



# CENTRAL ASIA OBSERVATORY

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## Highlights

The gas sector in Turkmenistan has been a source of concern for several months, the problem springing from an explosion in the gas pipeline to Russia on 9 April. The two countries have hitherto failed to agree on the damages that should be paid and have yet to negotiate the gas procurement price. Investment represents another major issue in terms of the country's economy. Foreign investment in the Turkmen gas sector has almost doubled this year to \$ 4bn from \$ 2.2bn last year. The Turkmen authorities have provided guaranties to back a \$ 4bn loan from China for developing a natural gas field in South Iolotan. China is already a major investor in infrastructure development of natural gas fields in Turkmenistan.

## Foreign Affairs

### *Relations with Russia*

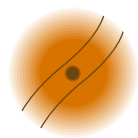
Russia's Gazprom has played a significant role in terms of exporting Turkmen energy resources. Gazprom chairman Aleksey Miller expressed his intention to improve relations between the two countries, damaged by the gas pipeline explosion of 9 April. Gazprom will doubtless have to review the price it will pay for Turkmen gas, taking into consideration its initial payment obligations in accordance with market prices and dwindling demand in Europe. Gazprom has dug its heels in because Europe is not buying gas at European prices. Turkmenistan is not ready to take Moscow's side in the controversy and may defer from using the Russian export system and switch to using the routes supported by the West. That's why Turkmenistan is prepared to take a firm position in negotiations with its main trade partner, Russia's Gazprom monopoly, ultimately leading to a diversification of the export

route for energy resources.

Furthermore, during the Cabinet Council session, the president entrusted oil-and-gas sector experts with the task of developing a specific plan to diversify infrastructure for carrying natural gas to international markets, including the modernization of the Caspian Sea port. In the oil side, Turkmenistan has increased its tankers fleet purchasing two new seagoing ships for transporting oil. As well, the Astrakhan ship-building yard is completing construction of the Caspiy drilling platform to boost the development of the economy and provide employment for workers in Russia.

Other events related with Russian oil and gas companies went on for the two last months: one of the managers of the Ijorsk pipe factory, a leading Russian manufacturer of gas conduits, said the company could supply Turkmenistan directly; Ashgabat is also negotiating the development of Caspian Sea offshore deposits with Russia's Itera consortium, and Turkmen gas signed a \$176.5m contract with the Russia-based company MRK-Engineering, an Itera subsidiary, with a view to projecting and constructing this gas pipeline. All together means that Turkmenistan, as always, supports close relationship with different Russian companies, however is diversifying energy tunnels and infrastructure not necessarily for avoiding Russia altogether, but simply for sidestepping Gazprom. An evidence of those exceptional relationships with Russia is that in September Russian president Dmitry Medvedev will visit Ashgabat, providing the two leaders with an opportunity to strengthen relations between their countries and discuss international policy issues and common interests. They will also be able to observe the events of the 2009 edition of the off road Silk Way Rally.

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### *Turkmenistan - other near-regional relations*

Relationship with its two regional neighbours is mainly focused on energy trade and contracts. On the Iranian side, the continued progress on the construction -by an Iranian partner- of the Kazakhstan-Turkmenistan-Iran railway on Turkmen territory. This seems to be a controversial issue, because an Iranian gas company noted that the construction of the Tran Caspian pipeline would cost three times more than the construction of inland pipes, adding that Iran could in fact serve as a shortcut to the West. Indeed, the experts believe that Iran would provide a logical and direct route for delivering Turkmen gas to Europe if nuclear energy and Middle Eastern politics were not an issue, as far as Western countries were concerned. On the Turkish side, at the beginning of June, President Berdimuhamedov met the energy minister of Turkey, Turkmenistan's second-biggest trade partner after Russia. Furthermore, Turkmenistan signed contracts with the Turkish company Polimeks amounting to \$1bn.

At the Turkmenbashi complex, construction of the first liquefied natural gas terminal on the Caspian Sea is underway. Turkmenistan is already supplying liquefied natural gas by rail to Afghanistan, Iran, Pakistan, Armenia and Georgia.

### *European interests*

Those months the cores of the Turkmenistan-Europe relations are the southern corridor route towards Europe and the Nabucco project. In May, Turkmenistan sent a delegation to the EU Eastern Partnership summit in Prague, to which Turkmenistan was invited as an observer in discussions of the southern corridor route. Turkmenistan concluded an energy transaction with the German gas giant RWE, a shareholder in the Nabucco project. This transaction is all-important in terms of Western plans for building a gas pipeline. In the opinion of the European Commission, the presence at the meeting of authorities from

Turkmenistan, Kazakhstan and Uzbekistan was of great symbolic importance. This opinion is quite similar to the one of the Iranian neighbours. In the first week of July, a senior manager at Iran's national oil-and-gas company positively appraised opportunities for importing Turkmen gas to Europe, representing a cut in expenditure and an indirect solution to Russian hegemony.

Turkmenistan also held a Turkmen-German business-forum with the high-level participation of German companies. Gas giants such as RWE, Siemens, Goetzpartners and others are actively contributing to modernizing technology in different areas of Turkmen industry, essentially energy.

### *Other players*

Last, but not least the agreements with other players are determined by business matters. President Berdimuhamedov met with a delegation of business representatives from Saudi Arabia and met with the heads of the European companies EWC and Schneider Electric. These are the first international enterprises to conclude agreements with Turkmenistan on the division of production. Other relevant facts are that, Malaysia's Petronas reported that his company is ready to deliver 5bn cubic metres of natural gas from Turkmen offshore Caspiy, bringing the volume to 10bn cubic meter. And the conference hosted by Ashgabat. This conference on gas pipeline control had the financial support from America. At the opening conference, the U.S. Chargé d'Affaires to Turkmenistan Richard Miles declared that American companies are ready to cooperate with Turkmenistan and that they are willing to participate in the construction of pipelines from Turkmenistan to Europe, Pakistan and India. Ashgabat is also negotiating with WR and Chevron with a view to diversifying the sale of energy resources



## Internal affairs

### *Energy sector*

This week, the Turkmen authorities announced that over 70 international companies have applied to participate in tenders for the construction of the East-West gas pipeline, with a total cost of \$1.5 bn. The gas pipeline will put the rich South Iolotan gas field at the disposal of foreign markets. The huge South Iolotan field contains more gas than was initially assumed, following the discovery of the new Minara gas field, where the volume of the gas had not yet been detected. According to the grading scale of an independent audit, South Iolotan contains 4 - 14 trillion cubic metres of natural gas. The gas pipeline will join all the Turkmen fields in one net. Two or three sections may be separated and attached to the pipeline on the border with Iran, Kazakhstan or Azerbaijan, or pass through Turkey to the West.

### *Economic trends*

The International Monetary Fund (IMF) appraised Turkmenistan in very positive terms for its ability to protect its economy from the worldwide economic crisis and suggested that GDP growth this year should amount to 7%. According to IMF predictions, the level of inflation should drop to 10% in 2009 and to 8% in 2010. According to preliminary calculations for 2009, the volume of exports should amount to \$11.8bn.

The construction of the new internal pipeline will pave the way for the creation of a new labour market in the energy sector in these times of financial crisis, representing a highly positive development in terms of Turkmenistan's economy.

### *Tourism*

On 15 June, the Avaza tourist zone was opened. During the opening, President Berdimuhamedov met with three Russian magnates: the head of the Itera group, the president of System -a financial

corporation- and a Gazprom government representative.

OSCE representatives held several meetings with counterparts in the new Avaza tourist zone. A delegation from the Islamic Development Bank entered negotiations with various Turkmen ministries with a view to broadening cooperation between Turkmenistan and the Muslim world, also expressing an interest in investing in projects in the new tourist zone.

### *Investments*

Projects are being implemented with the assistance of foreign investment. These projects are essentially geared to providing Turkmen nationals with employment and enriching the country's economy. Lenovo, a Chinese company and one of the world's leading computer equipment producers, gave Turkmenistan 8,000 computers for the country's schools.

### *Education*

The OSCE continues to contribute to the educational system of Turkmenistan, organizing different seminars inside and outside the country. In 2009, the Institute of Higher Education will have accepted 4,275 students. In addition, 2,700 people are studying abroad.

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