education and early childhood development. A focus on the latter is crucial to ensure more equitable access to education across the region.

There are outstanding questions that remain pertinent for policy-makers, as well as those closely monitoring the EU Central Asia Strategy: Where does one set limitations or conditions on government-to-government aid in a region where governance is markedly untransparent and authoritarian? Is it appropriate to provide assistance 'without strings' in cases where the government is otherwise unwilling to cooperate, or where the effects of that assistance could be negligible or potentially even counterproductive? Seasoned observers of the region would point to countless trainings and seminars offered by international organisations which have failed to do much to support real reforms and have in the past added a veneer of legitimacy to institutions such as the parliament or to GONGOs. In that light there are still numerous questions over whether the proposed 'rule of law initiative' will amount to much more than a further round of training for judges and prosecutors.

Local and international civil society networks have an advisory role to play in helping the EU to navigate the at times treacherous waters of development assistance in Central Asia. Whilst the Commission's should be commended for its efforts to reach out to civil society in this consultation (and subsequent meetings held in the region) there is a real need for more systemic consultation of civil society by the delegations in the region – to build and sustain its capacity to recommend, monitor and hold the governments and the donor community accountable. It is in the EU's interest that civil society be increasingly involved in such discussions – from the point of view of network-building and normative socialization to EU norms and practices – and ultimately to bring in a new constituency of actors who can help enhance the EU's own visibility and impact beyond the closed rooms of inter-governmental meetings.

## **INOATE: Developing National Energy Policies in Central Asia**

*Interview with Rainer Behnke, team leader of the project on Development of Coordinated National Energy Policies in Central Asia within the INOATE framework*

*By Natalia Mirimanova, EUCAM/CEPS*

*The overall objective of the Project on Development of Coordinated National Energy Policies in Central Asia was to assist the national governments in Central Asia with the development of national energy policies that are coordinated with the neighbouring countries and reflect the objectives of Partnership and Cooperation Agreements between the EU and the relevant countries. The objectives of the project were to develop recommendations and action plans for the regulatory, legislative and strategy change at national level in accordance with EU best practice and international standards especially in the energy sectors (oil, renewable energy, electricity), to establish a regional forum for discussion of coordinated national energy policies and regulation, preparation and discussion of a draft Energy Community Treaty, assessment of the feasibility and viability of an EU-Central Asia Energy Technology and Know-how Transfer Centre and recommendations of its institutional set-up with the respective aim to develop and agreed dialogue at regional level for future energy dialogue between EU*

and CAR.

**Q: What was the idea behind the project on Development of Coordinated National Energy Policies in Central Asia?**

RB: The targets set out by the Baku initiative and the Astana declarations are quite ambitious. Cooperation among the Central Asian republics on a common regional energy market requires substantial legislative, technological and economic reforms. In addition, the EU wants to support the transfer of best energy technologies and know-how on project preparation to the countries of Central Asia.<sup>1</sup>

The overall objective of the project was to assist the national governments in Central Asia in the development of national energy policies, which are coordinated with neighbouring countries and reflect the objectives of Partnership and Cooperation Agreements (PCAs) between the EU and the relevant countries. It was recommended that we utilise the success of the European energy market as a model for developing the common energy market in Central Asia.

**Q: It must be difficult to develop coordinated national energy policies, given strained relations between the Central Asian states in the water and hydroelectricity sectors...**

RB: We are fully aware of the challenges between the countries regarding water resources and the purchase of power from hydropower plants. Hence we proposed to the states involved that the most reasonable way to make some progress on the energy dialogue was not to concentrate on the energy-water confrontation, but rather to think of an energy sector that is equally accessible to all parties.

The development of a common electricity market came up as a mutually agreeable topic to be explored in the format of a regional dialogue. We were open to the incorporation of ad-hoc requests for support into the consulting project.

**Q: Are small and medium hydropower stations a viable alternative to large hydropower plants?**

RB: Smaller, decentralised energy-generating units make sense economically, socially and technologically. They are close to the

user and can efficiently solve energy shortages in Tajikistan and Kyrgyzstan.

The establishment of a regional electricity market will improve the economic feasibility of small hydropower plants. If there is a cascade of such hydropower stations, they can sell electricity to the nearby regions (border regions); they are close to the generator and to the consumer. This would attract more investment. In this way, a local operator would be provided with cheap electricity irrespective of the overall power shortages that may occur in Kazakhstan.

**Q: What would be the strategies to sustain the common electricity market?**

RB: First, our task is to explain the idea that cooperation makes sense from a technical point of view, because the power transmission system was designed to function as a single entity, and to outline the benefits of its operation as a whole system for all Central Asian countries. We learned in Scandinavia and in South-East Europe how the power system could benefit from a real common electricity market. Kazakhstan and Kyrgyzstan have begun to work on a bilateral agreement. We have developed a draft of an Energy Community Treaty for Central Asia based on the European experience. Now it is in their hands.

Second, a way to develop a sustainable common electricity market is to start with two or three countries, building a working, economically sound system, and others will follow suit.

However one needs to bear in mind that it is a long process. Look at the experience of the Former Yugoslav Republics where it took a decade for them to agree on a common electricity market. The Central Asian Republics would need to agree on methodologies, structure, regulation and models.

**Q: Dialogue on the common electricity market is a long-term process. However electricity shocks and regular electricity cut-offs are commonplace occurrences in the region. Are there additional short-term measures that the countries in Central Asia could undertake to enhance their energy security and not harm the environment?**

RB: I would say there is no need to build new, large power-generation capacities if money is

*The aim of the Baku Initiative is to enhance integration of the energy markets of participating countries with the EU energy market, so as to create transparent energy markets, capable of attracting investment and enhancing security of energy supply. The partner countries' objectives are: to harmonise legal and technical standards so as to create a functioning integrated energy market in accordance with EU and international legal and regulatory frameworks; to increase the safety and security of energy supplies by extending and modernising existing infrastructure, substituting*

*outdated power generation infrastructures with environmentally-friendly systems; the development of new infrastructures and implementation of modern monitoring systems; improvement of energy supply and demand management through the integration of efficient and sustainable energy systems; and promoting of the financing of commercially and environmentally viable energy projects of common interest. A 'road-map' towards the achievement of these and related objectives was adopted at the Astana Ministerial Conference.*

**INOGATE originated in 1995 as an EU support mechanism dealing with INterstate Oil and Gas Transportation systems. It was particularly concerned initially with oil and gas pipelines running from and through Eastern Europe and the Caucasus to the EU. Following a conference in Baku, Azerbaijan in 2004 and a conference in Astana, Kazakhstan in 2006, it has since evolved into a broader energy partnership, concentrating on four key topics:**

- enhancing energy security
- convergence of member state energy markets on the basis of EU internal energy market principles
- supporting sustainable energy development
- attracting investment for energy projects of common and regional interest.

**The INOGATE programme is a joint initiative of three units within the European Commission: Directorate-General for Transport and Energy, Directorate-General for External Relations and the EuropeAid Cooperation Office. Since 2007, the INOGATE programme has been financed by the European Neighbourhood Programme Initiative (ENPI).**

spent wisely on energy efficiency. The specific expenditure in energy efficiency measures cost ½ the expenditure of building new plants with the same result. At present the waste of energy at the consumer end is enormous in Central Asia. The energy intensity is three times higher than that in EU-25. It is not proven that the current energy tariffs cover the whole generation costs.

There are different opportunities to meet growing demands. Sustainability and environmental aspects should be introduced as key in the planning and development of the national economies and energy market in Central Asia.

**Q: What are the results of the project? What is the role of the EU in building on the first efforts in the development of the common Central Asian energy market?**

RB: A regional Working Group on a Central Asian Regional Energy Market was established, composed of experts from all the Central Asian Republics, with the exception of Turkmenistan, drawn from ministries overseeing the electricity sub-sectors, electricity companies and the Regional Power Dispatch Centre. Six regional Working Group meetings were conducted over the course of one year (April 2008-April 2009). Technical and legal aspects as well as market factors for the common electricity market were discussed. We have now a platform. The EU intends to follow-up to maintain this level of this dialogue because the established platform has enabled us to make visible progress in our understanding of the common electricity market.

An EU-Central Asian Energy Technology and Know-How Transfer Centre will be established with the support of the EU. The business plan has been accepted by regional implementation partners, and the shareholders of this centre will be Kazyna-Samruk, of Kazakhstan.

The EU should maintain a leading advisory role in the development of an energy dialogue among the Central Asian Republics. We recommend that the EU should follow up on some issues on the basis of the results of our project. The know-how that is transferred in the process will also be followed up. The EU is planning to support the Energy Technology Centre and has confirmed co-financing and technical assistance for the establishment phase with commencement in 2010.

There are several programs that are currently being implemented or planned in the energy sector of the Central Asia. We encouraged the EU to organise a dialogue to utilize synergies and see who does what.

## New EUCAM Publications

**Central Asia and the Global Economic Crisis**, Richard Pomfret, EUCAM Policy Brief No. 7, June 2009: <http://www.eucentralasia.eu/node/39>

**Business and Trade Relationships between the EU and Central Asia**, Sébastien Peyrouse, EUCAM Working Paper No. 1, June 2009: <http://www.eucentralasia.eu/node/42>

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**Anne Harrington**, CEPS editor

## Calendar

**11 June 2009:** The EU-Kyrgyzstan Cooperation Committee held its 9th session within which were discussed the issues of bilateral cooperation in different areas such as trade, transport, energy, education, democracy, human rights and freedom, as well as EU assistance through bilateral and regional programs. Among other problems Kyrgyzstan also initiated discussion of the uranium tailings issues.

**Source:** AkiPress

**11 June 2009:** In the framework of the European Education Initiative, which is part of the EU-Central Asia Strategy, a seminar with Central Asian partners took place in Brussels. This meeting was designed to provide opportunity for all interested parties to exchange views and get an update on the implementation of the Education Initiative, and notably to identify together new actions on higher education, or vocational and educational training in Central Asia. The meeting brought together senior education representatives from Central Asian countries as well as EU Member States and EC representatives.

**Source:** [http://ec.europa.eu/europeaid/where/asia/index\\_en.htm](http://ec.europa.eu/europeaid/where/asia/index_en.htm)

**30 June 2009:** The European Union and Turkmenistan held the second round of human rights dialogue in Brussels. Parties focused in particular on the functioning of civil society and key civil freedoms such as freedom of media, expression, association and assembly, thought and religion, freedom of movement and forced displacement, prison conditions and torture and the reform of the judiciary. The EU handed over a list of individual cases. The next regular human rights dialogue is planned to take place in summer under the Spanish EU Council Presidency in 2010.

**Source:** <http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/09/203&format=HTML&aged=0&language=EN&guiLanguage=en>

**29-30 June 2009:** The EU-Kazakhstan civil society seminar on human rights entitled 'Judicial system and places of detention: towards the European standards' was held in Almaty. The aim of this seminar was to

enhance the official EU-Kazakhstan human rights dialogue by creating a space for the European and Kazakhstan academic and NGO communities to have open and professional discussions at expert level in order to formulate recommendations for future reforms based on best practices and applicable international standards. Final recommendations adopted during two days of debates will be submitted to the EU and Kazakhstani officials in view of the official dialogue on human rights which will take place in October 2009.

**30 June-2 July 2009:** Central Asian researchers and students will be able to better collaborate with their colleagues across the world, through a new EU-funded high speed data-communications network. The CAREN (Central Asia Research and Education Network) project will provide high capacity Internet links for the first time to one million students and researchers in over 200 universities and research institutions in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan to each other and to the global research community through connection to the high-speed pan-European GÉANT network. Progress on the network was to be discussed at two high profile meetings in Almaty. Attendees included high level representatives from the Central Asian partner countries, demonstrating the importance of this project to the region and beyond. It is expected that the network will be come functional by the end of the year.

**Source:** [http://ec.europa.eu/europeaid/where/asia/index\\_en.htm](http://ec.europa.eu/europeaid/where/asia/index_en.htm)

**July 2009:** First EU-Tajikistan seminar is to take place on the **8-9 of July** in Dushanbe. Such seminars are planned to be held on regular basis in all Central Asian states in the framework of the EU Human Rights Initiative with the aims of opening up the official dialogues to the European and local academic and NGO communities and enriching agendas of official human rights dialogues between the EU and Central Asian governments by brining perspectives from non-governmental actors of the respective countries. Such seminars are to take place prior to the formal meetings and its recommendations are then to be submitted to the participants of the official dialogues. Such seminars have already been held with Uzbekistan in October 2008 in Tashkent, with Kyrgyzstan in March 2009 in Bishkek and with Kazakhstan in June 2009 in Almaty.

# About EUCAM

The Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), Spain, in co-operation with the Centre for European Policy Studies (CEPS), Belgium, has launched a joint project entitled "EU Central Asia Monitoring (EUCAM)". The (EUCAM) initiative is an 18-month research and awareness-raising exercise supported by several EU member states and civil society organisations which aims:

- to raise the profile of the EU-Central Asia Strategy;
- to strengthen debate about the EU-Central Asia relationship and the role of the Strategy in that relationship;
- to enhance accountability through the provision of high quality information and analysis;
- to promote mutual understanding by deepening the knowledge within European and Central Asian societies about EU policy in the region; and
- to develop 'critical' capacity within the EU and Central Asia through the establishment of a network that links communities concerned with the role of the EU in Central Asia.

EUCAM focuses on four priority areas in order to find a mix between the broad political ambitions of the Strategy and the narrower practical priorities of EU institutions and member state assistance programmes:

- Democracy and Human Rights
- Security and Stability
- Energy and Natural Resources
- Education and Social Relations

EUCAM will produce the following series of publications:

- A bi-monthly newsletter on EU-Central Asia relations will be produced and distributed broadly by means of an email list server using the CEPS and FRIDE networks. The newsletter contains the latest documents on EU-Central Asia relations, up-to-date information on the EU's progress in implementing the Strategy and developments in Central Asian countries.

- Policy briefs will be written by permanent and ad hoc Working Group members. The majority of the papers examine issues related to the four core themes identified above, with other papers commissioned in response to emerging areas beyond the main themes.

- Commentaries on the evolving partnership between the EU and the states of Central Asia will be commissioned reflecting specific developments in the EU-Central Asian relationship.

- A final monitoring report of the EUCAM Expert Working Group will be produced by the project rapporteurs.

This monitoring exercise is implemented by an Expert Working Group, established by FRIDE and CEPS. The group consists of experts from the Central Asian states and the members countries of the EU. In addition to expert meetings, several public seminars will be organised for a broad audience including EU representatives, national officials and legislators, the local civil society community, media and other stakeholders.

EUCAM is sponsored by the Open Society Institute (OSI) and the Netherlands Ministry of Foreign Affairs. The project is also supported by the Czech Republic Ministry of Foreign Affairs, the Spanish Ministry of Foreign Affairs and Cooperation and the United Kingdom Foreign and Commonwealth Office.

## About FRIDE

FRIDE is a think tank based in Madrid that aims to provide original and innovative thinking on Europe's role in the international arena. It strives to break new ground in its core research interests – peace and security, human rights, democracy promotion and development and humanitarian aid – and mould debate in governmental and nongovernmental bodies through rigorous analysis, rooted in the values of justice, equality and democracy.

As a prominent European think tank, FRIDE benefits from political independence, diversity of views and the intellectual background of its international staff. Since its establishment in 1999, FRIDE has organised or participated in the creation and development of various projects that reinforce not only FRIDE's commitment to debate and analysis, but also to progressive action and thinking.

## About CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is among the most experienced and authoritative think tanks operating in the European Union today. CEPS serves as a leading forum for debate on EU affairs, and its most distinguishing feature lies in its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

CEPS aims to carry out state-of-the-art policy research leading to solutions to the challenges facing Europe today and to achieve high standards of academic excellence and maintain unqualified independence. CEPS also provides a forum for discussion among all stakeholders in the European policy process and builds collaborative networks of researchers, policy-makers and business representatives across the whole of Europe.



**EUCAM**  
EU-CENTRAL ASIA MONITORING

[www.eucentralasia.eu](http://www.eucentralasia.eu)

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