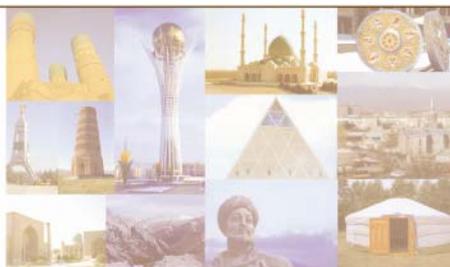


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TAJIKISTAN

JANUARY-FEBRUARY REPORT

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Bimonthly Article

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Highlights

One of the most important events of early 2013 was the celebration of the 20th anniversary of the armed forces of Tajikistan. The Tajik army was legally established on 23 February 1993. Unlike the rest of the former Soviet republics, Tajikistan did not receive any weaponry or arms from the former Soviet army. The country had to create an army on its own during the civil war. On 23 February a military parade was held, attended by over 10,000 people. Prior to the celebration, President Rahmon awarded state honours and high military ranks to more than 80 military figures.

Currently, the Tajik army is estimated at about 20,000 troops. The army consists of two infantry brigades, artillery and an air assault brigade. Three Tajik battalions form part of the collective rapid deployment forces of the Central Asian region within the framework of the Collective Security Treaty. The Tajik armed forces are equipped with modern weapons made by Russian, Indian, Iranian and Chinese producers.

Internal affairs

On 15 January the government held a meeting at which President Rahmon noted that for Tajikistan, 2012 had been a "grace year, the year of creation" regardless of the global economic

crisis. He pointed at improvements in the investment sphere, development of the private sector, access to commodity markets and maintenance of macroeconomic stability. Prime minister Aqil Aqilov discussed the main socio-economic indicators in 2012, noting that GDP grew 7.5% compared to 2011, while the inflation rate was 6.4%. The country has implemented 57 projects involving foreign investment totalling in \$2 billion. As a result of the implementation of two national strategies for poverty reduction, the poverty rate dropped to 38.3%, while in 2008 the figure was 50%.

On 5 February, Tajikistan's eight millionth resident was born in the capital, Dushanbe. The parents of the newborn received an apartment from the President Rahmon. According to official figures, on 1 January 2013 the population of Tajikistan stood at 7,984,800.

In January and February, the media widely discussed education reforms and a transition from Cyrillic to Arabic script. Supporters of the return to Arabic script claim that it will contribute to recovering historical ties with Iran and Afghanistan lost during the Soviet era. Their opponents believe that the change in alphabet will require significant expenses and that it will negatively impact the general state of education. The committee on language and



terminology has not excluded the possibility of switching to Arabic script in the long run, but has indicated that this reform would only be possible after a plebiscite.

The country is actively but implicitly preparing for the November presidential election. The Tajik authorities are concerned about trying to prevent an emergence of dangerous alternative candidacies and are seeking to remove a number of unwanted politicians. Hence, at the end of the last year, in response to a request by the Tajik authorities, the leader of opposition "Group 24" Umarali Kuvvatov was arrested in the United Arab Emirates. In January, Tajik authorities requested his extradition. On 6 February, also at the request of the Tajik authorities, former prime minister Abdumalik Abdullajanov was arrested in Ukraine. He served as prime minister from 1992 to 1993, resigning over disagreements with the policies of President Rahmon. In November 1994 Abdullajanov ran for president. After being defeated in the elections, he left the country. The prosecutor general's office has sent Ukraine a formal request for his extradition to Tajikistan where he faces charges of terrorism, organized crime, attempting to seize power, sabotage and theft of public funds and property.

Political parties in the country are also preparing for the elections. The Islamic Renaissance Party (IRP) has established headquarters, its focus being on ensuring the transparency and fairness of the upcoming elections, to which end it is organizing short-term training courses for observers in district and precinct election commissions. The IRP today has more than 50,000 members. Two deputies represent the IRP in the lower chamber of parliament.

In January, government pressure led to Internet providers once again blocking certain Internet

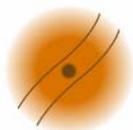
resources, including Facebook and Russia's Radio Ozodi. The committee for the protection of journalists (CPJ) issued a sharp criticism to the government of Tajikistan.

In January, the internal affairs ministry introduced mandatory fingerprint registration of people who are receiving new passports and driving licences, which citizens must pay for themselves. The new rules contradict the law "On State Fingerprinting" and have sparked considerable public discontent.

In 2012, the volume of drugs seized in Tajikistan rose 40%. This is explained not only by the work of Tajikistan's drug police, but also by an increase in drug trafficking from Afghanistan, where a gradual reorientation from opiates to cannabis has been noted. Last year, just over a ton of opiates was seized in Tajikistan, including heroin and raw opium. At the same time, the volume of confiscated cannabis quadrupled to nearly five tons. Experts ascribe this development to the expansion of cannabis plantations in neighbouring Afghanistan and an intensification of efforts to smuggle drugs into neighbouring countries. In January alone, the Tajik narcotics police seized over 300 kilos of drugs. In February, Tajik security forces neutralized another drug group. They detained ten people, including representatives of police and border guards, and seized 138 kilos of drugs. Experts believe that 2013 may be as complex and difficult as the previous year in terms of the fight against drugs.

Foreign and international policy

The main focus of foreign policy in the first two months of 2013 was negotiation with the U.S. and Russia on issues of security and military cooperation.



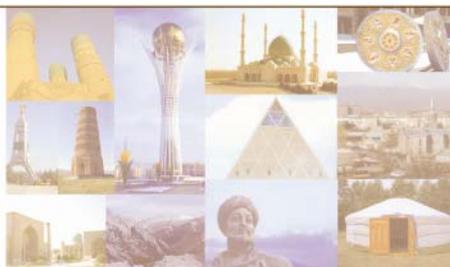
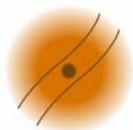
On 17 January, Russian foreign affairs minister Sergei Lavrov visited Tajikistan to discuss the implementation of agreements reached during the recent visit to Dushanbe of President Vladimir Putin. At the time, the two countries signed an agreement to extend for 30 years the continuation of the 201st base, the largest onshore Russian military facility abroad. At the same time, Moscow promised to help Dushanbe in four areas: introduction of preferential treatment to stay and work in Russia for Tajik migrant workers, abolition of export duties for delivery to Tajikistan of Russian oil products (1 million tons per year), allocation of \$200 million to reinforce the Tajik army and Russian investments in the construction of small and medium-sized hydropower plants in Tajikistan. Since the signing of the agreement, however, the two sides have disagreed. It turns out that Tajikistan intended to ratify the agreement on the presence on its territory of the Russian military base only as long as Russia fulfilled its promises to mitigate the migration policy and abolish export duties on supply of petroleum products.

Regarding the issue of liberalizing migrant stays, the two countries agreed that citizens of Tajikistan will be able to stay on Russian territory for up to 15 days without registration and will be able to obtain a work permit for up to three years. However, at the end of last year, Putin proposed tightening existing immigration rules for all migrant workers, including those from Tajikistan. An exception will be made only for citizens of the countries in the Customs Union - Belarus and Kazakhstan. A tightening of immigration rules in Russia would hurt the economy and the political situation in Tajikistan. Currently, more than one million Tajik citizens work in Russia. Over the past year they

transferred \$3.5 billion to their home country, accounting for almost 50% of GDP. Russian views Tajikistan's immediate accession to the Customs Union as the solution. However, Dushanbe is less clear about this issue.

Controversy continues the surround the elimination of export duties on supplies of Russian petroleum and oil to Tajikistan. Russia categorically opposes the re-export of Russian duty free fuel to Afghanistan by Tajikistan, and therefore plans to control the gas and oil transportation network in Tajikistan. Dushanbe sees this as an intentional attempt to capture and monopolize the Tajik fuel market by Russian giant Gazprom Neft. In 2012, Tajikistan imported 372,000 tons of oil products. The share of Russian fuel in Tajikistan's fuel market is 55.3%, Turkmenistan 17.2%, Kyrgyzstan 13% and Uzbekistan 0.02%. The average cost of one ton of oil imported from Kyrgyzstan was \$913, from Russia \$1.199, from Turkmenistan \$1.172 and from Uzbekistan \$1.44 per ton. Today, the average price for one litre of A-92 gasoline in Dushanbe is \$1.5.

During Lavrov's visit to Dushanbe, both sides reached a compromise and Dushanbe agreed to ban fuel re-exports. It was assumed that relevant agreements and contracts would be signed in February during the visit of Russian deputy premier Igor Shuvalov. Both countries were interested in a prompt ratification of the agreements on the Russian military base, as well as on economic issues. For Moscow it is important because of the withdrawal of NATO troops from Afghanistan and security on its southern borders. For Dushanbe it is important because of the upcoming presidential election. Rahmon wants to show his people that he is supported by Moscow. However, the situation changed dramatically in February. The



scheduled mid-February visits to Tajikistan of Shuvalov and the chief of the general staff of armed forces Valery Gerasimov were postponed. Experts attributed this to Tajikistan switching its priorities from Russia to the United States.

On 21 February, Dushanbe hosted an annual review of political consultations between Tajikistan and United States. The official U.S. delegation was led by the assistant Secretary for South and Central Asian Affairs Robert Blake. Tajik-US talks focused on bilateral cooperation, economic and trade development, improvement of the investment climate, state of human rights including freedom of media and religion, border security, and drug trafficking. Other topics discussed included the development of road and border infrastructure, implementation of railway projects, as well as water and environmental issues. In addition, the consultation raised issues of cultural and educational cooperation. It was noted that the development of long-term, stable and friendly relations between Tajikistan and United States was in the interests of both countries and would contribute to the development and promotion of peace in the region.

In January, Dushanbe also hosted Tajik-Kyrgyz negotiations on the delimitation of the 970 km border between the two countries, 519 km of which has been approved. The remaining sections are debatable because they pass through towns and settlements.

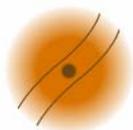
Economy and business enterprise

As usual, fuel and energy problems were exacerbated during the winter period. On New Year's eve neighbouring Uzbekistan completely stopped gas supply to Tajikistan. Since then, the management of Tajik gas distributor Tajiktransgas

has been negotiating the supply of natural gas in 2013 with Uzbek colleagues from Uzbekneftegaz. The Tajik government also joined the negotiations.

It is worth noting that the Tajik and Uzbek sides agree on gas supply at the end of each year, but due to increased exports of Uzbek gas to China, disruptions in supply occur more frequently. This happened twice in 2012. Gas supply was resumed after a visit to Tashkent of a government delegation from Tajikistan. In 2012, Tajikistan imported about 125 million cubic metres of natural gas from Uzbekistan at \$300 per cubic meter, far less than needed. Difficulties with gas supply forced companies to move to coal. The main consumers of Uzbek natural gas are the largest industrial enterprises in the country - Tajik Aluminium Company (TALCO) and Tajikcement, the largest cement producing company in the country. Tajikistan's population has not received any natural gas for the past 6 years. Demand for natural gas in Tajikistan is gradually falling, but the search for carbohydrates in the country continues at the hands of Gazprom International, Tethys Petroleum Limited, Tajik-Swiss joint venture Somon Oil and Tajik-Austrian joint venture Petroleum Sugd. Tajikistan hopes that the country will begin to produce commercial quantities of natural gas in the near future.

Complications have arisen with the operation of Sangtuda-1, a joint venture of the Russian Federation and the Republic of Tajikistan. Russia's share in the capital of "Sangtuda-1" is 75% minus 1 share and Tajikistan's 25% plus 1 share. A full run of the plant took place in July 2009. The single buyer of electricity from Sangtuda-1 is state energy company Barqi Tojik, which systematically fails to pay for the electricity consumed. In 2012, Barqi Tojik only



paid for 41% of the electricity received, with the result that Sangtuda-1's debt in tax payments amounts to \$7.8 million. The hydro plant administration plans to stop its operation if Tajikistan's tax committee freezes the plant's bank accounts.

To date Barqi Tojik owns Sangtuda-1 \$66 million. Experts analysing the situation ascribe the debt to different causes. Some believe that Barqi Tojik is a loss-making company and cannot pay bills because of low electricity tariffs in Tajikistan. Others believe that the government of Tajikistan is trying to redistribute in its favour shares in the capital of the hydroelectric plant. Thus, Tajikistan introduced new conditions regarding ratification of the agreement on the stay of the 201st Russian military base. Another requirement has been added to the existing requirements of abolishing duties on supply of petroleum products and preferential treatment enabling Tajik migrants to stay in Russia, namely the writing off of a \$66 million debt for electricity supplied by Sangtuda-1. This question was due to be discussed in February during what turned out to be the failed Tajik-Russian negotiations. According to experts, the Sangtuda-1 scenario may undermine the investment appeal of Tajikistan's energy sector.

Regarding the construction of Rogun hydroelectric power plant, consultations with the World Bank led the Tajik government to reduce funding for 2013. Also, the campaign for the sale of shares in Rogun was temporarily suspended. Part of the proceeds from the sale of Rogun shares are currently held by the finance ministry.

On 19 January, the "Guide to Budget of the Republic of Tajikistan", published with the support of the Open Society, was presented in Dushanbe. The book covers budgeting processes

in the country in a readily understandable format, providing information on the budgetary system, policies and legislation, the budget process, the budget deficit and public debt, as well as discussing public participation in the budget-making process both at country and local level. Initially, 500 copies of the guide have been printed. This is a very important initiative because budgeting is generally quite obscure in Tajikistan. According to the OBI (Open Budget Index) Tajikistan received 17 points out of possible 100 in terms of budget openness in 2012.

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