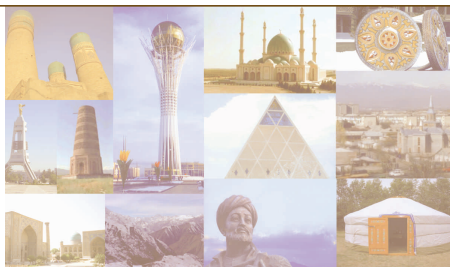


# CENTRAL ASIA OBSERVATORY

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The Central Asia Observatory (CAO) was established in 2007 by three institutions that are interested in the area: Casa Asia, CIDOB Foundation and Royal Institute Elcano



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## Highlights

China has become a major player in the Turkmen natural gas market. Meanwhile the European Union has tried to achieve consensus among 27 countries regarding the financing of the Nabucco project, and overcome obstacles such as excessively high transit fees, which have been requested by Turkey. Granting a loan of \$4bn with favourable terms, China won the competition for access to Turkmenistan's energy resources.

On 14 December, the presidents of China, Turkmenistan, Uzbekistan and Kazakhstan took part in the ceremony marking the launch of the Turkmen-Chinese gas pipeline. China will initially receive 13bn cubic meters of natural gas, ultimately reaching a level of 30–40bn cubic meters by 2012. Natural gas has hitherto been supplied by pipelines only to Russia and Iran. However, in the past year, President Gurbanguly Berdimuhamedov has taken various steps to decrease dependence on Russia. The results are the start of construction of the Turkmen-Chinese pipeline and a contract signed with the German oil and gas giant RWE Dea AG. RWE said that the first step of its work would be to carry out an environmental analysis.

Many gas fields remain unopened, which means that the possibility of additional gas exports to Afghanistan and other countries also remains open.

## Domestic and international affairs

### *Energy issues*

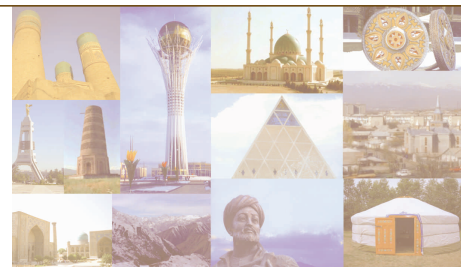
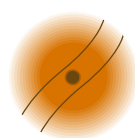
On New Year's Eve, Turkmenistan signed contracts with the winners of an international tender conducted by the Turkmengas State Corporation. Gulf Oil & Gas Fze (UAE) will design and

construct underground facilities, including wells situated in the area of the South Yoloten natural gas deposit. This company will ensure annual production of 20bn cubic meters of natural gas. CNPC Chuangning Drilling Engineering Company Ltd. of China will carry out the same kind of work, providing an annual natural gas production of 10bn cubic meters. Petrofac International (UAE) and a South Korean consortium of companies, LG International Corp, and Hyundai Engineering Co. Ltd. will design and build facilities for the desulphurization of natural gas.

Gas-rich Turkmenistan remains attractive for foreign investors. In November, the heads of major oil and gas companies and government officials from the energy sector arrived in Ashgabat to participate in the annual Turkmenistan International Exhibition "Oil and Gas of Turkmenistan - 2009". This year 400 participants from 160 oil and gas companies from twenty-eight countries took part in the forum. U.S. Assistant Deputy Secretary of State for South and Central Asia, Ambassador George Kroll, and Senior Advisor to the Special Ambassador of State for Eurasian Energy Issues, Daniel Stein, took part in the exhibition. President Berdimuhamedov held a meeting with the Ambassador.

Representatives of the major U.S. company Chevron held talks with the Turkmen government about possible participation in the development of the South Yoloten natural gas deposit. The head of Chevron's Turkmen branch, Nebitgaz, said that the company has great plans for developing hydrocarbon deposits in Turkmenistan. He noted that Chevron plans to invest in social areas such as health and education, as well as in the development of small and medium businesses.

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## *Turkmenistan-Iran*

In December, Turkmenistan opened the terminal for storage and shipment of liquefied gas, the first of its kind on Turkmenistan's Caspian coast. The terminal was built by the Iranian company Pars Enerji. Iran has established closer ties with Turkmenistan and in 2010 plans to import more Turkmen natural gas through the new pipeline.

## *Relations with the EU*

In an effort to maintain close ties with the European Union, President Berdimuhamedov met with Javier Solana, High Representative for the Common Foreign and Security Policy, Secretary-General of the Council of the European Union. The major topics of their discussions were energy, trade, economic cooperation, education, culture, and combating drug trafficking, organized crime and terrorism.

## *Seminars and forums*

Turkmenistan took part in a regional ministerial conference on control of illegal drug traffic.

Representatives of Austria, Belgium, Germany, France, USA, Turkey, China, Japan, Russia and Kazakhstan participated in the forum devoted to the energy industry of Turkmenistan.

Turkmenistan, in cooperation with the UN and the OSCE, conducted a three-day seminar on human trafficking for judges and lawyers. Representatives of Azerbaijan, Russia, Thailand, Turkey and United Arab Emirates attended the seminar. A three-day meeting focusing on information technology and educational reform was held in Turkmenbashi on Turkmenistan's Caspian Sea coast, attended by representatives of UNESCO and other international organizations.

An international conference on disarmament in Central Asia and the Caspian Region will be held in the first half of 2010 in Ashgabat. This event will be undertaken under the initiative that President of

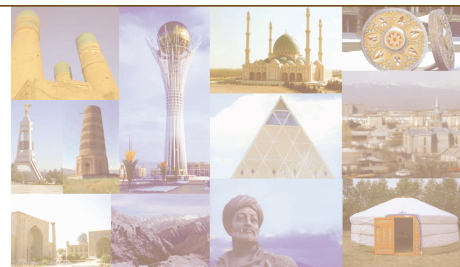
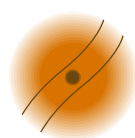
Turkmenistan Berdimuhamedov announced at the 64th session of the UN General Assembly.

## *Caspian region issues*

In November, the ad hoc Working Group to Design a Convention on the Legal Status of the Caspian Sea held its twenty-sixth meeting in Ashgabat. However, no progress was achieved on resolution of major issues. The main issues discussed at the meeting were maritime safety, protection of ecology and marine biological resources, along with transport infrastructure. Iran opposes the strict national division of the seabed and prefers an approach of joint ownership and management of Caspian Sea resources. Central Asian countries prefer a clear separation of the territory for drilling and production. Regional and international organizations appreciate the efforts of Turkmenistan, which presently acts as a moderator in the preventive diplomacy process and discusses step-by-step the final version of the treaty.

## *Relations with Russia*

Turkmenistan and Russia have agreed to resume supply of Turkmen natural gas to Russia in 2010, amounting to 30bn cubic meters per year. For the first time in the history of Russian-Turkmen energy relations, gas supplies will be determined on the basis of the price formula that fully corresponds to the conditions of the European gas market. Relations between Turkmenistan and Russia have remained stable. Even with reduced gas exports to Russia, in 2009 trade turnover with Russia exceeded \$5bn, and Russia remains one of Turkmenistan's main trade partners. Turkmenistan purchases agricultural machinery from Russia, along with KAMAZ automobiles, equipment for urban construction, large sea vessels and computer technology. Turkmenistan has established direct contacts with some regions of Russia, in particular, with Tatarstan and the Russian cities of Astrakhan and St. Petersburg. The presidents of Turkmenistan and Russia opened the new building for the A. Pushkin Turkmen-Russian School with capacity for 800 pupils.



President Berdimuhamedov and Russian President Dmitrii Medvedev signed several documents in Ashgabat on the main areas of bilateral cooperation in the economic field. These include the Agreement between Turkmenistan and Russia on the Expansion of Strategic Cooperation in the Energy and Engineering Sectors.

Given the decline of natural gas supply to Russia, direct energy supplies to Ukraine are prospective. This week, a deputy of the Ukrainian parliament said that Ukraine's entry into an Energy Community Treaty gives Ukraine the opportunity to buy gas from Turkmenistan bypassing Russia.

### *Visit to Japan*

In December, President Berdimuhamedov visited Japan to discuss major issues related to energy cooperation. Turkmenistan and Japan signed twenty international documents guaranteeing legal bilateral cooperation. In the first ten months of 2009, exports of Turkmen products to Japan increased 20% in comparison with the same period in 2008. Three enterprises with Japanese capital were registered in Turkmenistan by December 2009. Twenty-three investment projects were signed, some of which have already been implemented.

## **Economy and business enterprise**

### *Economic issues*

In the first week of December, President Berdimuhamedov held a meeting of the Cabinet of Ministers, which examined the results of economic development during the first eleven months of 2009. During this period the state budget had been executed 105.1% and expenditures at 93.9%. 67.2 percent of the budget has been earmarked to fund the social sphere.

Parliament has approved the State budget for 2010 for the amount of \$16.9bn. As before, the government will cover the costs of providing the

population with natural gas, water, salt, electricity, gasoline and diesel.

In December, President Berdimuhamedov attended a business forum in Italy to meet with prime minister Silvio Berlusconi and the leaders of Italian companies. This is a sign of Turkmenistan's continued willingness to cooperate with Europe. During the meeting, the Italian company Eni signed an agreement to test the use of Turkmen natural gas, in particular, the manufacture of gas-based fertilizers and gas-generated electricity industry, as well as the possibility of supplying gas to the West directly from Turkmenistan.

President Berdimuhamedov met with representatives of the Islamic Development Bank. In February 2010, the United Arab Emirates will host an exhibition of products made in Turkmenistan.

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