



THE RUSSIAN CASPIAN TRANSPORT AND LOGISTICS COMPLEX PROJECT: PROBLEMS AND PROSPECTS

In the beginning of 2000s, Russia declared the development of the country's seaports as one of its national priorities. In 2002, by launching the International North-South Transport Corridor (INSTC) aimed at managing an increase in trade between India and North Europe and connecting the Indian Ocean, Persian Gulf and Caspian Sea, Moscow expects to arrange 30 million tons worth of cargo transshipment annually to the Caspian region. After years of delays in the implementation of the INSTC, Russia, Iran and India as the co-founders and other members of the Ashgabat agreement conducted two dry runs on the Mumbai-Baku and Mumbai-Astrakhan routes in 2014. Furthermore, since the launch of the Chabahar port in 2016, the INSTC member states have begun actively discussing future prospects of the multi-modal transportation along the route. Therefore, the Russian authorities, who believe that the Caspian region can benefit as a logistics hub between India and Europe, introduced a new infrastructure project associated with the development of the regional seaports.

On March 3, 2017, the Ministry of North Caucasus Affairs jointly with the Ministry of Transport, executive authorities of the North Caucasus Federal District, the governments of the Astrakhan region and Dagestan presented the Strategy for the Development of the Russian Seaports in the Caspian Basin and Related Access Railways and Automobile Roads until 2030. The main objective of this strategy is to improve the cooperation between administrations of all Russian ports on the Caspian Sea so that they become capable of handling expected volumes of transit goods from India and Iran. It is planned that the new Caspian Transport and Logistics Complex (CTLC) will unite all existing port facilities of Russia on the Caspian Sea shore forming a single transport cluster enabling year-round transit of cargo within the INSTC. According to the preliminary estimates, the redirection of cargo flows via the proposed Caspian hub will decrease transportation costs by 10-15%, while the transportation time can be reduced by 1.5 times to 14 days.

According to the approved roadmap, the provisions of the Strategy will be implemented in the following three phases: 1)

Preparatory Actions (2017-2019), which include the shaping of the administrative and legal frameworks for the establishment of a unified transport logistics architecture, as well as tourism and agro-industrial clusters; 2) Main Phase (2020-2025), which includes the construction of new deep-water seaport facilities in Kaspiysk, the development of new investment projects on the territories with a special regime, as well as the development of the trans-Caspian Sea cruise tourism and international trade, mostly with Iran; 3) Perspective Phase (2026-2030), which includes designing the development strategy for the Caspian seaports for the next 15-20 years, launching the second stage of the Kaspiysk seaport's construction, and creating merchant and fishing fleets.

Since Russia announced its plans to open an additional unfreezing deep port in the city of Kaspiysk, it appears that Dagestan will be given a crucial role in improving the Caspian cargo throughput. Currently, there are three international maritime transport ports in the Russian sector of the Caspian Sea, namely, the Olya and Astrakhan seaports in the Astrakhan region and the Makhachkala seaport in Dagestan, which accounts for 53.8% of total cargo flows via the Russian ports in the region in 2016. The total annual capacity of the Russian Caspian seaports has reached 25.6 million tons. The Makhachkala and Astrakhan seaports have roughly equal annual cargo capacities, or 10.9 and 10.7 million tons, respectively, while the throughput capacity of the Olya port has totaled only 4 million tons. It is worth noting that Russia's Caspian seaports could be divided according to their specialization. For instance, the Astrakhan and Olya seaports specialize in dry bulk cargo (grain and ferrous metals) transshipment, which accounts for over 98%, or 2.56 million tons, and 99%, or 0.19 million tons, of their total cargo throughput in 2016, respectively. On the other hand, the Makhachkala seaport focuses on liquid bulk cargo transportation, which accounts for 88%, or 2.87 million tons, of total volume of transported cargo in 2016.

The urgency of developing the CTLC project is also closely linked to the need to prevent further reduction in cargo turnover

of Russia's Caspian seaports. Indeed, the total cargo traffic of the regional seaports amounted to only 6.04 million tons in 2016, which is four times less than their installed capacity and represents a 9.6% decrease compared to their total cargo turnover in 2015. In fact, the share of the Caspian Basin in total throughput of the Russian ports has plunged to a negligible level of 0.8% in 2016. Moreover, according to the Association of Russian Commercial Seaports, in January-April 2017 the cargo traffic via the Caspian ports has dropped even further, decreasing by 48.4% to 1.1 million tons as compared with the same period of 2016. It should be admitted that Russia's Caspian seaports have been showing a steady decrease in throughput starting from 2012. For the period from 2005 to 2016, the cargo traffic via the Caspian basin has fallen by 42.3%, while all other basins, Arctic (increase of 29.4%), Baltic (67.2%), Azov-Black Sea (64.2%) and Far East (270%) basins, experienced a significant increase in cargo transshipment.

The dramatic negative changes in the economy of Iran triggered by the Western sanctions imposed on Tehran, as well as the redirection of oil flows from Makhachkala to Baku, are among the key reasons for a downward cargo transshipment trend in the Caspian basin. In addition, the poorly developed transport and logistic infrastructure coupled with unnecessary bureaucratic customs procedures diminish the economic attractiveness of the region for foreign partners, investors and manufacturers.

As a result, in order to overcome the existing problems hindering the development of the CTLC, significant government support measures and budgetary financing are required. At present, the Caspian Sea basin is not attractive enough for investors and shippers from the economic perspective. However, from the geopolitical point of view the Caspian seaport facilities are strategically important for the diversification of Russia's routes to the promising markets of Iran and India bypassing the Black Sea straits, Mediterranean Sea and Suez Canal. Therefore, there is no doubt that Moscow will maintain the political will to transform the Caspian seaports and related infrastructure into the major transshipment hub between India and Europe.

Politics, Foreign Affairs and Security

- On the sidelines of the Shanghai Cooperation Organization (SCO) Summit held in Astana, the member countries approved the procedure of the first SCO expansion granting permanent membership to both India and Pakistan. Moreover, during the meeting, the parties discussed prospects for closer trade ties, stronger mutual investment and increasing joint projects, as well as achieved results in implementing the Belt and Road Initiative. As a result of the Summit, a number of documents including the Astana Declaration, the SCO Convention on Countering Extremism, a Joint Actions Plan of Cooperation in the Field of Tourism for 2017-2018 and the Memorandum of Understanding (MOU) between the Secretariat of the SCO and the International Committee of the Red Cross were signed.
- During the 4th High Level Political and Security Dialogue between the European Union and the countries of Central Asia held in Bishkek at the level of the Deputy Ministers of Foreign Affairs, the participants exchanged views on a number of key issues, including counter-terrorism and violent extremism, drug trafficking and border management. The stability of the wider region, including Afghanistan, was also considered.
- During his Central Asian trip, the UN Secretary General, Antonio Guterres, met the Presidents of Kazakhstan, Uzbekistan and Kyrgyzstan. In Astana, the parties discussed wide range of issues including global security focusing on strengthening the anti-nuclear movement. In Tashkent, the sides discussed topical issues of a regional and international nature, in particular, related to mitigation of the consequences of the Aral ecological disaster addressing socio-economic and environmental problems. In Bishkek, the parties talk over the country's efforts for democracy, rule of law and protection of human rights, as well as a vibrant and active civil society.
- As part of his East European tour, the Deputy Foreign Minister of Azerbaijan, Khalaf Khalafov, met his Slovenian and Polish counterparts, Darja Bavdaz Kuret and Bartosz Cichocki. In Ljubljana, the parties exchanged views on development of cooperation in trade, industry, transportation, agriculture, energy, tourism and culture. In Warsaw, the sides discussed regional developments, cooperation in political, economic and humanitarian spheres, as well as prospects for the development of bilateral relations.
- The Defense Ministries of Azerbaijan, Georgia and Turkey reported about the launch of the military drills with participation of the three countries' special operations forces. During the ten-day exer-

cises called Caucasus Eagle 2017 the military subdivisions will improve their professional capacity, the combat readiness and mutual vigilance of the three countries. This is the first time that Georgia is hosting the military exercises held in a trilateral format. Previously, Turkey hosted the drills.

- The Defense Minister of Russia, Sergei Shoigu, reported about the country's plans to reinforce its military bases in Tajikistan and Kyrgyzstan by equipping them with modern weapons and military equipment. It was also noted that the country is taking the measures to obstruct a shift of terrorist activity from Afghanistan to the Central Asian region. The Russian military base deployed in Tajikistan is Russia's largest non-naval military facility outside the country.

Economy, Finance and Energy

- The state oil company of Azerbaijan, SOCAR, stated that it injected about 547 million cubic meters of gas into the country's underground gas storage facilities since early 2017 until June 1. According to the report, 255.5 million cubic meters of gas injected into the gas storage facilities accounted for the Garadagh storage, and 291.5 million cubic meters handled for the Kalmaz storage. It was also noted that currently, the volume of gas in the country's underground gas storage facilities exceeds 1.33 billion cubic meters.
- During his official visit to Moscow, the Deputy Prime Minister of Uzbekistan and the Chairman of the Board of Governors of Uzbekneftegaz, Gulomjon Ibragimov, and the Chairman of the Management Committee of Gazprom, Alexey Miller, signed an Agreement of Strategic Cooperation between the two companies. It was noted that the document provides for joint efforts in implementation of new Uzbekistan-based projects in such fields as gas infrastructure renovation, hydrocarbon exploration, production, processing and storage, and development of the General Scheme for Gas Supply to Uzbekistan.
- The European Bank for Reconstruction and Development (EBRD) reported about its plans to finance the 50 MW Burnoye Solar-2 project in Kazakhstan in partnership with the multilateral Clean Technology Fund (CTF). The EBRD will provide \$44.5 million loan with a tenor of up to 15 years, while the CTF will participate with a \$10 million loan for up to 20 years. The rest \$80 million expected to be invested by the owners of the future solar park.
- According to the Program of measures for further development of hydropower sector for 2017-2021, approved by the President of Uzbekistan, Shavkat Mirziyoyev, the country plans to direct \$2.65 billion

for the development of hydropower industry. Implementation of the Program will allow Uzbekistan to increase the capacity of hydroelectric power stations by 1.7 times to 3,038 MW by 2026. As a result, the share of hydropower in the structure of generating capacities will increase from 12.7% to 15.8%.

- According to the Governor of the National Bank of Kazakhstan, Daniyar Akishev, the bank reduce its base rate to 10.5% with a corridor of +/-1% from 11%, citing a recovery in the national currency and lower inflation. It was noted that the bank plans to keep its base policy rate 4% points above the inflation rate.
- The Economy Minister of Azerbaijan, Shahin Mustafayev, reported that the European Union (EU) investments in the country's fixed capital amounted to around \$20 billion or 46% of the total volume of investments since the beginning of the bilateral relationship. Moreover, the EU countries invested \$3 billion in the non-oil sector of Azerbaijan's economy, which accounts for 35% of total investment volume in this sector. Currently, more than 1,300 European companies operate in Azerbaijan.

Society and Culture

- The President of Turkmenistan, Gurbanguly Berdimukhammedov, has ordered the Government to abolish utilities benefits that have provided households with free electricity, gas, and water. The Cabinet was ordered to prepare proposals on eliminating the system of benefits in order to leave such benefits only for those who really need social assistance.
- The EXPO-2017 International Specialized Exhibition dedicated to Future Energy opened in Astana on June 10, 2017. According to the President of Kazakhstan, Nursultan Nazarbayev, Kazakhstan is the first country among the CIS and Eastern Europe to hold an EXPO exhibition with participation of 115 states and 22 international organizations and over 6,000 different events will be held as part of the Expo-2017.
- The Parliament of Turkmenistan approved and adopted an updated version of the Law on Refugees. It was noted that Turkmenistan, a permanent member of the Executive Committee of the Program of the UN High Commissioner for Refugees, is making a significant contribution to the efforts of the world community by taking effective steps to assist refugees and protect their rights.
- The CEO of the Khrunichev Space Center of Russia, Andrei Kalinovskiy, announced that the country plans five Proton-M carrier rocket launches this year, including three commercial launches. It was also noted that the Center has eight existing contracts for 15 launches through 2023.