

Analysis

Russia and Turkmenistan

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Abstract

The relationship between Russia and Turkmenistan revolves around natural gas. The death of President Saparmurat Niyazov in January has led to a “thaw” inside the country forcing Russia to react to retain its influence, if not its monopoly on Turkmen gas exports. Now Turkmenistan is demanding a higher price for its gas, particularly given the profits Russia makes from sales to Ukraine and the West. President Gurbanguly Berdymukhamedov is pursuing separate pipeline projects that could link his country directly to China and to Europe without Russian participation. Whether Turkmenistan has the capacity to supply everyone who wants to buy its gas remains a mystery. How Turkmenistan develops its gas relations with potential new customers will determine its place in the Shanghai Cooperation Organization and the region’s larger political economy.

Relations Based on Gas

Russian-Turkmen relations have always been stable. Russia was sympathetic to former President Saparmurat Niyazov’s domestic policies, did not condemn him for the creation of a despotic regime, or intervene on the basis of protecting human rights. Russia “did not notice” the presence in Turkmenistan of opposition-dissidents, many of whom, after fleeing the tyranny, settled in Moscow and tried to draw the attention of the Russian authorities to the situation in their homeland.

The Kremlin also avoided asking delicate questions about the situation in Turkmenistan of the Russian and Russian-speaking population, which was increasingly deprived of its rights, opportunities to preserve culture and, ultimately, the ability to leave the country.

After Niyazov’s death in January 2007, the future of Russian-Turkmen relations became a topic of discussion not only in Moscow and Central Asia, but everywhere there was interest in the fate of Turkmenistan’s natural gas. This gas – its reserves, production, and transportation – were and remain at the center of Russian-Turkmen relations.

How will these relations develop and what can we expect in the future?

Ashgabad Driving Change

Most importantly, the impulse for change is coming from Ashgabad rather than Moscow. The Kremlin would benefit most from retaining the status quo. Russian politicians and businessmen had adapted to the now deceased Niyazov, usually called Turkmenbashi, meaning “father of the Turkmen people,” and had learned how to work with this extravagant eastern despot. He was predictable!

The new president of Turkmenistan Gurbanguly Berdymukhamedov is introducing a degree of liberal-

ization in the country. In Moscow, his policy is dubbed the “Turkmen thaw,” referencing Nikita Khrushchev’s rule after the death of Stalin. He has granted greater access to the Internet, restored ten years of education for young people, promised to open branches of several Russian universities in his country, and restored pensions. Turkmenbashi had reduced education by one year and cancelled pensions, saying that adult children should take care of their parents. Next year allocations will be increased for healthcare and education. The new president released from prison 11 political prisoners accused of participating in an attempted coup on November 25, 2002. Additionally, he has slowly reduced the influence of Niyazov’s personality cult: taking down some statues and removing his small on-screen profile from all television broadcasts.

In foreign policy, the new leader has begun to move away from the notorious “Turkmen neutrality,” which meant the complete isolation of the country from the external world. He has made the country more open, intensively met with foreign politicians at home and abroad.

Berdymukhamedov’s second international visit, in April 2007, was to Moscow. The first he made to Saudi Arabia as a devout Muslim, which above all confirmed the Islamic identity of his country. In the early visit to Moscow, many saw a symbolic preservation of the previous relations, continuing the course which both Russia and Turkmenistan had supported. Naturally, the main topic of conversation was the fate of Turkmen gas.

Turkmenistan Demanding More for Its Gas

In 2005 Turkmenistan had signed a contract with Gazprom, according to which this Russian company remained the exclusive importer (and re-exporter to

Ukraine) of gas until 2028. Additionally in 2003, Putin and Niyazov reached an agreement, according to which in the course of 2006–2010 Russia would receive from Turkmenistan 50 billion cubic meters of gas each year, essentially all of the Turkmen gas exports. According to these plans, deliveries will grow from 42–45 billion cubic feet to 80–90 billion cubic feet. Within the framework of this agreement, the price for Turkmen gas rose from \$44 to \$100 per thousand cubic meters. Whereas earlier Russia paid half of the price through barter deliveries, now it pays the entire price in cash.

Of course, with such long term contracts, the price cannot be fixed and it is likely to grow in the future. It is only a matter of time before the price rises, particularly since Turkmenistan is unhappy that Gazprom sells Turkmen gas to Russia for \$100 per thousand cubic meters, while Russian gas goes for close to \$300 in Europe. Turkmenistan is not the first country to point out the great disparity in prices. Kazakhstan, Russia's main partner in Asia set this precedent and did not rule out the possibility of raising the price for its gas from \$100 to \$160.

In the summer of 2007, Russia laid its trump card on the table – the expansion of the Caspian gas transportation system with the renovation of existing and the building of a new pipelines running along the Caspian shore, for which an agreement should be signed this year. If Moscow's goals are realized, Kazakhstan should join Russia and Turkmenistan in constructing and using the pipeline. The Russians hope that Kazakhstan's participation will reduce that country's interest in the Trans-Caspian Gas Pipeline, which is centered on the construction of a gas pipeline across the Caspian Sea bed, and Nabucco projects (see more on this below).

Within the framework of the Caspian gas pipeline project, Russia monopolizes the purchase and import of Turkmen gas. However, the project will only work with the good will of Kazakhstan, which initially expressed sincere enthusiasm, but since then has voiced some reservations. Kazakhstan, which is gradually becoming the main investor in Central Asia, has long since positioned itself as an independent political and economic force, emphasizing that it is not a satellite of Russia. In September 2007, Kazakhstan confirmed its participation in the project and even requested that Turkmenistan speed up the preparation of the related documents (the head of the Turkmen gas state company said there would be no delays on his side). However, Astana stresses that it agreed to this project exclusively on the basis of its own national interests and not according to "requests from Russia."

After numerous negotiations about Russian-Turkmen gas cooperation, including those with the participation of Putin, former Prime Minister Mikhail Frad-

kov, Foreign Minister Sergei Lavrov, Gazprom head Aleksei Miller, and others, it became clear that despite the smile of the new Turkmen leader and his assurances of friendship, Ashgabad and its Central Asia neighbors would conduct a multi-vectored foreign economic policy. For Russia, this would mean the loss of the monopoly right to import Turkmen gas.

Numerous Export Routes

Before his death, Turkmenbashi had begun to think about the diversification of gas exports. He gave first priority to the "Chinese project." In the spring of 2006, during his visit to Beijing, Turkmenbashi promised to deliver to China 30 billion cubic meters of gas and even named 2009 as the year when deliveries would start. He supported his promise with the offer to build a gas pipeline which would travel through Uzbekistan and Kazakhstan. Looking at the map reveals the impressive size of the project: its overall length is 7,000 km, including 188 km of pipeline in Turkmenistan, 530 km in Uzbekistan, 1,300 km in Kazakhstan, and 4,300 km through China.

During the 1990s, Turkmenistan had considered the "senseless idea" of constructing a gas pipeline from Turkmenistan through Afghanistan to Pakistan and possibly farther to India. The price of the pipeline varied from \$1.5 to \$4 billion. The company UNOCAL was prepared to cover most of the costs. At that time in Ashgabad, emissaries from the Taliban worked to assure Turkmenbashi that they could guarantee the full security of the gas pipeline. The project for obvious reasons upset Russia and has since collapsed.

There are also difficulties with the "Chinese Project": it requires huge investments, security guarantees, and assurances that there is enough Turkmen gas for its full implementation. Nevertheless, the experience of recent years demonstrates the possibility of realizing the boldest projects. And the current Turkmen leadership has no plans to back away from this project. Moreover, Berdymukhamedov confirmed the words of his predecessor in full. The quick pace of the deadline Turkmenbashi set is hardly realistic, but efforts are already being made in this direction.

The Role of China

Thus, China has become a powerful competitor for Russia and one that will be very difficult to counter. In 2008, Gazprom will have to participate in a tender, otherwise its future purchases will be placed in doubt. The paradox is that China, being an economic competitor to Russia, remains its political ally. Regarding Turkmen gas, for Russia the worst case scenario would be that Beijing does not make any concessions to Moscow and its partnership with Russia turns out to be merely tacti-

cal. Concerning China's specific national interests, one should not expect concessions.

The developments within Turkmen politics also have important implications vis-à-vis China. In the course of securing power after Turkmenbashi's death, Berdymukhamedov succeeded in removing one of the most powerful Turkmen political figures, the head of the National Security Service Akmurad Redzhepov. It was Redzhepov who secured the peaceful transition of power. According to some accounts, he was the chief advocate of the Chinese project. Presumably his role in developing Chinese ties was one of the reasons for his removal: the new president wanted to personally control relations with China.

The possibility of Turkmen gas exports to China gives Russia mixed feelings about Turkmenistan's proposed membership in the Shanghai Cooperation Organization (SCO). All members have expressed support for its membership, including both Moscow and Beijing. However, the Kremlin recognizes that membership in the SCO would ease Turkmen-Chinese, as well as all Central Asian-Chinese, relations in the energy sphere. In other words, it would create the conditions for yet another gas pipeline that does not pass through Russia.

A Caspian Pipeline Avoiding Russia

Another alternative for bypassing Russia is the Trans-Caspian Project, which proposes:

- The construction of a gas pipeline on the bed of the Caspian Sea with a 30 billion cubic foot annual capacity
- The connection of this pipeline to the Baku-Tbilisi-Erzurum pipeline
- And from there, on to Austria through the Nabucco project, which will have 31 billion cubic feet annual capacity and will start construction in 2010.

This project has the active support of the United States.

Ashgabad has mixed feelings about the Trans-Caspian project. On one hand, it has not given its final approval. On the other, the Turkmen leadership has not hidden its interest in the project. For example, during his visit to the US, Turkmenistan Minister of Foreign Affairs M. Berdiev noted that the government of his country was not against exporting gas to Azerbaijan. Washington succeeded in initiating negotiations on this topic between Ashgabad and Baku, a significant accomplishment given the Turkmen-Azerbaijan argument about the ownership of hydrocarbon deposits in the Caspian. (There is also a pipeline in Iran, but since its capacity is 5–8 billion cubic meters a year, it "is not big enough to matter," as the Russian experts say.)

In contrast to the Baku-Tbilisi-Ceyhan pipeline, which has mainly political significance, the proposed

Trans-Caspian gas pipeline is important from an economic point of view. It has particular significance to the Europeans, whose demand for gas is quickly rising and who are seeking a diversity of energy sources. The International Energy Agency's current baseline scenario shows that European Union demand by 2050 will be 650 billion cubic meters a year. And, even if there is a decrease in demand for gas, usage will not fall below 500 billion cubic meters a year.

The "political thaw" in Ashgabad has helped improve ties with Washington. The US has practically stopped criticizing the Turkmen leadership for violating human rights and crushing basic freedoms. This situation to some extent undermines Russia's position, which always closed its eyes to the totalitarian character of the former Turkmen regime, stressing its right to build to build a state and establish social relations on the base of its identity. Now both the US and Europe recognize the right of Turkmenistan to its identity.

Questions of Capacity

The diversification of gas pipelines and the intention of Turkmenistan to satisfy the appetite of all interested sides raise questions about the size of its gas reserves and, correspondingly, their export potential. There are no reliable statistics on this account. According to most estimates, after Russia and Iran, Turkmenistan occupies third place in global gas reserves, with 23 trillion cubic meters, though some sources rank it fifth. However, in practice, these figures fluctuate up and down. Characteristically, Ashgabad does not publish official data about the recently discovered deposit in Iolotani, describing them as "enormous," while other analysts consider them "middling."

Turkmenistan currently produces more than 70 billion cubic meters of gas a year. Ashgabad promises soon to produce 120 billion cubic meters while independent experts anticipate that production will more likely be in the range 70–105 billion cubic meters.

To meet the needs of all potential customers from 2009, it is necessary to produce 150 billion cubic meters a year. Not one serious specialist thinks that such rapid output growth is possible. Accordingly, everyone understands that it will be necessary to sacrifice something. The Russians are convinced that they are safe. The Chinese think the same thing. The Europeans are also optimistic. One way or another, the competition of foreign powers around Turkmenistan will grow and Russia will have to do more to preserve its current influence.

Turkmenistan Seeks Its Place

Interestingly, Ashgabad did not support the Iranian proposal, energetically lobbied by Russia, to create a

“Gas OPEC,” which would help gas producers control the price of gas. Turkmenistan simply ignored this proposal without discussing its merits, preferring to define its relations with its consumers independently on the basis of their own considerations.

It is possible that the battle between Turkmenbashi’s successors remains unfinished. In this situation, Russia will not succeed as before in remaining on the sidelines, giving the view that whoever climbs to the Ashgabad’s political Olympus will fully support a pro-Russian line. Most likely, the competing Turkmen leadership factions will appeal to the US, China, Turkey, and possibly others.

Ultimately, relations between Russia and Turkmenistan will depend on how their ties develop in the en-

ergy sphere. While these relations are formally friendly, they are always embedded in Turkmenistan’s multi-vector strategy. Russia must not only take this situation into account, but constantly adjust to Turkmen initiatives. In other words, while recognizing that it will not be able to preserve its monopoly on importing Turkmen gas, it will try to preserve its leading position in this sphere.

As Russian First Deputy Minister of Foreign Affairs Andrei Denisov put it, “Russia is not against healthy economic competition in energy.” Only in this way will Moscow succeed in preserving its political influence in Turkmenistan.

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Maps

Russia’s Oil and Gas Pipelines

Russia: Main Oil Export Pipelines

