
13. Turkmenistan's quest for economic security

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I. Introduction

Today Turkmenistan is one of the largest gas-producing countries in the Caspian Sea region. However, at present it cannot fully use its vast potential. The major problems it faces are a lack of alternative gas export routes—it is still very dependent on the existing Central Asia–Centre pipeline, which runs from Ashkhabad to Aleksandrov-Gay; the need for foreign investment and technologies to fully develop the energy industry; and competition among gas-producing countries in the region.

The energy sector is central to Turkmenistan's economic security. However, the availability of vast resources does not by itself guarantee political or economic security. These resources, being strategic by their nature, have attracted the attention of large countries which already control or are trying to maintain control over energy markets. A paradoxical situation exists in another sense as well: hydrocarbon resources can both ensure economic security and destabilize the economy at the same time. Algeria, Gabon and Nigeria, for example, have considerable hydrocarbon resources but have failed to use them in a such way as to benefit their economies because economic programmes, the development of infrastructure and the distribution of revenue also play a significant role in overall economic success.

The current situation regarding the energy resources of the Caspian Sea region is volatile and almost impossible to predict, but the issue of gas exports has become crucial for its future as well as for the future of Turkmenistan, as gas is Turkmenistan's major export commodity.

II. The role of energy resources in the political and economic security of Turkmenistan

The present state of the fuel and energy sector¹

The energy sector is the core of the Turkmen economy. It generates 80 per cent of all foreign currency revenues and accounts for 50 per cent of budget revenues. The share of the oil and gas industry in gross domestic product (GDP) hovers around 30–50 per cent. The degree of export specialization of the energy

¹ All data presented in this section are calculated by the author from official data published by the Statistical Office, Ashkhabad, in *Social–Economic Situation in Turkmenistan 1998–99* and *Jan.–Oct. 2000* (2000); *Foreign Economic Activity of Turkmenistan 1994–97* and *1997–99* (2000); and *Turkmenistan's Industry in 1999* (2000) (in English).

industry is very high. Up to 92 per cent of total gas production and approximately 65–70 per cent of the oil produced are currently exported.²

Turkmenistan supplies all its needs for oil and gas products. Its economic policy is focused on minimizing dependence on exports of gas and the import of food products. For example, in 1999 grain imports fell by volume to 0.15 per cent of what they had been in 1990, while domestic grain production increased from 450 000 to 1 510 000 tons. At present Turkmenistan meets its own needs for grain for food and animal feed. There was also a significant increase in the role of oil production and oil-processing industries in the national economy during the 1990s. Oil production in 1999 was twice that of 1990, which, along with increased oil prices, boosted export revenues from oil production.³

Significant progress has been made in cotton processing. In recent years over 30 factories have been built and the proportion of locally-produced cotton that is processed has increased from 3 per cent in 1990 to 35 per cent in 1999.

It is difficult to overestimate the role of the energy sector in the economy of Turkmenistan. Despite numerous programmes targeting the development of other sectors, high priority is given to the oil and gas industry and the maximization of revenues from the export of hydrocarbons. The economy is organized in a such way as to allow the government to control all hard-currency transactions, especially revenues from gas exports. More than 50 per cent of foreign credits are allocated for the development of the gas industry while 60 per cent of total investments are directed to the energy sector.

Fluctuations in the balance of trade are directly correlated with the volume of gas exports. For example, a sharp decline in exports in 1997 along with a boom in construction radically affected the balance of trade. During the four years 1997–2000 the national balance of trade went into deficit, which caused a growth of external financing and difficulties in debt servicing, but a further crisis was prevented by an increase in gas exports. During the first nine months of 2000, the balance of trade was over \$400 million in surplus.

The export potential

Turkmenistan has strong export potential. According to the programme on Social–Economic Development of Turkmenistan to the year 2010,⁴ as of now more than 1000 prospective oil and gas fields have been discovered. Within the national boundaries of Turkmenistan in the Caspian Sea over 70 potential oil reservoirs have been located. Major deposits of hydrocarbon resources are concentrated in two regions—the south Caspian and the Amu Darya river.

There are 127 gas fields listed on government accounts as assets, 39 of which are being actively explored. Total gas reserves, including those in production,

² Turkmenistan Ministry of Economy and Finance and Turkmenistan National Institute of Statistics and Forecasting, 'National programme of President Saparmurat Turkmenbashi: Social–economic development to the year 2010', Ashkhabad, 1999, p. 204 (in English).

³ 'Gazprom: po materialam godovogo otchota' [Gazprom: from the annual report materials], *Neftegazovaya Vertikal* (Moscow), nos 7–8 (2000), pp. 63, 66.

⁴ 'National programme of President Saparmurat Turkmenbashi' (note 2).

prospective reserves and others, amount to around 23 trillion cubic metres. In oil equivalent, total hydrocarbon reserves amount to 35.5 billion tons.⁵

Strategic trends in the oil and gas industry of Turkmenistan

The Program of Development of the Oil and Gas Industry outlines a large-scale development of the energy sector up to the year 2010.⁶ Priority is given to increasing gas production: total production in the period 2001–2010 is planned to be 450.9 billion cubic metres (bcm). Plans are to produce 8 bcm of gas in 2005 and 120 bcm in 2010.

It is estimated that total production of oil and gas condensate over the 10 years 2001–2010 will reach 144 million tons. In 2005 annual production of oil is planned to reach 28 million tons, and in 2010, 48 million tons.⁷ Achievement of these targets will depend on the availability of material and financial resources and investments, and the latter will depend on the level of oil prices and investment policy in Turkmenistan.

Along with forecast increases in the production of oil, natural gas and gas condensate, it is planned to increase the output and improve the quality of oil refining in order to satisfy domestic demand in fuel and lubricants and increase exports. After completion of the first phase of retrofitting of the Turkmenbashi refinery, processing of oil will increase to 6 million tons per year. This will significantly increase output of all refined products, and then production of polymers will begin. After the second phase is complete by 2010 the refinery will be capable of processing 9 million tons of products annually.

To increase exports of liquid gas it is planned to construct additional storage and distribution facilities in the Turkmenbashi port and at the Serhetabat (Kushka) and Atamurat (Kerki) rail stations. It is also planned to build a gas processing facility with the capacity to produce 200 000 tons of polyethylene annually. The volume of oil processing (including gas condensate) is expected to reach 12 million tons in 2005 and 15 million tons in 2010. Priority tasks include the reconstruction of the existing pipeline system and the construction of additional pipelines for domestic distribution as well as for export.

The development of the gas distribution infrastructure will include providing an adequate gas supply to consumers and industrial users and new routes for the export of gas. In western Turkmenistan the development of the transport infrastructure implies the construction of pipelines for newly discovered gas fields in order to connect them subsequently to the Turkmenistan–Iran trunk route, thus creating a unified gas distribution network within the south-western region. There are already plans to construct an identical system to produce and transport liquid gas.

In the interests of its economic security, Turkmenistan is pursuing a programme of multi-directional pipeline routes for its exports of oil and gas. This

⁵ *Neftegazovaya Vertikal*, nos 7–8 (2000), p. 67.

⁶ 'National programme of President Saparmurat Turkmenbashi' (note 2), p. 209.

⁷ 'National programme of President Saparmurat Turkmenbashi' (note 2).

involves study of: (a) the trans-Caspian route (Turkmenistan–Azerbaijan–Turkey–Europe); (b) Turkmenistan–Iran–Turkey–Europe; (c) Turkmenistan–Afghanistan–Pakistan; and (d) Turkmenistan–China. The trans-Caspian route is discussed in section IV below, and other routes for the export of gas and oil in section V.⁸

III. The major competitors and partners of Turkmenistan

Russia has the largest gas deposits in the world. As Turkmenistan's current gas export routes pass through Russian territory, Russia intends to continue to control the transport of Turkmen gas. Russia is also the largest exporter of gas in the world. In 1999 the Russian utility Gazprom exported record amounts of gas (126.8 bcm) to European markets, Turkey and the Commonwealth of Independent States (CIS) countries.⁹ Under the Blue Stream programme (the Russian alternative to a trans-Caspian pipeline project) Russia intends to supply an additional 16 bcm of gas per year to Turkey.¹⁰ Russia is also actively discussing options to supply gas from eastern Siberia and Sakhalin to the Japanese and Chinese markets. All this means that Russia is currently a major competitor of Turkmenistan in the European, Chinese and Turkish markets.

Its control over access to the Central Asia–Centre pipeline gives Russia an advantage over other CIS countries. Moreover, recently Russia (Gazprom and its pipeline operator, Itera) has been actively seeking to further tighten its control over the gas distribution network that starts in Aleksandrov-Gay. In May 2000 Gazprom, Itera and the Government of Kazakhstan agreed to establish a joint company which would provide maintenance and supervision for this network.¹¹ A similar agreement was reached with Armenia in August 1997 and a similar deal with Georgia is expected to be reached soon.¹² In essence Russia, by gaining control over the gas distribution system, gains leverage over Turkmenistan. However, Russia is encountering major problems in providing substantial capital investments to the gas industry in order to maintain existing production levels. From that point of view Russia needs Turkmenistan as a partner.

Iran has the second-largest gas deposits in the world. At present it is unable to meet domestic demand and imports gas to supply its northern regions, which are densely populated and whose own gas production capacities are insignificant. It should not be overlooked that if Iran decides to develop its own gas

⁸ On the existing and planned pipeline routes see chapter 3, figure 3.1 in this volume.

⁹ Serjantov, S., 'Gazprom s Iteroy vernulis na gazovy rynok Sredney Azii' [Gazprom and Itera come back to the gas market of Central Asia], *Neft' i Kapital* (Moscow), no. 5 (2000), p. 28.

¹⁰ The Blue Stream pipeline, with a total length of 1263 km, would run over 370 km across Russia (from Izobil'noye to Dzhubga) then for 392 km via the Black Sea bed to Turkey (Samsun) and from there for another 501 km across Turkey to Ankara. Novopashin, A., 'Gaz—toplivo rossiyskikh reform' [Gas: the fuel of Russian reforms], *Nezavisimaya Gazeta*, 26 Oct. 2000. See chapter 3, figure 3.1 in this volume.

¹¹ Berezovsky, V., 'Ashkhabad brosaet perchatku Gazpromu i Baku' [Ashkhabad throws down the gauntlet to Gazprom and Baku], *Rossiyskaya Gazeta*, 21 Aug. 1999.

¹² Verezhemsky, S., 'Dobro pozhalovat' v kavkazskiy gazovym koridor' [Welcome to the Caucasus gas corridor], *Neft' i Kapital* (Moscow), no. 10 (1997), p. 52.

fields it could become a serious competitor to Russia and Turkmenistan. Iran also plans to expand on the European, Pakistani and Turkish energy markets, but hitherto US sanctions have restricted the development of its energy complex. In order to jump-start its gas industry Iran plans to commission the South Pars gas field. Until recently Iran has maintained a partnership relationship with Turkmenistan.

Kazakhstan and *Uzbekistan* lack substantial gas deposits and thus cannot present real competition to Turkmenistan, although they are better strategically positioned. In 2001–05 Gazprom intends to buy up to 5 bcm of Uzbek gas. Such amounts could have a significant impact on regional dynamics. Turkmenistan joined Uzbekistan in development of its Kokdulamak oilfield, which is on their common border. The Uzbek side operates the site and according to the existing agreement has to deliver to Turkmenistan around 574 000 tons of oil annually: the total amount to be delivered between 1995 and 2015 will be 6 million tons of oil and 16 bcm of gas condensate. Turkmenistan has thus developed a positive partnership with Uzbekistan. Kazakhstan is the largest transit country in the region and is also Turkmenistan's strategic partner. The two countries share many interests, such as the transport of oil through Iran to the Persian Gulf and across Afghanistan and Pakistan, and the transport of gas through Kazakhstan to China.

Azerbaijan until recently hardly qualified for the role of a competitor, but since the Shah Deniz field was discovered offshore south-east of Baku it has been actively seeking new positions on energy markets and trying to upgrade its status from that of just a transit country to that of a potential competitor. Initial drilling confirmed Shah Deniz's commercial viability and the existence of 700 bcm of gas.¹³ According to existing estimates the volume of exports from this field could reach 5 bcm annually. Even without having complete data on its potential, Azerbaijan began serious discussion on the possibilities of gas exports either through participation in the trans-Caspian pipeline project or by using the already available pipeline to Georgia (which would require renovation if it were to handle 10–15 bcm of gas per year). Natiq Aliyev, President of the State Oil Company of the Azerbaijan Republic (SOCAR), was quick to state that the results of tests on Shah Deniz would drastically change SOCAR's position on the trans-Caspian pipeline and that Azerbaijan was no longer willing to be just a transit country, but wanted a place in the Turkish market as well.¹⁴ The discovery of Shah Deniz is also important for any future deliveries of Azerbaijani gas to Turkey and the northern regions of Iran.

¹³ Serjantov, S., 'A u nas pod morem gaz' [And we have gas under the sea], *Neft' i Kapital* (Moscow), no. 5 (2000), p. 29.

¹⁴ Badykova, N., *Iran i Perspektivy Eksporta Gaza iz Kaspiyskogo Regiona* [Iran and the prospects of gas export from the Caspian Region], Occasional Papers (Slavic Research Center: Sapporo, 1998).

IV. The trans-Caspian gas pipeline

The idea of a trans-Caspian pipeline was born in 1997 at a time when Russia and Turkmenistan had differences of opinion on gas issues and Russia was using old-style 'Soviet' methods in an attempt to pressure Turkmenistan to accept inherently disadvantageous terms. This was also the time when it was realized that the Turkmenistan–Afghanistan–Pakistan pipeline project was not feasible and the Turkmenistan–Iran project was torpedoed by the USA. This was the right time for the USA to bring up the idea of a trans-Caspian pipeline, which was in complete accord with US policy goals in the region—weakening Russia and isolating Iran. In April 1998 an agreement was signed between Turkmenistan and the USA on a feasibility study for the proposed project. The US Trade and Development Agency granted funds to conduct the study and the US Eximbank agreed to provide credit to the amount of \$3 billion.¹⁵ The major obstacles to realization of the project were legal controversies between Turkmenistan and Azerbaijan over sovereign rights to the oilfields in the Caspian Sea and the unresolved legal status of the Caspian Sea.

The major and obvious opponents to the trans-Caspian pipeline were Iran and Russia. In August 1998 the Minister of Foreign Affairs of Iran, at a meeting with Turkmen President Saparmurat Niyazov in Ashkhabad, emphasized that until all issues regarding the legal status of the Caspian Sea were resolved the littoral countries should not consider building a pipeline across the seabed. Even if the sea is divided into national sectors, the use of the seabed must be regulated.¹⁶

Americans became actively involved in the settlement of the disputed issues between Azerbaijan and Turkmenistan, hoping to lead them to an agreement. In response to US efforts, Azerbaijan and Turkmenistan established a committee to determine the median line of the Caspian Sea so as to determine ownership of the disputed oilfields. Azerbaijan realized that Turkmenistan was in the process of seeking an alternative route to energy markets, and that this route could go through its territory. Azerbaijan assumed that since Turkmenistan was very interested in this project and had no choice it would eventually compromise. In March 1999 President Niyazov stated that the disputed fields in the Caspian Sea and the trans-Caspian pipeline were two separate issues and should be treated separately.¹⁷

At the Istanbul Summit Meeting in November 1999 of the Organization for Security and Co-operation in Europe (OSCE), numerous papers were signed concerning the development of the trans-Caspian pipeline. The key document was a multilateral agreement on the construction of the pipeline between Azerbaijan, Georgia, Turkey and Turkmenistan. This document was a follow-up to

¹⁵ Turkmenpress, official news column, 6 July 1998.

¹⁶ *Vestnik Ministerstva Inostrannykh Del Turkmenistana* (Bulletin of the Turkmenistan Ministry of Foreign Affairs), no. 3 (1999).

¹⁷ 'V Ashkhabade podpisani istoricheskiy dokument' [A historic document signed in Ashkhabad], *Neytral'nyy Turkmenistan* (Ashkhabad), 20 Feb. 1999.

one already signed on 29 October 1998 between Turkmenistan and Turkey on the export of Turkmen gas to Turkey. The two countries agreed on 30 bcm per year. Turkey would consume 16 bcm and the rest would be re-exported to European markets. President Niyazov also signed an agreement with the Minister of Energy of Turkey, which stipulated that two companies, Botas and XXI Asyr Turkmenin Altyn Asyry, would sell the Turkmen gas on the Turkish and European markets.¹⁸

In early 2000, at a conference between the four countries on the question of the trans-Caspian pipeline, Azerbaijan disagreed on its quota in the trans-Caspian project and demanded a 50 per cent share of the pipeline capacity.¹⁹ This meant that the project would not start at all. In March 2000 President Niyazov in an interview with the magazine *Caspian* said:

Our initiatives and actions stem from our national interest to strengthen the political and economic independence of our country. Having said that I have again to clarify our position on the issue of the trans-Caspian pipeline during the meeting with the Special Adviser to the US President and Secretary of State. Turkmenistan intends to act on the basis of its national interests and concerns about its economic security. In this context I had to say that offering a 50 per cent quota of the trans-Caspian pipeline with 30 bcm/year capacity to Azerbaijan is against the economic interests of Turkmenistan, and previously signed agreements make this impossible to agree. Azerbaijan's intentions to use half of the pipeline's capacity to transport its gas makes this project unprofitable for Turkmenistan. If the project is commercially non-viable, we reserve the right to choose alternative routes to transport gas.²⁰

In March 2000 the US firm PSG was refused renewal of its sponsor mandate of the trans-Caspian pipeline.²¹ This coincided with the period when Russia and Turkmenistan were actively discussing a long-term gas export contract. On 23 March 2000 President Niyazov met representatives of Shell International and the parties discussed the prospects of the trans-Caspian project, of which Shell was a sponsor. Niyazov raised concerns about the unsatisfactory progress of the project, mentioned that this was not Turkmenistan's fault, asked to continue to work in this direction, and emphasized that Turkmenistan intended to increase exports to Iran and Russia.²²

The situation of the trans-Caspian pipeline can best be described as hopeless for the foreseeable future. Sporadic articles appear in the media on developments concerning the pipeline but it is doubtful that the problem can be resolved at all. The Russian side will try not to lose its edge over the USA; Iran is involved and is determined to increase the capacity of its own existing pipe-

¹⁸ *Neytral'ny Turkmenistan*, no. 297 (20 Nov. 1999).

¹⁹ Vinogradov, B., "'Gazovy kvartet' ukhodit na dno Kaspiya' ['Gas quartet' goes to the bottom of the Caspian], *Izvestiya*, 20 Jan. 2000.

²⁰ *Arkhiv Vneshney Politiki* [Archive of foreign policy] (Ministry of Foreign Affairs, Ashkhabad), no. 1 (Jan./Mar. 2000), p. 30.

²¹ Vladimirov, Ye., 'Niyazov otodvinul Ameriku' [Niyazov put off the US], *Finansovaya Rossiya* (Moscow), no. 13 (Apr. 2000).

²² 'Saparmurat Turkmenbashi vstretilsya s Shell International' [Saparmurat Turkmenbashi meets Shell International], *Neytral'ny Turkmenistan*, no. 74 (23 Mar. 2000).

lines; and it is doubtful that the USA will ever persuade Turkmenistan to accept Azerbaijan's conditions. Turkmenistan has already compromised once when the USA failed to find an acceptable solution to the issue of the disputed oilfields in the Caspian Sea: Turkmenistan agreed then not to link those issues with the trans-Caspian pipeline. It cannot be expected to compromise again, even if the situation with gas exports worsens. Efforts to give impetus to the trans-Caspian project continued at a meeting of the presidents of Turkey and Turkmenistan in October 2000 but Turkmenistan made no further statements on the issue.

V. Existing pipelines

At present the Turkmen gas is exported via two routes: directly to Iran and through the Central Asia–Centre pipeline.

Iran

The Korpedje–Kurt-Kui (KKK) gas pipeline was commissioned in 1998 as an alternative to the Central Asia–Centre pipeline, which is controlled by Russia. During the two years 1998–99, 3.5 bcm of gas were transported via the KKK pipeline and during the first eight months of 2000, 1.4 bcm. According to the Programme of Development of Oil and Gas Industry it is planned to transport up to 5 bcm annually, although this is unlikely to be achieved yet because of technical constraints on the capacity of the pipeline. In March 2000 President Niyazov and the Iranian Minister of the Oil Industry agreed to increase the capacity of the pipeline to 8 bcm annually by the year 2002, with a subsequent increase in its capacity to 13 bcm/year.²³ Niyazov emphasized that Turkmenistan has several options for the export of gas. It was agreed to continue to explore further possibilities of increasing exports by upgrading the pipeline system to Iran and to consider the possibility of building a pipeline to the Iranian port of Neka. Iran, like Russia, is interested in strengthening its positions in the region and is working hard to be Turkmenistan's partner.

Russia

Difficulties with the trans-Caspian pipeline, differences between Azerbaijan and Turkmenistan on the issue of export quotas in particular, the continuing lack of financial resources to carry out this project and the fall in gas production in Russia led to Russia and Turkmenistan renewing their dialogue. For Turkmenistan these factors meant that it needed to use the Central Asia–Centre pipeline for gas exports and to receive hard currency immediately. For Russia it was a good opportunity to get control over part of the Turkmen gas and use it to offset apparent shortages in its own domestic gas supply at no financial cost.

While Turkmenistan has no ambitious plans in the region, except to keep good relations with its neighbours on the basis of the principle of neutrality, and

²³ *Arkhir Vneshney Politiki*, no. 1 (Jan./Mar. 2000), p. 38.

is pursuing the goal of diversification of gas routes in order to protect its economic interests, Russia intends to reinforce its position in Central Asia as an important player with far-reaching geopolitical interests.

Russia's positions in Central Asia had weakened during the 1990s as a result of its clumsy and rigid foreign policy: as recently as 1998 the chances that it would participate in the development of the energy sector in the region were slim. This situation changed drastically in 1999 when the discovery of the Shah Deniz field called into question the feasibility of the trans-Caspian pipeline. The political climate in Russia also changed when the new government of President Vladimir Putin faced the task of regaining Russia's lost positions in the region. This was the right time to gain an advantage over the USA. Moreover, the financial situation in Russia also played a major role in transforming Russian policy in Central Asia. Russia was keen to hold on to its old positions and gain new positions in energy markets, but as a result of the financial crisis of August 1998 Gazprom was underfunded. This was causing delays in the realization of Gazprom's projects—for instance, the Blue Stream project, even though it was supposed to be a high priority. The financial crisis also caused delays in financing the gas and oil sector in order to keep existing production levels.

To reduce the risk of gas deliveries to both external and domestic consumers being cut, Gazprom had the choice of either spending substantial amounts of money to expand domestic gas production or seeking an alternative way to import gas from abroad to cover the existing gas shortages. At this point Turkmenistan became a relief gas supplier. Moreover, Turkmen gas became an acceptable alternative for Russia to increase its domestic gas production and offered Russia an opportunity to influence the balance of forces in the region. In December 1999 an agreement was signed between President Niyazov and the Chairman of Gazprom, Rem Vyakhirev, on the sale of 20 bcm of gas in 2000.²⁴ Gas deliveries to Russia were renewed on 28 December 1999.

In February 2000 at another meeting of Niyazov and Vyakhirev it was agreed to increase gas exports to Russia by 10 bcm to a total of 30 bcm (at the price of \$36 per thousand cubic metres, tcm, 40 per cent to be paid in cash and 60 per cent in kind). Niyazov also offered the Russian side participation in any prospective pipeline projects, including the trans-Caspian project.²⁵ This was a major breakthrough in the economic relationship between the two countries.

For the USA this meant the beginning of the struggle to maintain its positions in the region. It reacted by sending its Special Adviser to the President on issues of the Caspian region, John Wolf, to Turkmenistan in February 2000. In the same month Turkey also sent a special envoy and the Chairman of the Botaj Company, which had earlier signed a sale contract with the Government of Turkmenistan. The USA assured Turkmenistan of its seriousness in supporting the trans-Caspian project. It was also mentioned that Eximbank and the

²⁴ 'V 2000 godu Turkmenistan vozobnovit postavki gaza v Rossiiu' [Turkmenistan will resume gas deliveries to Russia in 2000], *Neytral'ny Turkmenistan*, 18 Dec. 1999.

²⁵ 'Prezident Turkmenistana vstretil'sya s Predsedatelem Gazproma Remom Vyakhirevym' [President of Turkmenistan meets Gazprom Chairman Rem Vyakhirev], *Arkhiv Vneshney Politiki*, no. 1 (Jan./Mar. 2000), p. 44.

Overseas Private Investments Corporation would underwrite the project and provide necessary financial support.²⁶

However, despite all the efforts of the US and Turkish parties, Turkmenistan did not change its plans. President Niyazov, citing the importance of economic security, stated that Turkmenistan would continue to support the idea of a multi-directional pipeline system and emphasized its right to seek additional routes to export its energy resources. He also stated that Turkmenistan was working on finding new ways to sell its gas on other markets and to increase exports through the existing Russian pipelines.

The visit of President Putin to Ashkhabad in May 2000 was a turning point in relations between Russia and Turkmenistan. After a period of souring relations, the two countries united again in gas affairs. Moreover, they entered a long-term strategic agreement by which Turkmenistan would export 50 bcm of gas annually over the next 30 years.²⁷

However, this did not mean that the problem with gas exports to Russia was completely resolved. As mentioned above, Russia is experiencing problems with its falling gas production, and this may threaten its contractual obligations to other countries. That is why Gazprom is considering the possibility of curtailing Russia's domestic consumption. In order to meet its contractual obligations Russia has either to cut back domestic consumption to 55 bcm per year or to find other ways to buy Turkmen gas, but that will be difficult.²⁸ Russia already has the contract with Turkmenistan to import 30 bcm in 2000, and under another agreement signed in October 2000 Turkmenistan is obliged to export another 30 bcm to Ukraine in 2001. This limits the possibility of using Turkmen gas to meet Russian requirements. Moreover, the Central Asia–Centre pipeline system has been in use for more than 20 years and requires a major overhaul in order to achieve the capacity it had in 1991—over 80 bcm annually—a task which will not be easily accomplished.

Ukraine

Exports of gas to Ukraine were cut off in May 1999 when payments for delivered were long overdue. A contract for the export of 20 bcm was fulfilled only up to 45 per cent. New negotiations began in October 2000, when Ukraine agreed to pay its current debt in cash and goods by the end of the year. On 4 October 2000 when President Leonid Kuchma of Ukraine visited Turkmenistan he and President Niyazov reached an agreement stipulating the delivery of gas for the period of 2000–2001: Turkmenistan was to sell Ukraine 5 bcm of

²⁶ 'Prezident Turkmenistana vstretilsya so spetsial'nym sovetnikom Prezidenta Turtsii i so spetsial'nym sovetnikom Prezidenta Ameriki' [The President of Turkmenistan meets the Special Adviser to the President of Turkey and the Special Adviser to the US President], *Arkhiv Vneshney Politiki*, no. 1 (2000), p. 41.

²⁷ 'Prezident Turkmenistana vstretilsya s Prezidentom Rossii Putiny' [The President of Turkmenistan meets Russian President Putin], *Neytral'ny Turkmenistan*, 20 May 2000.

²⁸ Reznik, I., 'Rem Vyakhirev vybiraet gazodollary' [Rem Vyakhirev chooses gas dollars], *Kommersant* (Moscow), no. 187 (6 Oct. 2000).

gas in 2000 and 30 bcm in 2001 at a price of \$40/tcm. Gas would be transported to the Uzbekistan border and Ukraine would make weekly payments for equivalent to \$7 million in cash and \$9 million in goods and construction services. In other words, Ukraine will pay for 60 per cent of its gas imports by delivering goods and by carrying out construction of industrial projects in Turkmenistan. The two sides also agreed to consider a longer-term contract for the delivery of gas to Ukraine for the five-year period 2002–2006.²⁹ On 16 October 2000 Kuchma and Putin agreed on the payment for transit of gas across Russian territory. If payments fall overdue, Russia has the right to convert the debt into securities with the right to participate in the privatization of the Ukrainian gas distribution network. Thus Russia can tighten its control over the Ukrainian and CIS pipeline systems.

It seems that the export of Turkmen gas is going well and there are several customers, but this does not mean that Turkmenistan should stop its search for alternative routes. Many contracts in the past were breached because of failure to pay for gas. Moreover, substantial amounts of gas will be transported through pipelines that are controlled by Russia. For this reason, the Turkmenistan–China route is being actively studied at the present time.

VI. The legal status of the Caspian Sea

Determining the legal status of the Caspian Sea is currently one of the most difficult issues. Although in recent years some countries have been revising their positions on the issue, it is not completely settled. Moreover it seems that the problem is being used when needed by certain countries to gain leverage over others. For example, Iran and Russia used this tactic to thwart the building of the trans-Caspian pipeline. During their last meeting in Astana in October 2000, the Russian and Kazakh presidents again tried to settle the issue of the legal status of the sea, but a resolution of the problem is hardly possible without the participation of all interested parties.

Turkmenistan's position on the issue can be illustrated by official statements and numerous comments on them. On 12 August 1999 President Niyazov signed a decree on the National Service for Developing the Turkmen Sector of the Caspian Sea.³⁰ It emphasized that the 'development of the Turkmen sector of the Caspian Sea is becoming an ever more important task and is essential for the economy of Turkmenistan. The end result of these efforts should be that the Turkmen sector of the Caspian Sea is completely integrated into the national economy of Turkmenistan and Turkmenistan becomes a leader in the region'. In the decree the following tasks were set: (a) to develop a national programme on

²⁹ *Neytral'ny Turkmenistan*, 5 Oct. 2000.

³⁰ 'Ukaz Prezidenta ob obrazovanii Natsional'noy Sluzhby osvoyeniya turkmenskogo sektora Kaspyskogo morya pri Prezidente Turkmenistana' [Presidential Decree on establishment of the National Service under the President of Turkmenistan for developing the Turkmen sector of the Caspian Sea], *Sobraniye Aktov Prezidenta Turkmenistana i Reshenii Pravitel'stva Turkmenistana* [Collection of presidential decrees and government resolutions of Turkmenistan] (Office of the President of Turkmenistan, Ashkhabad), no. 8 (1999), p. 64.

the rational utilization of the natural resources of the Caspian; (b) to develop a legal framework for the prompt exploration of the sea; (c) to ensure inter-departmental coordination in the development of the Turkmen sector of the sea; and (d) to provide control over the rational utilization of hydrocarbon, mineral and fish resources of the sea and the facilitation of navigation. The National Service was given rights to license and control mineral resources, fisheries and the merchant fleet.

However, the legal definition of the Turkmen sector of the Caspian Sea is nowhere to be found in these papers. The Russian Ministry of Foreign Affairs reacted to this by issuing a statement claiming that the actions taken by Turkmenistan contravened the current legal status of the Caspian Sea. Explaining its position, Russia confirmed that it would not accept actions of other countries to divide the sea surface into national sectors as legal until all controversial issues were resolved; furthermore, such actions are in clear violation of the Soviet–Iranian agreements of 1921 and 1940.³¹ In a 1999 interview with *Neytralny Turkmenistan* President Niyazov commented on the issue of the legal status of the Sea: ‘As for Turkmenistan, during the talks we stated repeatedly that we are satisfied with any outcome, even a sectional division or a joint use of the sea; the most important thing is that all countries should reach consensus on this issue’.³² A similar statement was made in *Central Asian News*: ‘Many countries now support the idea of a sectional division of the Caspian Sea. As already mentioned, Turkmenistan agrees with this as well as with the earlier concept of condominium’.³³

VII. Conclusions

1. The development of the economy of Turkmenistan is determined by a number of internal and external factors. The influences of these factors vary at different stages of development, so that the programme on Social–Economic Development of Turkmenistan to the year 2010 can only be considered a rough yardstick. As the programme is carried out it will be adjusted according to realities, and although several major pipeline projects are listed in the programme this does not mean that all of them will be implemented.

The development of the economy will be heavily influenced by trends in the oil and gas complex. Without doubt the development of this complex will be a national priority in the coming decades. However, the government should continue to give attention to developing the processing industry, which would help reduce the country’s dependence on gas exports. In other words, economic policy should pursue the goal of strengthening economic security by increased spending not only on the oil and gas complex but on other industries as well.

³¹ [Statement by the Russian Ministry of Foreign Affairs on the establishment by Turkmenistan of the National Service for developing the Turkmen sector of the Caspian Sea made on 20 Sep. 1999], *Diplomaticheskii Vestnik*, no. 10 (Oct. 1999), p. 32.

³² [Interview with the President of Turkmenistan on 27 Oct.], *Arkhiv Vneshney Politiki*, no. 4 (Oct./Dec. 1999), p. 10.

³³ [Interview with the President of Turkmenistan] (note 32), p. 13.

This will guarantee against syndromes such as 'Dutch disease', and avoid the fate of countries such as Algeria, Ecuador, Gabon and Nigeria, whose very negative experiences should serve as a reminder to the Caspian countries and to Turkmenistan in particular. Major threats may emerge if Turkmenistan repeats mistakes that have been made elsewhere—of government accumulating hard-currency revenues and taking these monies for granted (free money); of the development of inefficient industries; of excessive spending of hard currency on infrastructure development; and of the uncontrolled import of consumer goods.

Turkmenistan is already working on changing the structure of its economy, although the efficiency of its new industries will be seen only when all the conditions for fair internal and external competition are in place. Otherwise, in order to provide for the survival of these new industries, the government will be required to subsidize them or to protect them by customs regulations or similar measures.

2. For the time being expectations of miraculous windfalls for Turkmenistan from the export of gas are premature. National policy for the development of the oil and gas industry is quite ambitious and can only be accomplished if all contracts are fulfilled and all payments are received. Without doubt Turkmenistan will continue to seek alternative routes to energy markets in order to reduce its dependence on the Central Asia–Centre pipeline.

3. It is also important that Turkmenistan creates a favourable investment climate in order to attract foreign capital. Iran is a potential source of capital, but only if the USA either lifts or eases sanctions against Iran.

4. It is hard to say how competitive Azerbaijan can be with Turkmenistan, even though Azerbaijan is better located in terms of ability to export hydrocarbons to Turkey and Europe. The situation with the 'proven reserves' Azerbaijan claims to have is still unclear. According to some experts, members of Azerbaijan's consortium (the Azerbaijan International Operating Company, AIOC) are rather liberal in their estimates.³⁴

5. Russia can continue to be Turkmenistan's partner if financial or other problems do not intervene. In the competition between Russia and Turkmenistan for a more attractive investment climate Russia will probably have the advantage as it has a more developed economy, but when their gas and oil production costs are compared Russia without doubt loses out to Turkmenistan.

Russia has ambitious plans to extend its influence in Central Asia and to emerge on the Chinese and Japanese markets, but it has to take gas-rich Turkmenistan into account.

³⁴ Mishin, V., 'Tayny Kaspiyskogo geofizicheskogo dvora ili kto i kak opredelyaet zapasy uglevodorodov Azerbaijana' [Mysteries of the Caspian geophysical court, or who determines the hydrocarbon resources of Azerbaijan and how], *Neft' i Kapital*, nos 7–8 (2000).