

# Investment Opportunities in Turkmenistan

Political Risks Analysis



INVESTMENT OPPORTUNITIES IN TURKMENISTAN:  
POLITICAL RISKS ANALYSIS



# **Investment Opportunities in Turkmenistan**

Political Risks Analysis

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IIPE

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The International Institute for Political Expertise in March-April 2011 organized the research of the investment opportunities in Turkmenistan. This study is the first among the research series by the IIPE on investment climate in the post soviet countries.

The research objectives were to identify successful ways of behavior in Turkmenistan as well as analyze the current and potential political risks, and suggest measures to minimize these risks. An additional stimulus to conduct this research in authoritarian Turkmenistan, an abundant with resources country, was the wave of revolutions in the Middle East and North Africa. Consequently, the question has arised regarding the stability of the existing political regime in Turkmenistan.

The research involved an analysis of public sources (research and reports of international institutions and media

publications) and a major survey among international experts. The survey included sixty participants. Among them, 18 experts participated in a comprehensive 'deep' interview and 43 filled in a questionnaire. The experts were comprised of analysts and business representatives from 19 countries (Azerbaijan, Great Britain, Germany, Israel, Iran, Kazakhstan, Republic of South Korea, Norway, United Arab Emirates, Poland, Russia, the United States, Singapore, Turkey, Uzbekistan, Ukraine, France, Czech Republic, and Sweden). The majority interviewees (first of all, representatives of companies, who work in Turkmenistan) preferred to remain anonymous, which, in our opinion, indicates the dependency of the business climate in Turkmenistan on subjective factors. Our analysis includes four sections: general evaluation of the investment climate in Turkmenistan, analysis of relations with other countries and international companies, evaluation of attractive industries and large-scale projects, as well as analysis of external and internal political risks for the regime's stability.

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# **Report findings**

**1**

In the expert opinion, the investment climate in Turkmenistan remains unfavorable with a tendency to worsen. This situation is related to the imperfection of the legislation, inefficient judicial system, absence of reliable statistics, lack of transparency, and high level of government regulation challenged by the corrupted state and cronyism.

**2**

Foreign companies consider Turkmenistan as a place to export goods and services rather than an investment opportunity, which has caused a misbalance in the country's export and import. That is why despite rich natural resources, Turkmenistan remains socially unsuccessful state, worsened by high levels of corruption.

**3**

The Turkmen authorities constantly shift geopolitical priorities. This has become an additional risk for foreign companies. At present, the experts identify strong positions of Chinese, Turkish and Spanish companies in comparison to the weakened positions of Russia and Israel. The geopolitical influence of the United States has noticeably grown in the country. The “geopolitical swing” of this kind, according to the experts, represents a risky game for the Turkmen authorities, because none of the external players remains satisfied.

**4**

The Turkmenistan's policy of diversification of energy sources export has a number of challenges (limited markets, low prices, political instability of countries in transition, and the de-regulated status of Caspian Sea). The status of Caspian Sea, according to the experts, has little chance to be resolved in the near decade, which, unfortunately, represents a major challenge to complete the project of the Trans-Caspian gas pipeline and Nabucco pipeline.

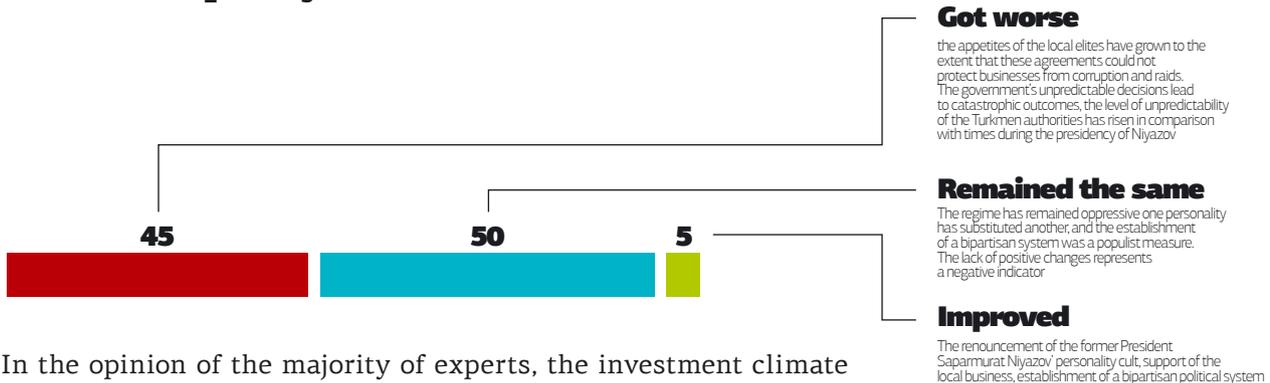
**5**

The political regime of Turkmenistan is relatively stable internally, because of the constant rotation of the political elite, which leads to little opportunity for a strong political opposition to emerge especially in the context when the impoverished population does not have enough will to protest. The regime, however, could be vulnerable to external influences. In case of destabilization, the most likely scenario is Libyan (tribal conflict and separatists movements emergence) as a result of high level of social tension and the existing tribal conflicts in Turkmenistan.

# Section 1

Investment  
Climate  
Evaluation

## 1. In your opinion, what was the investment climate in Turkmenistan in the past year?



In the opinion of the majority of experts, the investment climate in Turkmenistan in the past year either remained at the low level or worsened. A few experts noted any investment climate improvement. The majority considers the climate as worse or with little improvement, indicates the crisis of the reforms by President Gurbangula Berdykhamedov during the first years of his presidency created an illusion of positive changes.

Few experts, who note the investment climate improvement point to the renouncement of the former President Saparmurat Niyazov' personality cult (including the study of his book "Ruhnama" in schools), as well as establishment of a bipartisan political system. The critics of the Turkmen regime believe that in reality one personality has substituted another, and the establishment of a bipartisan system was a populist measure.

The election of Berdymukhamedov launched a new stage of Turkmenistan's relations with foreign investors. The companies interested in investing in the country were offered relatively transparent conditions in the form in investment agreements. According to this agreements the authorities promised not to discriminate against the conditions of work, and on the other hand required twenty to forty percent of the profit to be paid off to the country's budget along with appropriate taxes. These agreements were made at the highest level of the state authority and meant to protect companies from the local government's abuse of discretion. Haver in a few years the appetites of the local elites have grown to the extent that these agreements could not protect businesses from corruption and raids. The government's unpredictable decisions lead to catastrophic outcomes.

To quote one of the experts: "Berdymukhamedov started relatively well. He started the renunciation of the Turkmenbashi's personality cult. He provided opportunities for new business to develop. People now could show off one's wealth. In the past an official or a businessmen had to hide their foreign car in a shack under the hay. The capital was half empty and there were few cars. Today we can see traffic jams in Ashkhabad. A num-

ber of forums for investors took place. The foreign capital was actively invited in the country. However, as it appears the system has not changed. The regime has remained oppressive. One personality cult succeeded another.”

Lately there have been conflicts between the Turkmen authorities and three Turkish companies. Russian cell phone provider Moscow Tele-Systems (further in text, MTS) lost several hundred million dollars in Turkmenistan.

According to German businessmen, “the level of unpredictability of the Turkmen authorities has risen in comparison with times during the presidency of Niyazov.”

Those experts, who state that the investment climate has not changed in Turkmenistan, note that the lack of positive changes represents a negative indicator, because investment attractiveness of Turkmenistan is extremely low.

## 2. Please evaluate the risk levels for investments in Turkmenistan

(10-point scale, where 1 is a complete absence of any risk, and 10 represents an extremely high level of risk)



The country is absent from the business climate rating in the World Bank Doing Business, it is rated 197 out of 210 in the World Bank Government Effectiveness Index, in the country rating of democratic and market freedoms it is on the 115 place among 128 possible according to Bertelsmann Status of Democracy and Market Economy Index

**197**

World Bank Government Effectiveness Index

**115**

Bertelsmann Status of Democracy and Market Economy Index

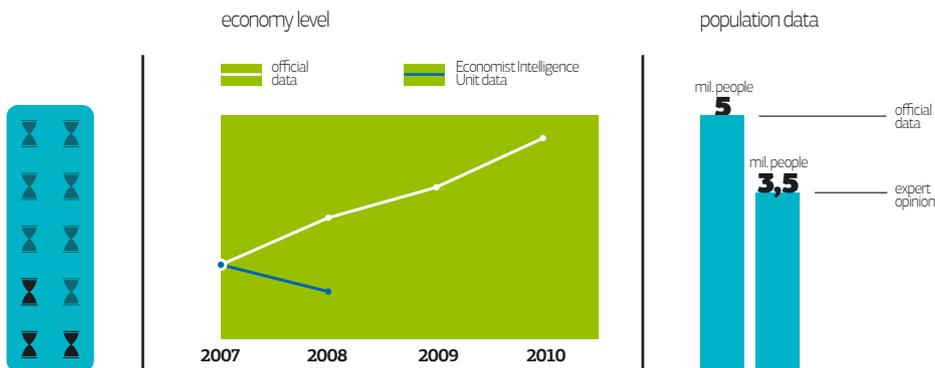
In the opinion of the interviewed experts, any investment in the economy of Turkmenistan is extremely risky with eight-point rate. There are few preconditions for the modern market economy with favorable investment climate in Turkmenistan.

According the European Bank for Reconstruction and Development (EBRD), in Turkmenistan such major economic mechanisms as free land trade and free interest rate are limited by the Turkmen legislation. Stock market and investment insurance are absent from the system, pension system is ineffective as there are no private pension funds, business laws are inefficient and controversial, bankruptcy laws are of a poor quality, contract law is weak and often is being abused, there is no antimonopoly institutions, there is no independent judicial system, and there is no relevant statistics of the major social and economic indicators.<sup>2</sup>

In the EBRD Report on evaluation of economic reform success and transit to market economy among the post soviet countries, Turkmenistan takes last place based on all indicators.<sup>3</sup> The ever-present corruption, despotism of authorities, administrative obstacles, absence of legal protection from state-dependent courts, aging infrastructure, a self-imposed isolation from the rest of the world and xenophobia<sup>4</sup>—all these factors contribute to the high risks level for business in the country.

Other expert organizations and companies also poorly evaluate the perspectives of Turkmenistan. The country is absent from the business climate rating in the World Bank Doing Business,<sup>5</sup> it is rated 197 out of 210 in the World Bank Government Effectiveness Index,<sup>6</sup> in the country rating of democratic and market freedoms it is on the 115 place among 128 possible according to Bertelsmann Status of Democracy and Market Economy Index<sup>7</sup> (it is also noted that there were no signs of positive changes during 2007-2009). There seem to be indeed no positive changes. For example Moody's Rating Agency on September 9, 2010 withdrew its credit rating that was earlier assigned to Turkmenistan. Moody's explained in the press release its decision because of inability to receive complete and reliable information necessary for the rating.<sup>8</sup> The remaining agency, Fitch Ratings withdrew its rating in 2005, and explained the decision because of its inability receive reliable and timely information for the evaluation. In addition, Standard & Poor's never assigned any credit ratings to Turkmenistan or any Turkmen companies.

### 3. How reliable are the economic statistics presented by the Turkmen Government?



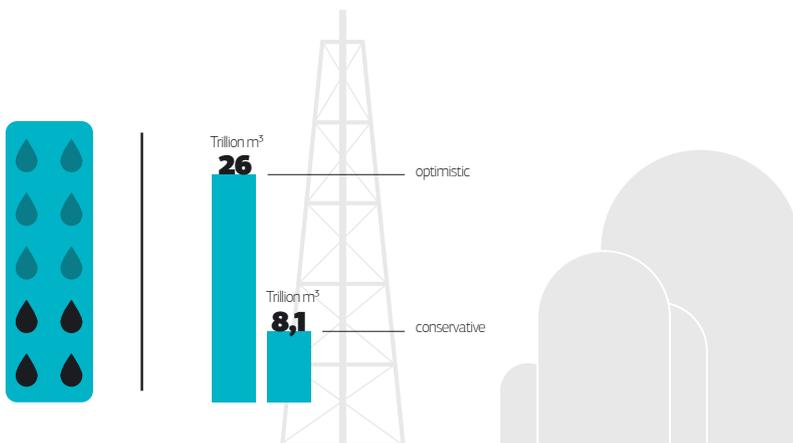
The interviewed experts consider the credibility level of the state statistics in Turkmenistan is 3 points, which is extremely low on a 10-point scale. During Niyazov presidency the economy statistics was classified as a state secret. President Berdymukhamedov established State Statistics Agency, but the economy data remains unreliable. One expert

notes: “There are inconsistencies across various sectors of the economy. Apart from the annual official glossy statistics publications and statements on various issues, there are departmental monthly publications (for special use or limited use), which, in my opinion, are relatively reliable (7-9 points). There is no monthly publication for the energy sector, however, including any publication 'for special use'. Another problem is the way statistics is structured: the data could be valid but allows for little analysis. Considering all this, I would note, that the official public data gives little to understand the context of Turkmenistan and comprises 3-4 points out of 10.”

It is difficult to evaluate current economy of Turkmenistan due to the lack of the reliable data. According to the preliminary statistics, the country's economy was successful in resisting the global economic crisis and grew 10.5 percent in 2008, 6.1 percent in 2009, and 9.4 percent in 2010.<sup>9</sup> Some experts doubt such growth, especially considering the fact that the natural gas export in Russia was stopped during nine months in 2009, caused by the price argument, and due to the gas because of the pipe explosion.<sup>10</sup> In contradiction to the official evaluation, Economist Intelligence Unit indicates the country's economy downturn by 6.0 percent in 2009.<sup>11</sup>

One expert stated that the population data is overestimated. In his opinion, today in Turkmenistan there is hardly 3.5 million people (official data, which in the expert opinion is false, states that the country's population is 5 million).

#### 4. How valid is the energy resources data provided by the Turkmen Government.



The energy resources supply data presented by the Turkmen Government in expert opinion can be given 3 points. The preliminary projections of natural gas supply vary from conservative<sup>12</sup> at 8.1 trillion cubic meters to optimistic<sup>13</sup> – 26 trillion cubic meters (Turkmen Government).

A Russian expert stated: “Known reserves could not be unreliable because they are being controlled by international organizations. Prospect reserves data is overestimated in any country, though there is no such need in Turkmenistan, because gas reserves are naturally large. The other matter is that this type of gas is impure: the latter is a technology problem.”

In 2008, An independent expertise by the English company Gaffney, Cline and Associates used the data of the Soviet period as well as a newer information, indicated that in the Ares of South Yjoltan-Osmaln and Yashlar there is 4 to 14 trillion cubic meters of gas supply which could make this deposit fourth or fifth in the world<sup>14</sup> (for example, the known deposits of Shtokmanovsky Deposit in Russia comprise 3,7 trillion cubic meters).

Some experts have doubts regarding the accuracy and independency of the evaluation by Gaffney, Cline and Associates.<sup>15</sup> Famous Russian journalists Arcady Dubnov, who specializes in Central Asia, in his article “Pipehole<sup>16</sup>”, in the newspaper “Vermia Novostey” noted that the foreign companies that work in Turkmenistan doubt the data by Gaffney, Cline and Associates. For example, the company did not explain which data it used for its research. According to Dubnov’s sources in Ashkhabad, the experts were not allowed by the authorities to conduct an independent analysis of the investigation drilling. The authorities only provided incorrect interpretation of the drilling that was conducted by the Turkmen experts.<sup>17</sup>

In addition, what makes it difficult to conduct objective evaluation of fossil resources in Turkmenistan is the fact that the country refuses to join Extractive Industries Transparency Initiative (EITI).<sup>18</sup> The EITI membership has become a standard requirement for business transparency for the extracting companies and an essential condition for the stable business climate and investment attraction.<sup>19</sup>

## the country refuses to join Extractive Industries Transparency Initiative (EITI)

### **5. Please evaluate the level of stock exchange development in Turkmenistan based on a 10-point scale.**

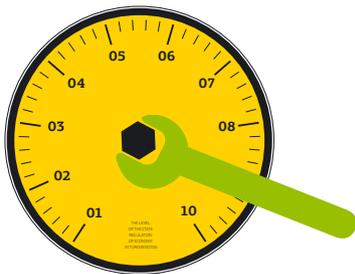
The experts evaluate the stock market development in Turkmenistan as extremely low – 1 out of 10. The majority believes that the stock market in the country is simply nonexistent.

One economist notes: “there will not be a stock market unless there is denationalization. I believe it is not going to happen soon.”

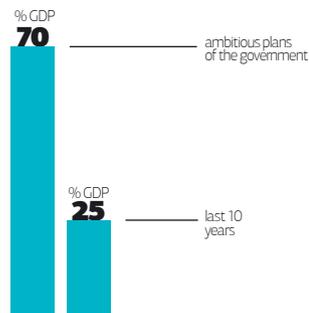
## 6. How would you evaluate the level of the state regulation of economy in Turkmenistan

(10-point scale, where 1 represents the lowest, and 10 – the highest)?

the level of the state regulation of economy in Turkmenistan



private sector in the economy



In expert opinion, the Turkmen economy is extremely regulated and is rated 9 out of 10. According to one of the experts, “the state regulates the rules of large business, and less for small businesses. There is practically no large business at the level of Turkmenistan, because large business in the country is the state itself”

There is a price control in the country over the 16 major grocery products (water, bread, salt), the subsidy system is overrated and distorts market price mechanisms; the state controls salaries, the national currency rate is fixed.<sup>20</sup> The Government has ambitious plans to increase the share of the private sector in the economy up to 70 percent of the GDP by 2020.<sup>21</sup> The latter, however, remains stable at 25 percent of the GDP.<sup>22</sup>

## 7. Rate the Turkmen budget transparency at 10-point scale.

The experts rated the Turkmen budget transparency low and assigned only two points. The structure of the state budget in Turkmenistan is not transparent and creates incentives for corruption. The experts indicate, that if the profitable section is relatively transparent, the expense section is not.



The budget does not include the state’s financial transactions, and, quoting one of the experts, “the latter is not a financial document of the state.”

There are a number of funds outside the budget that accumulate finances to support special Presidential Decrees or state projects.<sup>23</sup>

In the opinion of an expert who is supportive of the Turkmen Government “the budget is relatively transparent considering the government principles. The expenses are confusing due to the need to readjust the government's operational needs if needed, in particular, social needs.”

According to the Global Witness, during the government of Niyazov, 75 percent of all state expenses were in the state budget, but rather were accumulated in the outside-budget funds controlled by Niyazov and his click.<sup>24</sup> Western human rights defendants accused the Deutsche Bank to service these funds.<sup>25</sup> As a result of an investigation by the German Finance Regulation Authority BAFIN, the Deutsche Bank, acknowledged that three billion dollar accounts owned by the Central Bank of Turkmenistan did exist. Global Witness notes that Niyazov de facto had a complete control over the Central Bank of Turkmenistan, and during 2002-2007 its leadership has changed five times, and three out of five ended up in prison.

Eurasian Transition Group stated that there was a close connection between the Deutsche Bank and Niyazov, and currently the Deutsche Bank continues to bloc the investigation and refuses to share the information about the Turkmen leadership private accounts.<sup>26</sup> During the presidency of Berdymukhamedov, as US Embassy sources point out, the banks of the Baltic's do not challenge the money laundering and many of the Turkmen officials own bank accounts in the Baltic countries.<sup>27</sup>

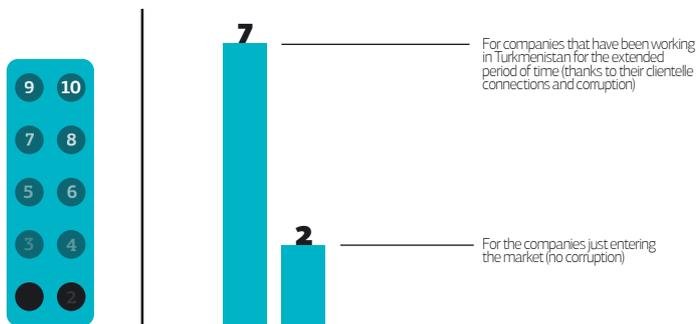
Freedom House notes that there have been no changes in the practice of the outside-budget funds during the presidency of Berdymukhamedov.<sup>28</sup> In October 2008, the Government of Turkmenistan established a special Stabilization Fund for the revenue from the hydrocarbons export; however, management rules, investment principles, or for that matter statistics regarding the fund are not available.<sup>29</sup> The practice of the outside-budget has at least three deficiencies. First, the efficient management principle to accumulate all finances in the budget and manage it from the centralized center has been completely ignored. Second, statistical and macroeconomic analysis has complications. For example, it is difficult to evaluate or forecast the correlation between the budget and GDP or to understand the role of taxes in the country's economy. It is challenging to compare the country's expenses and profit, as well as to identify the budget deficit or profit. Budget planning loses its informational function in the conditions of the economy policies as described above. Third, the number of many funds, which are not transparent,

**The experts indicate, that if the profitable section is relatively transparent, the expense section is not**

complicates the process of controlling the state fund accumulation in those funds and provides incentives for corruption. The Freedom House in its last report on Turkmenistan gave the same highest level of corruption in its evaluation.<sup>30</sup>

One of our experts provides the following comment on the country's budget transparency: "Last year the budget was one billion US dollars short to cover the expenses were. The difference was covered by loans. Many development projects in 2010 did not get funding, and a result did not receive a payment for the completed job. Only those who had connections with Berdymukhamedov received payments."

## 8. Please evaluate the transparency of bids requests for service, organized by the Turkmen authorities



The experts evaluate the transparency of the bids for services, organized by the Turkmen authorities, as the lowest and scoring two points. The experts note large inconsistencies in various departments.

"The same department can request bids without a particular standard (attention to a political official, participation of the companies that belong to relatives)."

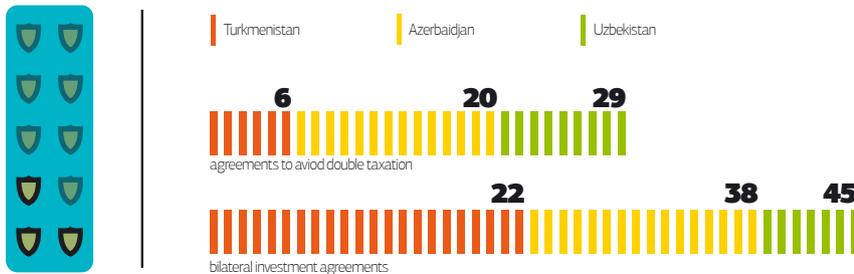
Lately, the Government tried to implement a competition element for the state contracts, and even announced requests for international bids for a few projects. These projects, however, have either a political motivation or economically are inefficient. The bid request process remain inefficient and poorly managed.<sup>31</sup> In one case, a US company received a request for a contract and an agreement with the offered bid. The company invested in the first stage of the project development, but was notified later that the Government has decided to consider other companies as its partners. The request for bids was announced for the second time, and another company received the contract, despite the fact that the price of the contract has grown in comparison with what the US company had offered in the first place.<sup>32</sup>

Here is another example shared by one of our experts: “In 2010, the Ministry for Health and Medical Industry of Turkmenistan has conducted a tender for the development of a unified history of diseases database. The outcomes of the competition were announced in the fall 2010. A formal letter of acceptance was sent to Citronics, but when in November 2010 a persecution of MTS took place, on the Turkmen Government<sup>33</sup> official site the bid was given to an English company Lislette. The investigation shows that the company is simply nominal and exists only on paper.”

One of the European experts offered a peculiar evaluation: “The transparency of contract bids is two in case of new companies, who cannot acquire the needed information (without relying on corruption); the transparency for contract bids is seven for the companies that have been working for a while in the Turkmen market. The latter companies possess the needed information thanks to their clients and connections.”

## 9. How well does the Government of Turkmenistan defend the investor's rights

(1 being the lowest and 10 being the highest)?



According to the data received from our experts, the Turkmen legislation has extremely weak protection of investors' rights—3 out of 10. For example, in the area of legal support for direct foreign investments, in 2010, Ashgabat signed only twenty-two bilateral investment agreements and six agreements to avoid double taxation. At the same time, Uzbekistan has 45 and 29 respective agreements, and Azerbaijan has 38 and 20 respective agreements.<sup>34</sup> The Law on Foreign Investments (last changes adopted in 2008), The Investments Law (last changes adopted in 1993), and the Corporate Law, 1999 regulate most of the foreign investments. Foreign investments in oil and gas sector are regulated by the Law on Oil and Gas Resources (2008). Tax Code defines the rules for foreign companies.<sup>35</sup> The experts consider the quality of this law to be poor. The EBRD study provides a similar evaluation.<sup>36</sup>

**There are legal obstacles for the transparent and honest business practices implementation**

There are legal obstacles for the transparent and honest business practices implementation. The Tax Code in Turkmenistan leaves gaps for the authorities arbitrariness, which are interested in bribes. For example, in Article 34 of the Tax Code,<sup>37</sup> the Fiscal Agency have the right to request an early tax payment and establish a tax break in case there are facts, confirming a tax payers' intentions avoid tax payments. In other words, if the Agency believes that a company plans to avoided tax payments, the company will be obliged to pay taxes, and the investigation will follow.

There are even more astonishing legal examples of the business vulnerability to corruption and outrageous policies of the authorities. According to Article 71, clause 3 of the Turkmen Tax Code,<sup>38</sup> the state budget finances only 50 percent of the Fiscal Agency's employee's salaries. The rest 50 percent of the salary is financed by the sanctions or fees collected.

The direct connection between a salary and a quantity of collected fees, which is established by law, stimulates the Fiscal Agency's employees to seek reasons for additional fees in taxing business instead of doing a good job. Basically this norm reminds about the medieval practice of collecting tax and other state income, where the state for a certain fee would allow certain people collect as much tax as possible from the general population.

In one expert's option, “the legislation protects only as much as an investor has good relations with the authorities.”

## 10. How would you evaluate transparency of the rules and their sustainability for investors?

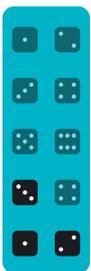
(on a 10-point scale, 1 being the lowest, and 10 being the highest)

In the opinion of our experts, the rules of game are not transport and measure only to 3 unstable points (besides, for various participants in the very same field can face different work conditions).

Constant review of the contract obligations by the Turkmen authorities, which were mentioned earlier, exemplifies the thesis.

One of our sources, a head of a large company that works at the Turkmen market, advises to be very careful when approaching this market. He advises to “make sure to receive guarantees of the President Berdimukhamedov,” otherwise one can loose a lot by investing in the Turkmen economy.

According to the statements of a number of experts, successful implementation of the investment project, especially of a small size, become some sort of a bite for the Turkmen authorities, which right away try to get control over this business..



## **11. Please evaluate the efficiency of the judicial system in Turkmenistan for investor's rights protection**

(1 being the most inefficient and 10 being very efficient)

The interviewed experts are inclined to believe that foreign investors will have little support for judicial support in Turkmenistan, rated 2.

The Arbitration Court of Turkmenistan (Araki Kazyet) is responsible for protection of the Commercial law. The Court has 13 categories of charges, pre- and post contract, including taxation, regulatory compliance and bankruptcy.

In practice, this system does not work. For example, the MTS daughter company BCTI, after having received a note about its license suspension, tried to argue its case in court. The company requested to invalidate the suspension and demanded that the Turkmen Ministry for Telecommunications provided documents and decrees for the suspension. The Turkmen courts refused to take both cases. The court stated that the letter from Ministry for Telecommunications was not a necessary document, and is not necessary for the court's consideration. The court also stated that it was not in its judicial power to order the Ministry for Telecommunications to provide the decree for the suspension of the BCTI's license. The Arbitrary Court and the Superior Court of Turkmenistan did not make any additional decisions and the case was not resolved.

United States authorities strongly recommend their companies to implement conditions in their contracts that allow for questions and arguments to be arbitrated outside Turkmenistan.<sup>39</sup>

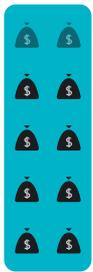
## **12. Do companies have any opportunity to express their positions publicly in the Turkmen media?**

All interviewed experts agree that such opportunity does not exist. Neither MTS nor Turkish companies, as well as other companies working in Turkmenistan, that experience problems at the local market, do not have any opportunities to share their difficulties with the media. The experts believe that the companies do not have any opportunity to publicly express their positions in the media. The only position possible to express is the one that is suitable to the authorities. One of the experts noted: "There is always an opportunity to express a position that compliments the government. One can pursue own initiative, but with more difficulties. Sometimes the government asks foreign investors to say something good about the regime in the media. One can never express a critical position."

In the opinion of another expert, “there is practically no Turkmen media. The general public watches satellite TV, in Ashgabat almost everyone has satellite dishes, and in the rural areas there is enough satellite TV.”

### 13. How do you evaluate the corruption level of the Turkmen bureaucracy

(on a 10-point scale, 1 meaning no corruption, and 10 – total corruption)?



**172**

Transparency International 2010 Corruption Perception Index

**205**

World Bank Control of Corruption Index

The experts believe there is a very high level of corruption in the country, rated 8, which is not surprising. Turkmenistan is rated 172 out of 178 according to Transparency International 2010 Corruption Perception Index,<sup>40</sup> and 205 out of 210 according to the World Bank Control of Corruption Index.<sup>41</sup> In the opinion of the interviewed experts, the Wikileaks data regarding corruption in Turkmenistan is close to reality.

### 14. How do you evaluate the corruption level of various government agencies

(at a 10-point scale, 1 being absence of corruption, and 10 being total corruption)?



In Turkmenistan, as the experts conclude, corruption has affected not only the top levels, but petrified all levels of government. Judicial system has been affected less by corruption due to its low level of independence and its complete submission to the central government.

Some experts believe that “corruption is a part of national culture. One cannot get a simple paper without a bribe. It is simply obligatory.” One expert points out that “everybody accepts bribes and the rates have been growing. There are situations, however, when money do not resolve an issue.”

One document released by WikiLeaks states that “since Berdymukhamedov came to power, the rates for international companies to meet with the President have grown by 10-15 percent, and the cost of construction contracts was raised by 30 percent. The raise is due to the fact, that the bribes have to be paid to everyone: from a small sub-contractor to a high level government official.”<sup>42</sup>

According to the US Embassy, Berdymukhamedov as well as Niyazov, high-level officials have to share with their subordinates.<sup>43</sup> Niyazov at some time got rid off those officials that did not share down the “food chain”. Berdymukhamedov follows the same principle.<sup>44</sup>

There is another opinion. One of Russian experts notes that “the level of corruption in Turkmenistan is not as high, but grows with each rang of a bureaucrat. One example: out of all former ministers of defense only two are not in prison (one of them was substituted in March, 2011).

One of the interviewed experts answered: “A problem of dictatorship regimes is that when a dictator says 'no' – nothing can help; but if he says 'yes' – it does not mean anything, and one will have to go and negotiate with executives of certain levels.”

## 15. The Most Influential Personas in Turkmenistan



President of Turkmenistan  
Gurbanguly Berdimuhamedov

Our experts believe that President Berdymukhamedov is a key figure in the decision-making process of Turkmenistan. He is also Chairman to the Cabinet of Ministers. Berdymukhamedov in his personnel policy follows the same principle as his predecessor Niyazov, which is to ensure fast personnel rotation.

One expert has commented on this principle: “There are no influential groups in Turkmenistan. All contacts are centered on the president. He destroys any potential competitors. Personnel rotation takes place every six months. There is a clear pyramid of authority crowned by the president. The elites, who have an opportunity to make money, first of all think about how to get the money out of the country, and then run away themselves.” The expert excludes any opportunity to establish an influential group that would threaten the president’s powers.

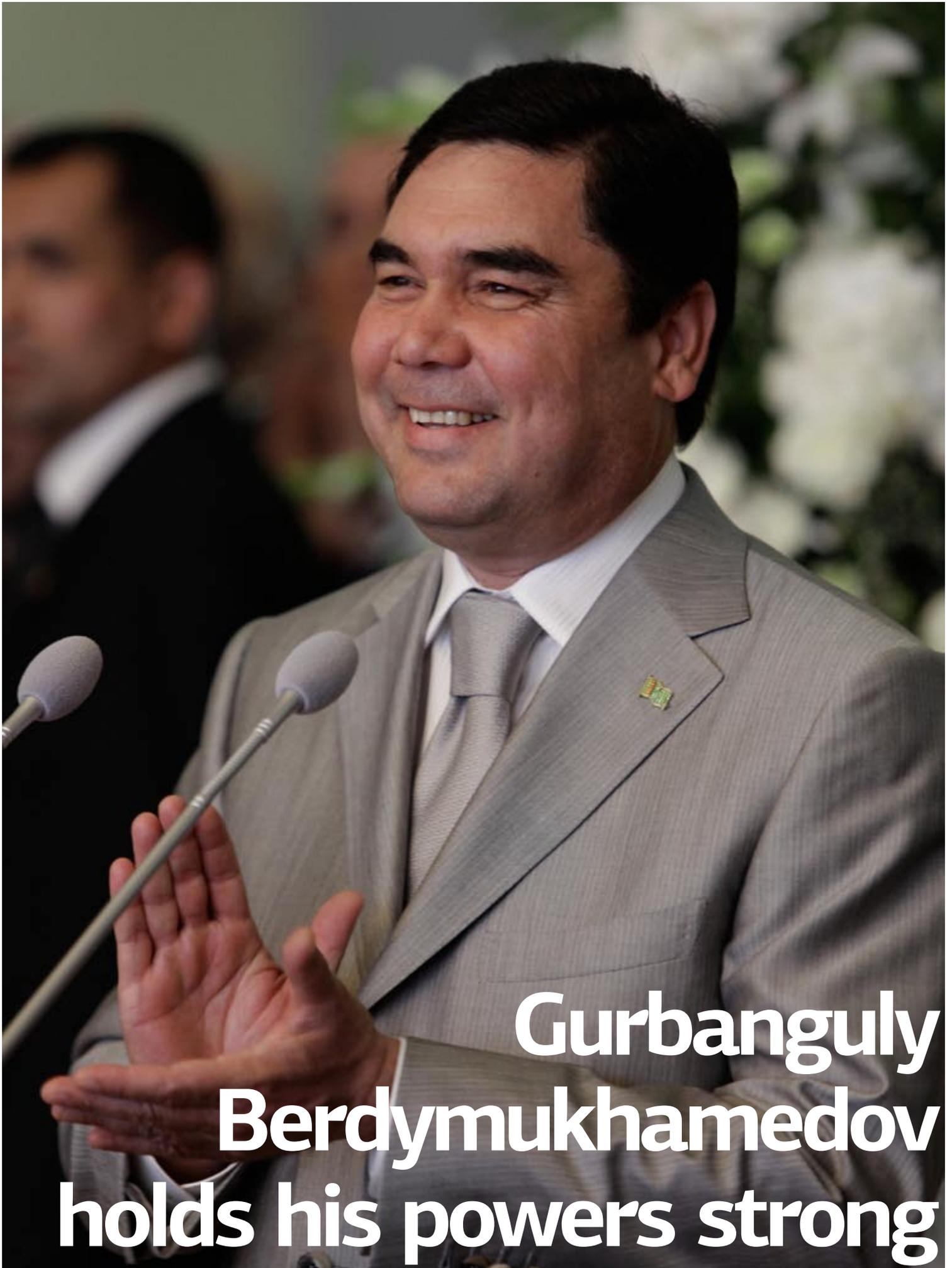
Alexander Sobianin, an acknowledged expert on Central Asia, believes that “Gurbanguly Berdymukhamedov holds his powers strong; powerful politicians are forced out of the country or are in prisons, and successful managers sworn to Berdymukhamedov or removed from their positions.”<sup>45</sup>

Some observers also note that Berdymukhamedov methodically removed people, who helped him come to power and signed the obituary for Turkmenbashi Niyazov, and also known as the Group of 29. Today there are only eight remaining members of the group: Atageldy Gulgeldyev, Spiritual Leader of the Mosque of Turkmenbashi in Kipchak; Chygeldy Seryaev, Chairman of the Presidential Council on Religion; Orazmurad Niyazliev, Governor of Orazmurad State; Alexander Zhadan, Deputy Manager at the Administration of the President; and President's Assistants – Viktor Khramov and Kurbandury Torayev; Rashid Mermedov, Deputy Chairman of the Cabinet of the Ministers, and President Berdymukhamedov himself.<sup>46</sup>

The evolution in the corridors of power after Niyazov's death described Czech researcher, Slavomir Gorak: "The ruling elite of Turkmenistan, which existed by the end of Niyazov's life, started to change right after the presidential elections. Berdymukhamedov's strong position has emerged, presenting him as Turkmen N1 on paper in real life. Despite the cut down on the President's duties, during the first days of Berdymukhamedov's appointment as Interim President was confident and indicated that he will not depend on his patrons. A week compromise leader often turns out to be a stronger one. We can easily find examples in the history of the Middle East as well as in the Soviet Union in the 20th century. Niyazov himself in the late 1980s was a leader of compromise for the Turkmen elite and Moscow leadership. When he received his presidential duties and became the first man in Turkmenistan, Berdymukhamedov started to build a regime of his personal power rather than oligarchy or tandem (together with Redzhepov) government style. In case when there is a number of elite groups without an outstanding leader in Turkmenistan's politics there was enough space for a potential conflict of these groups, who had their eyes for the power. Berdymukhamedov seems to understand this dynamic. During the formation of the new government he said that he knows how to conduct cadre policy in Turkmenistan. The new president surrounds himself by people he knows well, and how were at some point not as favored by the former Turkmenbashi. Such strategy, however, did not affect those, who were arrested: Dzhemal Geoklenov and Hydyr Saparyev, who were respectively Minister of Textile Industry and Director of Polytech Institute, and later Minister of Education."<sup>47</sup>

Gorak notes "The people, who practically promoted Berdymukhamedov to the presidential position, in the end had exemplary destinies in the conditions of a political regime such as in Turkmenistan. We are talking here about the group led by Accurate Redzhepov and his circles (defense officials). At first, they all kept their positions. This group, in fact, could threaten Berdymukhamedov's positions as a new national leader. Minister of Internal Affairs, Akmamet Rakhmanov, was removed from his position first. This was a populist measure, because the general public believes that the defense officials are the most corrupted and notorious state institutions. The key indicator for the emerging consolidated power of Berdymukhamedov was the removal of all-powerful Akmurat Redzhepov and other members of his clan in May 2007. Redzhepov lost his allies. After Redzhepov's trial in July 2007, other people that potentially had connections to him were fired, includ-

## Deputy Prime-Minister can be removed any time unlike the Speaker of the Parliament



# Gurbanguly Berdimukhamedov holds his powers strong

President of Turkmenistan Gurbanguly Berdimuhamedov

ing Payzygeldy Meredov and Orazberdy Khudayberdyev, Railroad Transportation Minister. The official media did not pay attention to such cadre shuffle, which was normal for Berdymukhamedov's regime. The tactics of popular exposure and pompous trials follows the tradition established by the previous president. Other military officials were expected their discharges shortly, even though they helped Berdymukhamedov come to power and know the real reasons for death of Turkmenbashi.<sup>48</sup>

One of our experts also notes, “Berdymukhamedov minimized the opportunities for others to take over. In particular, thanks to the Constitutional Law, the rule of the transfer of power in case president dies. The presidential duties will be transferred to the First Prime-Minister instead of the Speaker of the Parliament as it was before. Deputy Prime-Minister can be removed any time unlike the Speaker of the Parliament, which is elected by the Parliament and can establish his own power in theory.”



President of Turkmenistan Gurbanguly Berdimuhamedov

The experts do point out other important leaders in the politics and economy of Turkmenistan. More than 20 times were mentioned the names of Viktor Khramov, Rashid Meredov, Minister of Foreign Affairs, Alexander Zhadan, Deputy Director of other Presidential Administration. The trio of Khramov-Zhadan-Umnov included Vladimir Umnov, who is no longer in power (some experts used his name automatically).

These persons' secret to political survival is in their technical roles and lack of attachment to any Turkmen tribes. “Meredov is only half-Turkmen, and until recently he spoke poor Turkmen language. Inside the tribes he is not criticized enough. Russian Khramov and Zhadan of a Jewish nationality, who was Treasurer during Niyazov's presidency, do not have a single chance to political independence,” points out one of the experts

Another expert supports this opinion. He believes that among the influential people “there is a group of advisors that survived after Turkmenbashi, but they are not Turkmen and are able to remain in their positions, because they do not seek power. Unlike ethnic Turkmen, they are qualified for their positions—Viktor Khramov, Assistant to President, and Alexander Zhadan, ethnic Jew and a former Treasurer, Deputy Director of the Presidential.” Khramov has some influence on the gas and oil industry. Both, Khramov and Zhadan, influence the media, international affairs and education. Khramov is also called “an architect of the personality cult of Turkmenbashi and a similar model cult for the new president.”

One political analyst noted: “There is an old Eastern tradition to have a trusted person, who does not represent a local population (originally from the governor's slaves, later

from non-ethnic population), because such people tend not to have political ambitions and will be devoted to their patron. In Uzbekistan and Turkmenistan these people are Jews (Bukhara Jews in Uzbekistan), and in Kazakhstan these are Jews and Koreans, for example, deceased Kim.”

Central Asia Expert, Vitally Khlupin points out that we should not overrate the role of advisors and those close to the Turkmen President. “Each authoritarian leader of the Asian or African type has groups of foreign national, who take upon important roles. First, it is image (communication with the external world); second, is the ability to use them literally as slaves (...) to produce ideology follies, such as Viacheslave Golyshev for Karimov; third, in this case business negotiations in Europe and hiding of capitals and their transfers. Because such people are of a foreign ethnicity and do not belong to any tribal system, one can trust them with the most precious thing – khan’s wallet and other delicate issues. Each leader in Central Asia has some sort of trustee of a preferred nationality. I repeat myself; this is not a phenomenon, but rather a common practice: the leaders often chose their security guards from foreign nations for the reason their service is honorable and honest. The Central Asia ‘puppet masters’ could only exercise their power for a short period of time, when the new leader has just come to power: once the new leader establishes himself – they all would be purged. The trio of Zhadan-Khramov and Umnov (the latter, ethnic Russian, according to our sources has lost his influence) were never puppet masters. Even though influential, they represent service only to the regime.”<sup>49</sup> Khlupin also notes on Rashid Meredov, “he has the same role as the all-Soviet Elder, Michael Kalinin was for Stalin, and confirms some sort of a legitimate power transfer tradition. In the real practice, he is just a bureaucrat, maybe with a little more authority in comparison to the major Sargas of the Desert.”<sup>50</sup>



Javier Solana, European Union’s High Representative for Common Foreign and Security Policy, visits Turkmenistan

Rashid Meredov is considered to be one of the most talented politicians in the current government with extensive experience in international contacts. We can suggest that Meredov directs diplomatic policies of Berdymukhamedov.<sup>51</sup> Other ministers in the government, in the opinion of the majority of experts, other ministers have little influence on the decision-making.

Dovlet Atabayev, the President’s son in law, was mentioned ten times among the influential people as he chairs the Presidential Agency for Gas and Oil Resources Management. Many experts point out to the influence of the President’s relatives. In one of the Wikileaks documents of the US Embassy in Ashkhabad, Aynabat Berdymukhamedova, sister

of the President, is indicated as a person who has an influence on him.<sup>52</sup> Among other influential people are his mother and a cousin. Many less known relatives control café, restaurants, Internet-café and shopping centers.

A few times were mentioned the names of Maysa Yazmukhammedova, Deputy Chairperson of the Cabinet, Bayramgeldy Nedirov, Minister of Oil and Gas Industry and Mineral Resources, Yagshigeldy Kakayev, Head of the Presidential Agency for Management and Use of Fossil Fuels, Khydyr Saparlyev, Dean of the Turkmen Polytechnic Institute, and Yusup Ishankuliev, Manager for Presidential Affairs.

French analysts inclined to believe that the role of Yusup Ishankuliev is higher. They state, "The ministerial permutations in January 2009 could have been caused the growing competition between the gray cardinals, namely Viktor Khramov and Yusup Ishankuliev. Khramov represents one of the major ideologies of the regime, and is responsible for the relations with media and has an influence on the Ministry of Foreign Affairs. Until recently, he had a huge influence on the appointment of the public officials. Ishankuliev controls large construction projects financed by the state and assigned to foreign partners. He plays an equally important role in the politics of assigning the roles, with the latest officials being appointed in 2009 from his circles."<sup>53</sup>



Rashid Meredov, Foreign Minister of Turkmenistan (to the right)

## 16 Assess the role of the tribal factor in the government decision-making

(on a 10-point scale, 1 meaning zero influence, and 10–huge influence)

The experts rate seven the importance of tribal connections in the decision-making. The basis for the political and economic elite is comprised of Berdymukhamedov's Akhal and Tekhin tribes, which results in the conclusions about the emerging tribal and ethnic unrest.<sup>54</sup> Traditionally, the Turkmen people have been comprised of several major groups and multiple small tribes, inhabiting various parts of Turkmenistan. The Tekhins from the central and south areas of the Akhal Region were influential during the soviet times. Two other important, but politically marginal tribes, are the Yomud in the west towards the Caspian Sea, and the Ersar people, inhabiting eastern territories on the border with Uzbekistan.

The local observers notes, "One cannot talk about any other tribe's influence but Tekhins."<sup>55</sup>

The latter live in the southeast of the Mary Oblast. The Mary tribes, unlike, those in Akhal, do not have access to power despite their location in the area of natural gas deposits.

In the words of one of the experts, the Tekhins from Akhal occupy  $\frac{3}{4}$  of the key political posts, including the Government and regions. The process is known as “Akhalisation.”<sup>56</sup>

Berdymukhamedov belongs to the Akhal Tekhins. In comparison to the previous leader, he has stronger connections in his native land. Niyazov was known to be an orphan, his phrase “Where have you been, when I to the orphanage?” is well known in dealing with relatives and kens from tribe.

Experts do not have a common opinion whether President Berdymukhamedov is a strong leader of his tribe.

Some of them say, “Even though influential, he is not a front men. Berdymukhamedov is not the person at the front of the ship, and he has to seriously consider opinions of his tribe. His power is stable as long as he supports the balance of inter-tribal interests.”

Others state that the Tekhins control drugs, and with the support of the tribe, influence the composition of the government.<sup>57</sup> In addition, some experts believe that the population in counties and the tribal representatives do not mix with each other, which leads to increased tensions.

Regional observers believe that Berdymukhamedov in his tribal policies follows the former President of Kyrgyzstan, Kurmanbek Kayev, which results in the deep involvement in the tribal matters.<sup>58</sup>

“He digs his own grave, when he makes some appointments and indicates his preferences for Tekhe tribe over the others, especially for the regions where he comes from and for his family members. The people will endure these practices, but will discuss and remember the details. Rumor spreads, and the additional details come up. This all will lead to trouble.”<sup>59</sup>

On the other hand, there are some positive aspects of Berdymukhamedov’s involvement with the tribal (social) context, as some experts point out. He knows what the real life looks like from his relatives and tribe members. “Turkmenbashi would live in Cosmos if he knew about the lives of people, phone tapping and etc., and the present one at least has some sort of a feedback.”

Many of the interviewees point out to the high evil of family ties, including in hiring for basic jobs and at all levels.



**Map of the clans and tribes dispersion in Turkmenistan**

# UZBEKISTAN

Dashoguz

Turkmenabat

*Amu Darya River*

Kerki

Cowurdak

Tejen

Mary

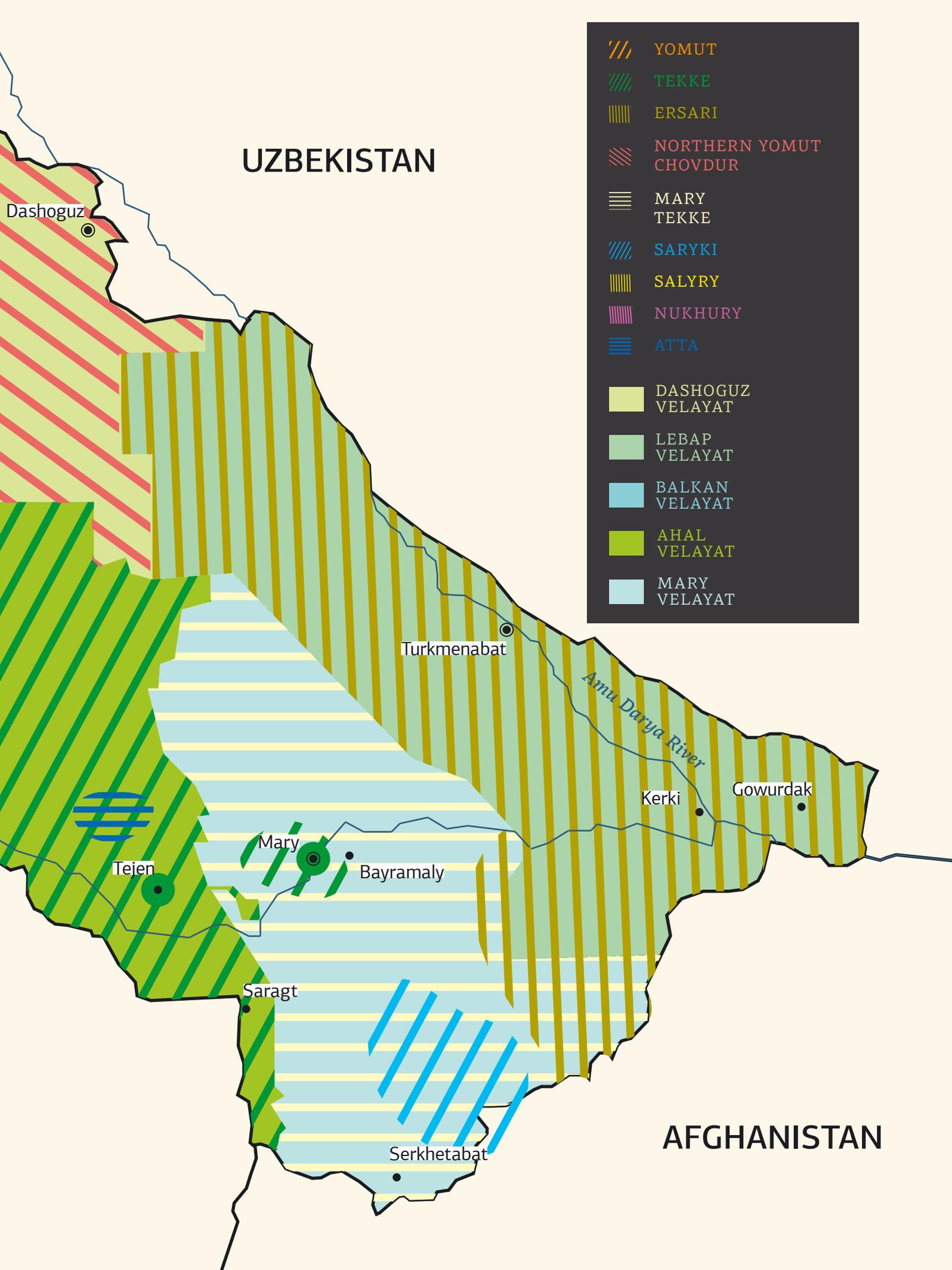
Bayramaly

Saragt

Serkhetabat

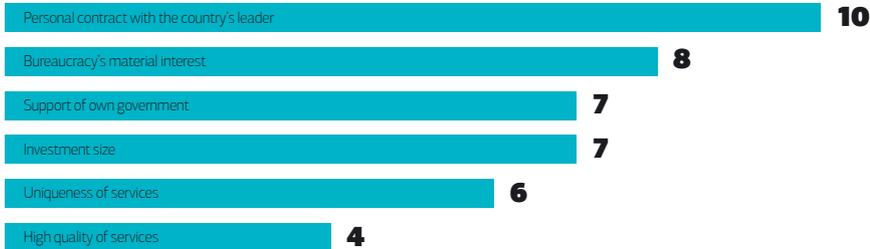
# AFGHANISTAN

- YOMUT
- TEKKE
- ERSARI
- NORTHERN YOMUT CHOVDUR
- MARY TEKKE
- SARYKI
- SALYRY
- NUKHURY
- ATTA
- DASHOGUZ VELAYAT
- LEBAP VELAYAT
- BALKAN VELAYAT
- AHAL VELAYAT
- MARY VELAYAT



## 17. How do you evaluate the importance of the factors indicated below for successful business in Turkmenistan?

(on a 10-point scale, 1 is the lowest and 10 is the highest)?



The experts point out the personal contact with the country's leadership to be the most important factor. The bureaucracy's material interest is important, which is typical for the countries with a high level of corruption. Uniqueness and high quality of services remain on the backstage.

In some cases, the support from the national governments is important. For example, "Russian companies without the government support could not do anything, and some Austrian firms are successful without any support." Another experts argue, "In today's conditions, a company's affiliation with the Russian Government is a minus. Itera, for example, remained on the market because is viewed as an independent player from Gazprom or Russia." The government's support, majority agree, is important for Chinese companies.

Additional factors for success in the Turkmen market are "preparedness and ability to be flexible for the Turkmen business rules (which can be weird at times)," novelty of goods and services, reputation as well as brand.

One expert characterized "the rules of a game" in Turkmenistan as follows: "To understand the psychology of the Turkmen elites, one should understand its genesis. The Akhal Tekhin by the ring of a desert. What is the scariest for a conqueror, for the 'big guy in the village'? It is to loose face in front of the own people. In the situations, when it feels they do not get a proper respect, finances and profits become unimportant, and they are ready to loose their benefits. Gazprom is a good example. The Russian corporation believes that they treat Berdymukhamedov according the accepted business strategy. He feels lack of respect. First, the signed contract was cancelled. Second, the Russians announced about the explosion on the side of the pipeline that had been renovated recently by the Turkmen, which means poor maintenance. Third, the Turkmen khan believes that the problematic issues should be addressed with him personally rather than with his representatives. For him, the major Russia's Khan is Putin. Berdymukhamedov believes that when in case of crisis the leader does not call him directly, it is an indication of disrespect.

Gifts are important. A horse is a good gift for a security guard. It is a tradition to think about the gift, do one's best and find something important and rare. Berdymukhamedov has a garage full of rare cars given by foreign businessmen, even though there is no place to drive them. A yacht is a good gift. Sometimes one has to experience humiliation, but reasonably and it comes only with experience. When a new leader emerges, the Turkmens test the person, meet him or her at the airport through a regular rather than V.I.P. entrance or would hold at the passport control for an extensive period of time. These tests may last even after being acquainted for a number of years.

There is a special attitude towards agreements. Any agreement for khan is a declaration about intentions, and not an obligation. You can only force a khan to abide by the agreement by force or deterrence.”

Another expert joins the discussion: “A corporation can never compete with the tribe. It does not have power tools (with some exclusions), and it has to play by the rules while the tribe plays outside the rules, especially in relation to a merchant. A merchant can be robbed and incarcerated. The leader of another tribe is a different story. It is important to have an opportunity to use pressure and violence, as well as an ability to use it. That is why there is no much respect towards Russia or the European Union despite all the available potential. The United States, on the contrary, can organize a coup, which represents a serious matter. The Turks, Iranians, Afghan militants, as well as Israel with its intelligence represent a serious threat. Even Islam Karimov despite his domestic problems, made respect himself by setting mines on the Uzbek borders with neighbors. They do not yet understand the Chinese, and that is why they shy out.”

Some experts do point out that Berdymukhamedov has a desire to look respectable on international arena.

A Kazakh expert notes that Berdymukhamedov “was influenced by Nursultan Nazarbayev. You can wear a decent suite and be respected by the West as an equal or almost equal. But later he sensed that because of the existing resources in Turkmenistan no one would ask for any real changes in the country. A fake second party, for example, or leaving alone some companies would be enough to receive forgiveness. They will even fawn. He likes it, it raises the self-worth.”

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## 18. Name the most successful companies in the Turkmen market

Among the companies that work in Turkmenistan, the experts name the most Polimeks İnşaat (Turkey) and Bouygues Batiment International (France). In the second place are CNPC (China), Chalyk (Turkey), Siemens (Germany), Dragon oil (UAE + Ireland) and Gazprom in alliance with Itera (Russia). The experts hardly mentioned Petronas (Malaysia), Merhav (Israel), John Deere (US) and Shlumberge (France). Other companies were mentioned only once.<sup>60</sup>

Personal connection with the President was on the first place among the contributing factors to a company's success. Among these companies are Chalyk, Merhav, Polimeks, Bouygues, and partially Itera.

The reasons for the preference treatment were explained as follows: “The President continues cooperation with foreign businesses, which had an influence during the predecessor. Mostly it is related to the Turkish businessmen, Erol Tabandzhi and his company Polimeks as well as French Bouygues. Both companies continues to win new bids for construction projects in Ashkhabad, and will participate in the construction of a resort in Avaza.”

## The French Bouygues has received all the most important construction contracts

The French Bouygues has received all the most important construction contracts. The current leader and his predecessor used only Bouygues for the major construction projects. Martin Buig is being received at the highest level at least once a year.<sup>61</sup>

Success for Russian, Turkish and Israeli businessmen during the Turkmenistan's statehood formation was due to their role as the Turkmen power's partners as well as geopolitical agents.

“Chalyk (a Turkish businessmen, Ahmed Chaly during Niyazov was a deputy Minister for Light Industry and Advisor to President) lobbied a system of the state control and worked on the issues in the Middle East. Meyman (or Mayman, and Israeli's Merkhav executive) was a partner all around the world, including in the US. Valery Otchertsov, former Turkmen Prime-Minister, and a VP of Itera served as a lobby in Russia and Ukraine.”

A former Israeli intelligence Yosi Meyman was a trusted person of Turkmenbashi, and helped him establish relations with the Western elites. As gratitude, Merhav became a long-term partner of the Turkmen government. Major contracts are in Central Asia, Azerbaijan and Venezuela. Merhav works on developing its business in Belarus, lead by the former

## Merhav invested 1.7 billion US dollars in Turkmenistan

company's representative in Turkmenistan, Michel Mirkin. Merhav is worth three billion US dollars, and its President, Yosi Meyman is one of the richest in Israel.<sup>62</sup> The company specialized in gas and oil energy installations, sewage systems and telecommunications. According to some experts, the company represents the Government in the Republic's gas and oil projects. Merhav invested 1.7 billion US dollars in Turkmenistan, mostly in energy and agriculture. It was considered one of the two most influential foreign companies in Turkmenistan.<sup>63</sup>

The influence of a Turkish businessman, Ahmed Chalyk, has significantly decreased after Niyazov's death, and at some point he even could not leave the country for some time. Another Turkish company, Polimeks İnşaat, took his construction contracts. The company specialized in construction and infrastructure projects. The construction of the Arch of Neutrality was trusted to the company, which was a 63-meter construction with a 12-meter statue of the former President Niyazov covered with gold.

A Turkish group of gas and oil companies, Calik Enerji, was established in 2001 to work on upstream, midstream and downstream. Turkmenistan constantly has projects with the company. In June 2006, B Calik Enerji has completed a three-year project to drill the deposits on land (Korpedzh and Akpatlavuk in the Balkansky Region, and Yolotan in Mary). In July 2008, Calik Enerji signed a contract to build a gas-propelled electric station in the capacity of 254 MWt in western Turkmenistan (Balkanabat), which was completed in March 2010.<sup>64</sup> In 2003, based out of Houston, Parker Drilling<sup>65</sup> signed a three-year agreement with the state corporation "Turkmenneft" to install two drilling systems.

Russian Itera is one of the most successful in Turkmenistan. It was established by the native Turkmen and "in the 1990s, it was a mediator for all gas schemes involving Turkmenistan, Ukraine and Gazprom. In the 2000s due to the leadership change, Itera lost its Ukrainian project, but had attempts to come back by partnering with Julia Timoshenko. Valery Otchertsov, is a former Deputy Prime-Minister of and a VP of Itera)" has been a Turkmen lobby in Russia and Ukraine.

Despite the fact that the cooperation between Itera and Turkmenistan is not a large-scale engagement any more, it remains strong. In 2010, Wikileaks published a confidential wire of the US Embassy in Ashgabat, which characterized Itera's business in Turkmenistan as broad and hard to define.<sup>66</sup> It is true, Itera's construction department, "MRK Engineering" built the pipeline Central Karakum – Jylanly with a capacity of five billion cubic meters per year, and it connects the Turkmen deposits with

a major pipeline in Russia.<sup>67</sup> Itera also participates in the resort construction in Avaza at the Caspian shore. Itera-Investstroy plans to build a luxurious hotel there, as well as a sports complex with a stadium and a hotel in Turkmenabat in addition to a business center in Ashgabad.<sup>68</sup> President of Turkmenistan asks Itera with specific requests for personal needs, such as a delivery of a new yacht,<sup>69</sup> which indicates a special level of trust to the company.

As already mentioned above, the government's support is especially important for the success of Chinese companies. Chinese CNPC entered to the Turkmen market after the agreement on gas cooperation was signed between China and Turkmenistan in July 2006. Chinese CNPC and PetroChina established Sino-Turkmenistan Gas Pipe Corporation to build a gas pipeline from Turkmenistan to China, assessed priced at fourteen billion of US dollars. In July, CNPC signed a thirty-year contract with China to buy thirty billion cubic meters per year, conditioned by thirteen billion cubic meters coming from Baktiarlyk source developed by the CNPC, while other gas sources are unclear.<sup>70</sup> CNPC is a member of a consortium, which includes LG International (South Korea), Hyundai Heavy Industry (South Korea), Petrofac (UAE), and Gulf Oil and Gas Corp (UAE), which won a ten billion US dollars contract to research and produce gas in South Yolotan.<sup>71</sup> Beijing did not agree to give out a four billion US dollars credit to Ashgabad, ¾ of which were planned to support the South Yolotan site.

Turkey has started to defend its interest at the highest level in Turkmenistan. Turkish President, Abdulla Gul, visited Turkmenistan on May 30, 2011. A desire to gain Berdymukhammedov's support does not come as a surprise. According to The Turkish Committee for External Economic Affairs (DEIK), the country's construction companies have been developing over eight hundred projects priced at twenty billion US dollars. Investments in Turkmenistan comprise 1.5 billion US dollars.

BKK of Belarus represents a key participant at the global market of potassium fertilizers, because of its exemplary business model based on the state support. Currently, the company is building a plant at the Gralyksky potassium deposit. Belarus Geology and Exploratory Expedition and the Research Institute "Belgorkhimprom" work on the enrichment complex with a capacity to produce 1.4 million tones of minerals based on the Gralyksky deposit. The launch is planned for 2014.<sup>72</sup>

Belgian Enx process engineering S.A. is a new player in the market lead by a Lawyer Koen Minne. In 2010, the media reported seven personal meetings of the Enx leader with the President of Turkmenistan. According to the EUObserver.com, Enx signed a large contract to supply Turkmen gas via Baku-Tbilisi-Erzurum at the end of 2010.<sup>73</sup> In May 2011, Koen Minne met with President Berdymukhammedov dur-

## Russian Itera is one of the most successful in Turkmenistan

ing the latter's visit in Romania in May 2011.<sup>74</sup> Plans, however, may remain only plans. Enx promised to invest in a silicon plant construction in 2007,<sup>75</sup> and later – to develop the renewable energy market in Turkmenistan (solar and wind).

As part of his visit to France in February 2010, Berdymukhamedov signed an agreement about the project “Efficiency of Energy Supply for Ashghabad” between the Turkmen Energy and Industry Ministry and Schneider Electric (France) and Enx process engineering S.A. According to the agreement the companies are to complete the renovation project for energy supply in Ashghabad.

The success of others cannot be attributed to one of the factors. John Deere, an agricultural technology producer, deserved a long-term success with Turkmenistan due to its unique supply of the modern technology (and first of all, combiners<sup>76</sup>). This company does not do any investment in the country; its sole purpose is to deliver on the pre-paid contracts.

Let us look closely at some other successful businesses in Turkmenistan. The interests of the majority are concentrated around the resources extraction (exception, Siemens). Siemens plans to grow its presence, according to its representatives at the Turkmen market. In particular, the German corporation has chances to participate in the national development programs for the energy sector as well s to participate in the establishment of the modern energy infrastructure.<sup>77</sup>

Dragon Oil is the largest produce of oil in the country, extracting at present fifty-seven barrels per day. The UAE Company opened the first oil refinery in the country, which belongs to a foreign company.<sup>78</sup> According to the Crude Accountability report, Dragon Oil received a contract for 25 years in 2000 to explore and extract oil and gas in Chelken, which includes to deposits Dzeytun (Lam) and Dzhilgalybeg (Zhdanov) in the size of 950 square kilometers. According to the agreement to divide the commodity, Dragon Oil gets 147 million barrels of oil out of 389 proved and possible, and 27 billion cubic meters of gas.<sup>79</sup> The investments to increase the extraction in Chelken are evaluated at 1.5 billion dollars.

Malaysia's Petronas and Turkmenistan signed a 25-year a production sharing agreement to conduct research and extract fossil fuels in the area of deposits Garagel-Denise (Gubkina), Deriabekir (Barinova), and Magtymguly (East Livanova). The company was the first to sign such an agreement with Turkmenistan. That year, the Turkmen authorities announced that Petronas plans to invest over 210 million US dollars. By 2002, Petronas has successfully drilled four exploratory holes, which indicated wide deposits of gas and oil with a strong flow. In October of 2003, Petronas signed a Memorandum of Understanding Dragon Oil to

## Dragon Oil is the largest produce of oil in the country

research opportunities for cooperation and partnership. In June 2007, the company announced about the expectations to produce up to 10 billion cubic meters of gas per year. In December of the same year, Petronas received a permit to build oil platforms and an opportunity to participate in the pipeline construction in Turkmenistan.<sup>80</sup>

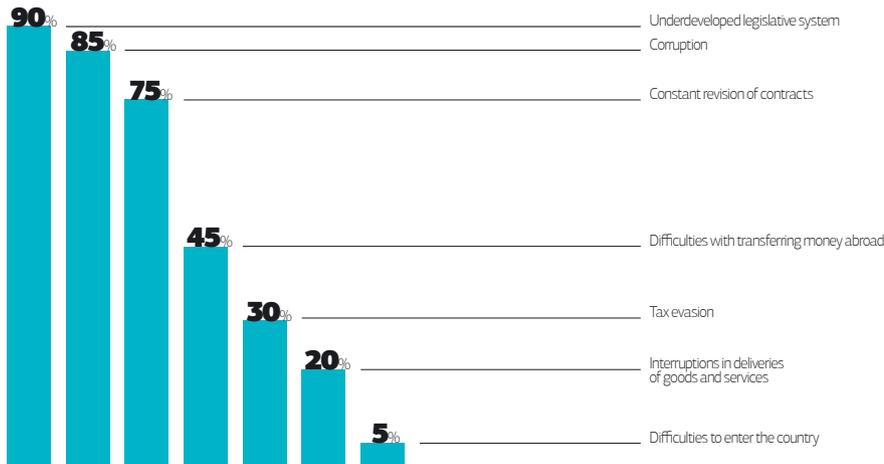
Burren Energy is a British oil company, established in 1994 by Baring Vostok Capital Partners to offer reliable oil export routes from Turkmenistan. The company came to Turkmenistan with the support of the former President, Saparmurat Niyazov. Burren Energy has been working in Turkmenistan for over ten years.<sup>81</sup> In 2007, Italian ENI bought Burren Energy, and today works to gain support of the Turkmen leadership. Turkmenistan expressed its public support to ENI in September 2010 in transportation of condensed gas through the Caspian Sea to Azerbaijan.<sup>82</sup>

Dutch Maersk Oil and German Wintershall develop deposits of Block 11 and Block 12 in the sea region of Turkmenistan in the north-east of South Caspian and only 35 kilometers away from the gigantic deposit of Azery-Chirag-Guneshli, which is being operated by British Petroleum.<sup>83</sup> Maersk Oil signed an agreement to explore and extract the minerals from Blocks 11 and 12 which amount for 5,700 square kilometers of sea territory, that belongs to Turkmenistan in 2002. After having pre-paid the license agreement free, Maersk Oil owned thirty six percent of the deal in 2007. Wintershall is an operator with thirty-four percent share, and OMEL holds the remaining thirty percent.

Austrian Mitro International and the State Corporation TurkmenOil signed the agreement to develop Khazarsky deposit near the Turkmen shore in 2000. The consortium started a five-six year program of drilling in 2002 with at least thirty wells in the east of Chelkenskoye deposit. According to some sources, the company was able to extract 30,7000 tones of oil, and planned to produce 400,000 tones in 2003. Boris Levenstein, the company's CEO, met with Berdymukhamedov in Ashghabad in December 2007 to present him with the latest information about the company's work in Turkmenistan. Levenstein expressed Mitro's readiness to pursue the development of the off shore deposits. In February 2008, Mitro International extracted 7,000 barrels of oil per day in the Eastern Chelkenskoye.<sup>84</sup>

Stroytransgas represent the latest Russia's success and is a daughter company to Gazprom.<sup>85</sup> The company signed a contract to build Malay-Bagtyyaryk pipeline in 2007. This pipeline would become a part of Central Asia-China pipeline, and has the length of 7,000 kilometers and has the capacity to transport thirty billion cubic meters of natural gas from Turkmenistan to China through Kazakhstan and Uzbekistan. The project was completed in 2010.

## 19. What are the major challenges for the foreign companies in Turkmenistan?



As we see underdeveloped legislative system and corruption are among the major challenges. The experts note that Turkmenistan is known to take away a successful business (denial in contract extensions, raids, and etc). Investment and commercial conflicts between Turkmenistan and foreign companies are usually of three types: tax evasion, interruptions in delivery of services and goods, and contract revision.<sup>86</sup>

The Government of Turkmenistan can accuse a company in contract obligations violations in order to cover for its own inability to pay its own credits. When the state companies are guilty of interruptions in deliveries, the state often ignores the demands to fulfill the contracts for delivery. Leadership change in any agency, which signed the initial contract, often leads to updates in the contract, including profit allocation, parties' responsibilities, deadlines and types of payments.<sup>87</sup> The institutes in Turkmenistan are not efficient, and informal relations, as usual, dominate formal agreements.

Other challenges are caused the difficulties in taking the earned money outside the country. The interviewees gave examples, when foreign companies had to re-invest even in such projects as image campaign for the Turkmen authorities.

The visa process cases an additional difficulty for international businesses. The visa regime in Turkmenistan was tightened in March 2001. A special visa mission will make decisions about visas. Quotas were introduced to punish the visa regime violations. Observers connect these measures with the fear of the Turkmen authorities of any "colored revolutions."

### Among other problems for foreign businesses, experts pointed out the following:

Lack of knowledge about the foreign decision-making rules and transparency

Lack of transparency in decision-making

The fact that all decisions are made by the head of state or political elites solely in their own interest

Changes in the priorities and network configurations, which is hard to envision

The absence of independent courts

A lengthy procedure of state contracts registration at the stock exchange

A delay in contract payments

## 20. Name unsuccessful examples of investments in Turkmenistan

The International Centre for Settlement of Investment Disputes is currently reviewing three investment charges against Turkmenistan. All of the charges come from three Turkish companies: two from the construction firms – Ickale Insaat Limited Sirketi and Kilic Insaat Ithalat Ihracat Sanayi ve Ticaret Anonim Sirketi, and one – from Adem Dogan. The first two cases are linked to the development projects in Turkmenistan, and the third – an argument is linked to aviculture. The investments of the first two companies in Turkmenistan were twenty and ten million dollars respectively and were allocated for construction projects.<sup>89</sup> Ickale Insaat Limited Sirketi stated about its plans to build a bridge through the Amudaria River near Seydi. The contract cost 57.5 million Euros.<sup>90</sup> Nobody knows the future of the project.

One of the expert notes, that in the past there were cases to pressure Turkmenistan through international courts. For example, an Argentinean firm Bridas appealed to the Arbitration Court of the International Chamber of Commerce's after the Turkmen leadership stopped this company's oil and gas export. Nyazov's administration demanded to increase its government's profits, and stated that the signed production sharing agreement was not profitable. The court demanded Turkmenistan to pay Bridas 500 million of US dollars, but Turkmenbashi responded by expropriating the Argentinean office in Ashgabad.

A German businessman of a Turkish descent, Adem Dogan, owned a bird incubator for ten years together with his Turkmen partner, and his business failed because of the remaining poor investment conditions in. Dogan's losses were counted in millions of Euros when the farm was closed and confiscated by the authorities.<sup>91</sup>

Dogan's example illustrates the situation in the country. Bird farms were on the path to successful development until his goods were boycotted. Dogan's farm eggs disappeared from stores in Ashgabad and the nearby towns. Dogan decided the problems were caused by his competitors, and complained to the government. In response, he received silence. Dogan later learned that his enemy was the all-powerful Ministry of Defense. At first, the military officials watched Dogan's business and profits grow, and then they attacked. The Ministry of Defense made Dogan's lands the property of military. People in uniforms said that they would be present on his lands until he shares a part

**If an investor has a success, the Turkmen Government, it seems, thinks that it has the right to the part of investments**

of his business, and in two years he will have to give up the business completely.<sup>92</sup>

Dogan appealed to the International Center for Settlement of Investment Disputes. His lawyers stated that his case was discussed during the diplomatic and economic negotiations between Germany and Turkmenistan. The latter denied any charges against the violations of the investor's contract.

"If an investor has a success, the Turkmen Government, it seems, thinks that it has the right to the part of investments." – Stephan Vilske, one of the Dogan's lawyers, pointed out and noted that little has changed in the government of the new president.<sup>93</sup>

According to Vilske, the most common victim is a medium business worth from ten to sixty million US dollars. He added that large transnational companies are the ones who are interested in the economic opportunities in Turkmenistan, who have strong economic positions and good political relations.

"The problem is in the ambitions of the leaders." – the lawyers pointed out.<sup>94</sup>

Another expert said that even large investors are not insured from problems. Japanese Itochu lost its supply of propylene in 2005 despite its major role in providing the Turkmen Government with the necessary commodities for oil and gas refineries in the 1990s. The government did not believe that the contract was profitable and terminated it.

Turkish construction companies Mutluhan Insaat and Lotus Energy Gap Issat (a company of Akhmed Chalyk, former Turkmenbashi's favorite) also were reported to have problems. According to the reports of the foreign media, when Berdymukhamedov came to power, Chalyk started to have problems, and in December 2007 the Turkish businessman was arrested, and could not leave Turkmenistan.<sup>95</sup> Among the reasons of such business failure the experts name "the desire of the national 'family' to snatch other companies property." Some experts explain that the problems of Italian ENI raised, because the company bought shares in Turkmenistan without confirming its intention with the authorities, which was seen as 'lack of respect' for the Turkmen authorities." Chevron, considered investments, but the Americans was not satisfied with the conditions of the Turkmen government to share profits from not so profitable deposits.

The experts name the unsuccessful case of Check chemical company ETIF s.r.o. (MaryAzot). The company's problems were related to its sporadic presence on the market, and insufficient support of the Czech Embassy to Turkmenistan (the Embassy's activities were coordinated by Moscow). Ukrainian engineering and communications company, Interbudmontazh, encountered serious difficulties.

**The experts named the following reasons for the problems MTS experienced in Turkmenistan:**

A desire of the Turkmen authorities to get their share of the company's capital;

The dislike of the Russian business circles as well as revenge for the problems with Gazprom;

Pressure from outside players (especially Chinese) who want to strengthen their presence in the telecommunications industry;

Efforts to expropriate the MTS's infrastructure for the national operator and in the ownership of the leading tribe;

Efforts to limit the access of the population to the information, in particular, from abroad, as well as access to good quality services (SMS-services, calls abroad, high-quality Internet, and etc. One of the experts noted, "The Facebook Revolution in the Middle East is a myth, because there are only few Internet-users. SMS services did play the role of the efficient technology in organizing protests, such as in Egypt. The Turkmen authorities understand these risks and take according measures." According to the statement of one expert, Hyundai and Total decided not to invest in Turkmenistan after the story with MTS.

Those companies, which are considerably successful in Turkmenistan, also encounter difficulties. Bank of America Merrill Lynch in 2009 rejected to service the accounts of Dragon Oil based on “legal considerations.”<sup>96</sup> The Financial Times experts believe that the problems between Dragon Oil and one of the largest US bank were caused by the fact that the company supplied oil to Iran.<sup>97</sup> As a result, Dragon Oil had to change its routes and increase the transit through Azerbaijan.<sup>98</sup> Turkish Polimeks, a construction company who was among the favorites in Turkmenistan experienced legal arguments with the government in 2011.

Looking back at the early investments, the Argentinean Bridas, US Unocal and Delta Oil incurred losses from their mid 1990s trans-Afghanistan pipeline development. The project was not successful due to the India-Pakistan tensions and high risks in Afghanistan (India being the one with the most potential). Enron was the first to conceive the trans-Caspian pipeline, but the project failed due to the company’s bankruptcy in the 2000s, caused by the US dotcom crisis and disagreements of Russia and Iran against the pipeline, as well as other arguments about the questionable territories of Iran and Turkmenistan and Iran and Azerbaijan in the Caspian.

The interviewed experts point out to the case of the Russian telecommunications company MTS as an example of how the Turkmen authorities mistreated investor and violated their rights. The chronology of the conflict between the investor and the government of Turkmenistan is as follows: an operator BCTI (a daughter company of MTS) in Turkmenistan received a letter from the Turkmen’s Ministry of Telecommunications on December 15, 2010 about the termination of the license for mobile services, starting December 21 for a month to resolve some violations. The letter did not explain what were the exact violations.

According to the representatives of MTS, “the company appealed to the Ministry multiple times for them to explain the reasons of these decisions. The requests were not met. Later, the Ministry of Telecommunications explained that the five-year license between the Ministry, MTS and BCTI expired on December 21. According to the agreement during the five years of its operation, BCTI was supposed to share twenty percent of its profits with the Ministry for Telecommunications.”

The representatives of MTS believe that the termination of the license agreement did not have any legal basis: “First, MTS fulfilled all necessary conditions to extend the license automatically, and the regulator did not express a single concern about the company’s operation. Second, even the absence of the agreement should not be the reason to stop the company’s operation, because the license BCTI received was to expire only in 2012. A new license was received in October 2010 to develop a 3 G network in two years, and the license interruption in December 2010 was for the services of the 2 G GSM network.”

Today the International Court of Arbitration has two claims from MTS and BCTI to the Ministry of Communications of Turkmenistan regard-

ing the illegitimate interruption of the trilateral agreement. Additional claims are from BCTI to Turkmen Telecom and Altyn Asyr, the state-owned cell phone operators due to the unjustified termination of the inter-operators agreement. The MTS operation termination in Turkmenistan is a serious social legacy. There are lines to the offices of Altyn Asyr and they have to be controlled by the police. The former CEO of MTS, Michel Shamolin, the Russian company lost 422 million US dollars in five years because of the termination of its services in Turkmenistan.

## **21. For the business representatives: does your company consider investment opportunities in Turkmenistan**

Only two businessmen expressed their interest in investing in Turkmenistan. The rest believes that today it is risky to invest in the country. Contracts represent the most reliable form of cooperation between business and the Turkmen authorities.

A representative of a Ukrainian company states: “One can make money in Turkmenistan. These earnings are risky. I would not invest my own money, especially in the country’s infrastructure. There are a few examples when businessmen can return their money. Construction contracts could be profitable. But the payment schedule and ability to take the money outside the country represent a concern. You can earn something, but you will be forced to spend it in Turkmenistan.”

# **The former CEO of MTS, Michel Shamolin, the Russian company lost 422 million US dollars in five years because of the termination of its services in Turkmenistan**

# Section 2

## External Political and Economic Activities

## 22. Evaluate Turkmenistan's relations with the neighbor states

(1 being the worst and 10 being very good)

Iran has the warmest relations with Turkmenistan among the neighboring countries, even though the Turkmen authorities have issues with Iran regarding delineation of influence in the Caspian.

Experts evaluate the relations between Turkmenistan and Iran as relatively good. Vladimir Masamed, Expert at the Middle East Institute, believes that Iran has pragmatic goals in its relations with Turkmenistan, which are to strengthen the country's position in the region as well as benefit from the country's fossil fuels and strategic geopolitical location of the transit roads. Another strong factor for being good neighbors is the fact that there is considerably large Turkmen population in the Northern Iran.<sup>99</sup>

President Mahmud Ahmadinejad and President Karbanguly Berdymukhamedov meet often with each other: the last time being March 2011, when Berdymukhamedov visited Iran to celebrate Novruz. During that visit, Akhmadinezhad presented the colleague with a two-seater plane.<sup>100</sup> During that meeting the parties noted that the commodity turnover between Iran and Turkmenistan amounts to three billion US dollars, and they believe there is a potential to increase these indicators up to ten billion US dollars per year in the next five years. These large-scale plans derive from the planned partnership in such projects as the construction of a railroad Kazakhstan-Turkmenistan-Iran.<sup>101</sup> In one of the documents of the US Embassy in Ashgabad documents, released by Wikileaks, the railroad could be of a special interest to Iran. Turkmenistan plans to restore the operation of the uranium plant in Kyzylak, which was active during the Soviet times. When new railroad Iran-Turkmenistan is completed, the uranium could be easily delivered to Iran.<sup>102</sup>

Along the lines in Masamed's opinion, Iran and Turkmenistan have a number of issues that nevertheless disturb the idyllic dialogue between the states. Some of the issues being Iranian paternalistic policies toward the Central Asia states and the desire to be a "big brother" in order to dictate its vision to the neighbors. The Iranians believe that it is normal to advise Ashgabad regarding who should be Turkmenistan's partners and which contacts should be rejected.

During one of the deceased President Niyazov's visits to Teheran, the religious Iranian leader, Ayatollah Khomeini addressed Niyazov: "Turkmenistan does not need Israeli's, and we should pay attention to the fact that when Zionist appear they cause conflicts."<sup>103</sup>

Following the example of its predecessors, Akhmadinezhad continues the attempts to interrupt Turkmen and Israeli relations. In April 2009, Israeli Foreign Minister Liverman negotiated with the Turkmen authori-



ties to establish Israeli Embassy in Ashgabad. The Israeli Foreign Ministry's plans in Turkmenistan became the point of conversation in the Iranian Parliament. Chief General of the Iranian Military Forces, General Hasan Firuzabadi, reacted to the Israeli plans as well. Firuzabadi called Ashgabad to interrupt the Israeli's diplomatic mission, because, in his words, its mission was to train "spies against Iran." The Iranian worries were caused by the decision if Israel to appoint a former military officer connected to Israeli Intelligence Mossad as an Ambassador in Ashgabad. The Israeli authorities understood the situation and did not want to cause any escalation between Iran and Turkmenistan. As a result another official was appointed Ambassador in Ashgabad.<sup>104</sup>

Another tension point is the fact that the Iranian authorities dislike the total control of the Turkmen authorities of the religious lives of its population. Superior Mufti in Turkmenistan is also a Deputy for the Council on Religions. It means that the religious leader has a status of a powerful bureaucrat, and the secular government controls the religious activities. Mufti Nasrullah ibn Ibadullah did not accept Niyazov to be the messenger of God, and as a result Mufti lost his position and had to run abroad. Khodzhaakmet-akhuna, the translator of Koran into Turkmen had a similar destiny, which was sent to live in the countryside with his family. All copies of the translated Koran were burned. This action caused a great disappointment among the Muslims in the country and outside, including in Iran. When President Berdymukhamedov started his presidency in 2007, the hopes have emerged for a relaxed pressure and control over the religious organizations in Turkmenistan. However the hopes did not come true. Independent sources point out that the authorities are working on the measures to control religious organizations. The major argument for the strengthen control is a threat of religious extremism (databases have been established to account for those practicing religion, video cameras have been installed in all mosques, and the study is being conducted to evaluate the videos of those going to mosques among the population). The Iranian media closely watches repressions against the Muslim leaders in Turkmenistan.<sup>105</sup>

The relations between Kazakhstan and Turkmenistan have improved after the government in Turkmenistan was changed. In 2007 the Presidents of both Republics exchanged visits. Six bilateral documents were signed during the visit of President Berdymukhamedov: the statement of the Kazakh President, Nazarbayev, and the Turkmen President, Berdymukhamedov, as well as Agreement between Kazakhstan and Turkmenistan on trade, economic, science and technology, and cultural cooperation until 2020; a Program to support the Agreement was also signed.<sup>106</sup> In 2008, Kazakhstan organized days of the Turkmen

## **Akhmadinezhad presented the colleague with a two-seater plane**

culture, and in 2009, Turkmenistan hosted days of the Kazakh culture. In December 2009, Kazakh President Nazarbayev visited Turkmenistan and participated in the opening ceremony of the launch of the gas pipeline Turkmenistan-Uzbekistan-Kazakhstan-China. However, trade and economic cooperation has not been much improved. In 2008, the growth of the trade balance comprised almost 100 percent, and in 2009 it has decreased by 2.5 times. Kazakhstan and Turkmenistan represent a mutual interest for each other as transit states to export energy resources to external markets: Kazakh oil – in the southern direction toward Persian Gulf, Turkmen gas – in the northern direction to Russia, Ukraine, European Union and North Korea. There are dynamic cooperation projects with a potential in transportation such as railroads, highways and waterways. There have been launched a reconstruction of the highway Astrakhan-Atyrau-Aktau-Turkmen borders, and there is a discussion to open new transportation routs between the two countries towards the Caspian Sea.<sup>107</sup>

A long dry land border with Afghanistan could represent a problem for any country. Turkmenistan, however, does not have complaints to its southern neighbor, and is successful to at least pretend in public to have normal relations. In 1999, Niyazov attempted to become a peacemaker and organized a negotiation session between Taliban and the Northern Alliance in Ashghabad. New President is more pragmatic about cooperation with Afghanistan, and that is why the major topic of discussion with the Afghan authorities is TAPI gas pipeline contraction.<sup>108</sup> Today they continue the completion of the railroad that connects Turkmenistan and Kazakhstan bypassing Uzbekistan. There for the cargo transit to Kazakhstan and Russia, and further to Europe, will avoid the usual delays in Uzbekistan. Furthermore, Turkmenistan will be interested in increasing the volume of cargo to cover the expenses caused by the railroad construction.<sup>109</sup> The recent meeting (April 22, 2011) of President Berdymukhamedov and the Afghan Foreign Minister, Zalai Rasula, confirms the interests of both parties to further develop their countries cooperation.

The experts noted that relations between Turkmenistan and Russia had experienced a considerable deterioration since 2009. The Russian companies were pushed out of the Turkmen markets, and ethnically Russian population experienced targeted oppression, especially those with a dual citizenship (according to the new edition of the Constitution, the dual citizenship is prohibited). In 2013 they plan to introduce new international travel passports, which will be allowed only for those with the Turkmen citizenship. Today, there are 90 thousand dual citizens, who are being rejected new passports. It is possible, that in two years, those without the Turkmen passport as well as those who abandoned their Russian citizenship will not be able to leave the country. Opportunities to study Russian have been decreasing.

Relations with Uzbekistan have been similar to the ones with Russia. The Uzbek minority that lives in Turkmenistan has fewer opportunities to contact their kin in Uzbekistan. The Turkmen authorities have been closing Uzbek schools. High level of unemployment in Turkmenistan has become even worse for the Uzbeks.

Out of all neighbors, Turkmenistan has the most difficult relations with Azerbaijan. The countries have not settled the argument regarding gas deposit Serdar/Kyapaz in the central part of the Caspian. The diplomatic dialogue between Azerbaijan and Turkmenistan regarding this issue took place after the post-Niyazov warm-up, but was stopped shortly after. In 2007, both parties demonstrated their readiness to address their problems and allowed for some concessions, but currently their relations hit the dead-end.<sup>110</sup>

### 23. Are there favorable conditions for companies from certain countries in Turkmenistan?

The majority (90%) of the interviewed experts responded positively. The experts named a list of reasons for the preferential treatment (decreasing order):



- ▶ Trust of the leader;
- ▶ Regional politics, geopolitical preconditions, search for a balance among the key players in the region;
- ▶ Long-term economic relations and existing cooperation links;
- ▶ Friendships between the people/cultural connections;
- ▶ Corruption;
- ▶ Political conjuncture;
- ▶ Similar political ideologies (cases of Iran, China and Belarus);
- ▶ Implementation of the infrastructure projects;
- ▶ Ability of partners to weaken Turkmenistan's dependency on Russia;
- ▶ Efficiency of budgetary expenses “price-quality”;
- ▶ The need to find new markets;
- ▶ Diversification of pipelines;
- ▶ Investment opportunities guaranteed by the state;
- ▶ Revenge on Russia (Ukraine, Belarus);
- ▶ Prestige of collaboration with European companies and readiness of many Western companies play the local rules;
- ▶ The country represents a large consumer of the Turkmen fossil fuels (in cases of Russia and China);
- ▶ Integration of Turkish businesses with the Turkmen state structures.

Some experts note that successes of companies cannot be simply links to Turkmenistan's relation with their countries.

“Buig and Siemens are Buig and Siemens, and not France and Germany,” notes a German Businessman. “These are large corporations, that are interesting and influential on their own. China, Belarus and Iran represent different cases, because their companies play the role of messages of the respective countries.”

As it was noted earlier, success of Russian, Turkish and Israeli businessmen in Turkmenistan during the country's formation was not because of special inter-state relations, but rather due to a certain level of personal trust.

Turkey and Israel played a special role in the Turkmen statehood development. In the case of Turkey, an important factor was cultural and linguistically similarity with Turkmenistan. At one time they promoted an idea “One people – tow countries,” even though in the opinion of our experts, at a common level, Turks and Turkmens do not understand each other. However, there were Turkish nationals (Akhmet Chaly, the most known among them), who at one point or another held government offices in Turkmenistan. The Turkmen leader was interested in the soviet model of the Turk state, implemented by Turkey and limited for the non-religious Turkmens. At that stage, Turkey was a US ally in the region, and the Turkmen elite saw as a way to ensure support from the West considered business relations with the Turkish businesses and bureaucrats. Another “bridge” to the West was Israel.

The next step was to establish preferential relations with the help of “influence of Governments and States, working in the country (China, and less so US) and/or network connections and ability to work with other companies representatives (especially Turkish, and less Iranian and Israeli).” In some cases it was almost professional intelligence – in the opinion of the same expert, “CEO, Joseph Meyman, of the Israeli company Merhav, was most likely commented to Mossad.”

Another expert names wider geopolitical processes as a reason for Israel's preferential treatment. “It is obvious that active presence of Israel in Turkmenistan is related to the natural resources of the country as well as to the Iranian issue. Israel has attempted to limit Iranian's influence in Turkmenistan by attracting the country with profitable contracts and active involvement in conflict resolution with Azerbaijan.”

One of the experts characterized the economic presence of both countries as follows: “Today, one of the major tasks of Berdymukhamedov is to diversify external influences. He came to power with the Russian support. He was even supported with the Russian Special Forces, when Radzhepov's arrest took place (the former head of President's Security Service and an actual co-ruler together with Berdymukhamedov during the first months after Niyazov's death). Later he decided to distance himself from Rus-

sia, and establish a system of checks and balances. The major counter-force especially in time after a conflict with Gazprom was China. Today, Berdymukhamedov tries wherever possible to substitute Russia with Belarus: the regime of Lukashenka and his are similar, and it makes it easier to negotiated between each other. Industries are practically divided between the countries. Construction belongs to French and Turks, pipelines – to Chinese, oil and gas – to Malaysia and the United Arab Emirates, and trade – to Iranians. The Israelis have decreased their influence, but cooperation remains in medicine and agriculture. Starting from fall 2010 there is a trend toward the increased role of the United States, and the Chinese influence has decreased. This model of swings will remain at all times.”

## **China for sure has a chance to stand out among the countries that increased their presence in Turkmenistan**

The majority of the interviewed experts believe that such model of preferential treatment of the countries is not sustainable. One of the experts noted that the preferences are based on a quick sand of “corruption and personal connections with 2-3 representatives of the country’s leadership.” Another expert notes, that the references are being dictated by the desire to diversify the high level of the subjective power. “Networks are especially unstable, for example, because a lot has changed since the death of Turkmenbashi (Niyazov), such as Chinese authority has grown after the completion of the pipeline construction.”

China for sure has a chance to stand out among the countries that increased their presence in Turkmenistan lately. The country has been integrating in the Turkmen economy with confidence. State credits are evaluated at four billion US dollars, and investments are additional 450 million US dollars.<sup>111</sup>

One of the Wikileaks documents of the US Embassy in Ashghabad states: “...our source has noted that Berdymukhamedov does not like US, Iran and Turkey, but likes China. The Source also confirms that the President likes Uzbek President, Karimov, and Kazakh President, Nazarbayev.”<sup>112</sup>

One of the experts believes, “the sustainability of the preferential treatment depends on Berdymukhamedov’s relations with partners. There will be problems with North Korea, and a special role of China will be affected. There is a risk of changes in preferences.”

Nevertheless, at the end of April 2011, Ashghabad hosted a ceremony for bilateral treaty signature between the state corporation “Tukmengas” and the Chinese State Bank for Development to receive a 4.2 billion credit with the purpose of expedited industrial development of the

largest gas field South Iolotan-Osman.<sup>113</sup> The second signed document was regarding the guarantees to return credit en lieu of Turkmen gas supply to China.

Our survey was conducted prior to the important event mentioned above, and the experts could not envision this factor, and there were opinions that the North Korean influence has decreased, and the relations between the countries has been complicated by the low price of the Turkmen gas, on the one hand, and the US pressure, on the other. A number of experts point out, that despite the significant participation of the US business in Turkmenistan, the US State Department's position on the geopolitical issues are quite strong.

An Israeli expert noted that the conditions for the Israeli companies have worsened after the relations between Israel and Turkey cooled down in 2009-2010 due to the Turkish and Iranian lobby. The position of a company Merhav has lost its influence despite its history of active cooperation with Berdymukhamedov when he occupied a position of the Minister of Health. Some experts point out that Israelis can return their positions if the Turkmen leadership strengthens its policies towards the United States.

The Turkish business expansion will strengthen, because Turkey has been rolling down its business activities in the European market due to political reasons, i.e. rejection in the EU membership. One of the European experts pointed to the number of coups in the Middle East and North Africa, which lead to the union of Turkey and Iran. This block of non-Arabic countries will gear up its aligned policy course towards Turkmenistan.

Additional countries named in the list of the most favorable conditions in Turkmenistan were Kazakhstan (twice) and Pakistan (once.)

## 24. Are there any problems for the companies of certain countries?

(Percentage is based on the number of the positive responses to this question from the experts)

### Russia

Majority of experts agree that Russian companies experience the most challenges in Turkmenistan:

“Russian companies has become weak. The letter is a result of tense relations between the two countries as well as the desire of Turkmenistan to diversify its export. Apart from the notorious story about MTS, Russians have been losing their positions in oil extraction. The Sberbank of Russia stopped credits for the projects, which as also affected Russian companies business.”



For example, Lukoil lost its business opportunities despite the multiple attempts to develop the shelves of Turkmenistan. The Turkmen authorities pointed out a view times to the inability of the Russian companies to compete with the West. Lukoil representatives believe that the latter is a bluff in order not to allow Russia to its deposits.<sup>114</sup> One of the experts sees the difficulties of Lukoil in Turkmenistan as related to the company's activities in Uzbekistan, in particular gas extraction.

An expert, who is involved in gas and oil business, noted that Gazprom and Chinese companies in Turkmenistan did experience different conditions for cooperation: "Russians are in general are offered with poor deposits, already used, and their contract conditions are worse."

The experts note that the products of KamAZ (Kama River Automotive Works) have been less popular in Turkmenistan as well as there is less expert of defense industry in the country. Russian and Turkmen relations started to cool down exactly due to the roll down of defense and technology cooperation between the countries in 2008.

One of the experts notes that Russian problems in the country are connected to the relations between Gazprom and Turkmenistan. "When Gazprom stopped taking Turkmen gas due caused by high prices (which were actually raised to pressure Ukraine), this was motivated by an accident in a pipeline. The Turkmen authorities know there was no any accident. The supply was re-launched after the prices were lowered. Today, spiteful Berdymkhamedov pressures all Russian business." Some experts were skeptical about скепт the 'accident version'. "Turkmenistan is responsible for the accident, because they were pumping gas after Gazprom closed the pipeline, – notes one expert – This was the reason for the explosion. It is clear, however that the gas matters influenced the relations between the two countries."

### Azerbaijan

The interviewed experts point out to the problems for the companies from Azerbaijan due to complicated territorial arguments about the Caspian Sea. Since the times of the Soviet Union, Azerbaijan and Turkmenistan were closely related. The latter was responsible to provide gas for the former. The Soviet Union collapse broke this connection, and Baku found itself without any gas, and Ashghabad stopped receiving the necessary infrastructure for hydro-carbon. This break up was followed by the diplomatic consequences: each country believed that the other party was responsible for the interruption in the exchange of the commodities.<sup>115</sup>

**Since the times of the Soviet Union, Azerbaijan and Turkmenistan were closely related**

The problem of undivided waters of the Caspian Sea as well as the issue of its deposits has also its affects on the relations between the countries. Baku started negotiations between with the international countries regarding extraction of the oil supplies in the open sea at its shores long before the Soviet Union collapse. Ashghabad was irritated by such negotiations, as it believed that the deposits (especially Chirag, also known as Osman) belonged to Turkmenistan. The country's authorities expressed their upset to the interested parties. In September 1994 an agreement to divide the deposits Azeri-Chirag-Guynsheli was signed between Azerbaijan and ten international oil companies. The Ashghabad authorities joined Russia's protests against this agreement, because it was not legitimate to sign such agreements without deciding the status of the Caspian Sea. This problem remained unresolved and in 2006, Turkmenistan sent protests to BP to express its disagreement with how the deposits were used.<sup>116</sup>

The new stage in the relations between the Ashghabad and Baku started in 1997, when Azerbaijan decided to launch the development of Kyapaz, also known as Serdar, in partnership with Lukoil and Rosneft. The deposit was only 40 km away from Azeri and was open in 1959, and the history of argument about the site between Azerbaijan and Turkmenistan dates back to the soviet times. Turkmenistan started negotiations with Mobil regarding the same site in 1998 as protest against the agreement between the Russians and Azerbaijan.<sup>117</sup>

Azerbaijan and Turkmenistan broke their diplomatic ties, and the Turkmen Embassy was closed in Baku in 2001. Berdymukhamedov's policy does not indicate any attempts for a consensus regarding the issue of the deposits. A similar policy towards Turkmenistan was adopted in Azerbaijan. The discussion about the deposits Kyapaz/Serdar and Chirag/Osman has been renewed, but remains far from any agreement.<sup>118</sup>

## Turkey

Some experts point out that occasionally Turkish companies have problems in Turkmenistan. Other experts do not tend to highlight Turkish difficulties in connection with the Turkmen attitudes toward the country. In their opinion, the issues for Turkish business are more visible due to a larger number of the Turkish companies present at the Turkmen market. Often, these problems are related to conflicts between Turkish companies.

# Lukoil lost its business opportunities despite the multiple attempts to develop the shelves of Turkmenistan

## Ukraine

The problems for the Ukrainian companies have risen because of the interruption in the goods' supply disruption in the exchange for gas and construction during the Government of Yuschenko. Today, the situation has improved for the construction business, but it might never improve for the gas industry, because there are no opportunities of transit through Russia any more.

## Germany

Some experts believe that some difficulties exist for the German companies. Among the possible reasons is a negative attitude of President Berdymukhamedov toward Anghela Merkel.

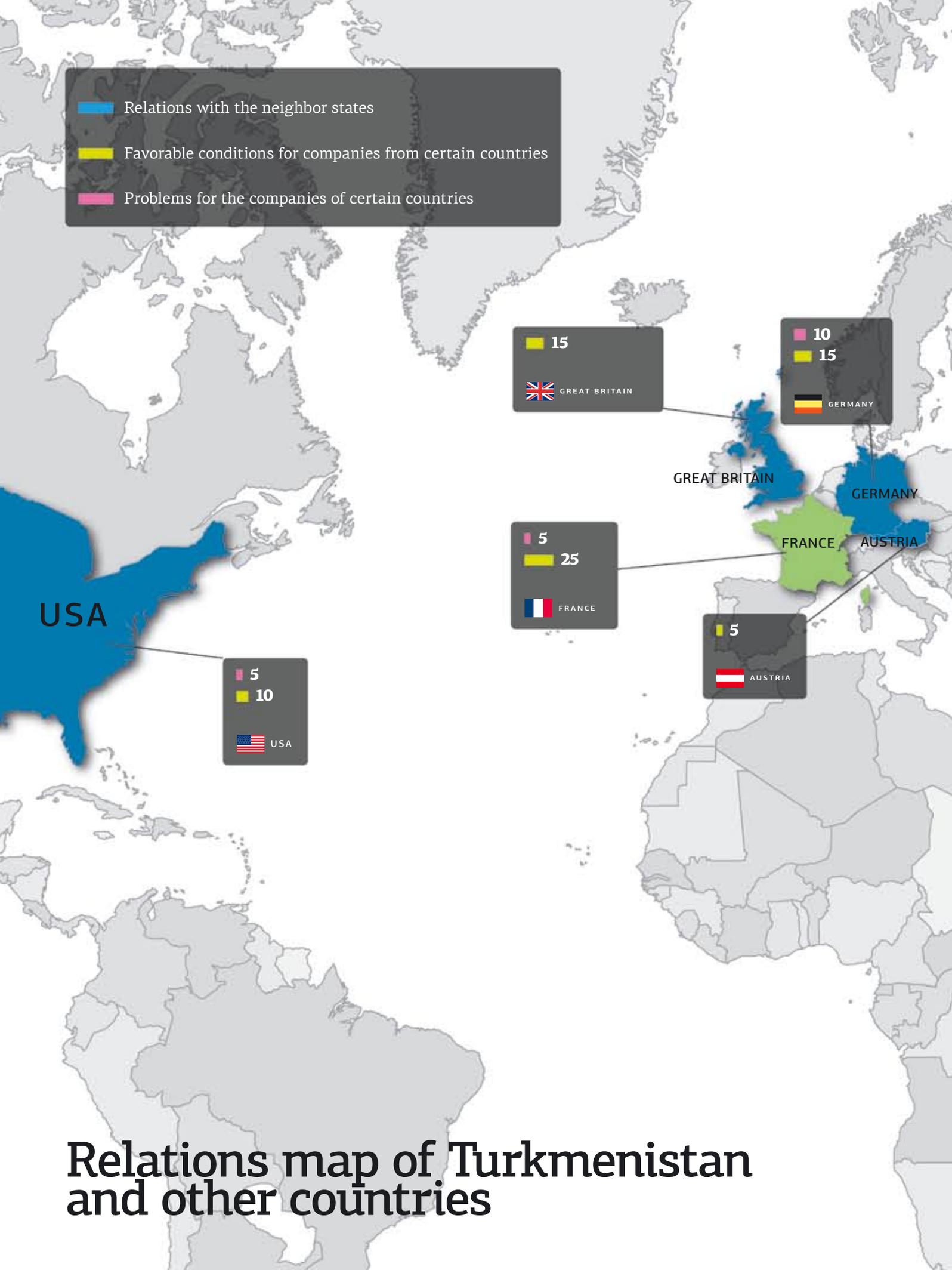
Some experts believe that some difficulties exist for the German companies. Among the possible reasons is a negative attitude of President Berdymukhamedov toward Anghela Merkel.

The complications for Israeli and US companies, according to the data received from the expert interviews, arise from the pressure of the neighboring Muslim countries on Turkmenistan.

One of the experts pointed out that the problems exist for all foreign investors on a large scale, because "there is no way to protect one's investments via political influence in the country." In the words of another expert, there is a deficit of "special protection" from the state as well as from the local authorities.



- Relations with the neighbor states
- Favorable conditions for companies from certain countries
- Problems for the companies of certain countries



# Relations map of Turkmenistan and other countries



BELARUS

UKRAINE

KAZAKHSTAN

RUSSIA

UZBEKISTAN

AZERBAIJAN

CHINA

TURKEY

AFGHANISTAN

IRAN



ISRAEL



UAE



MALAYSIA

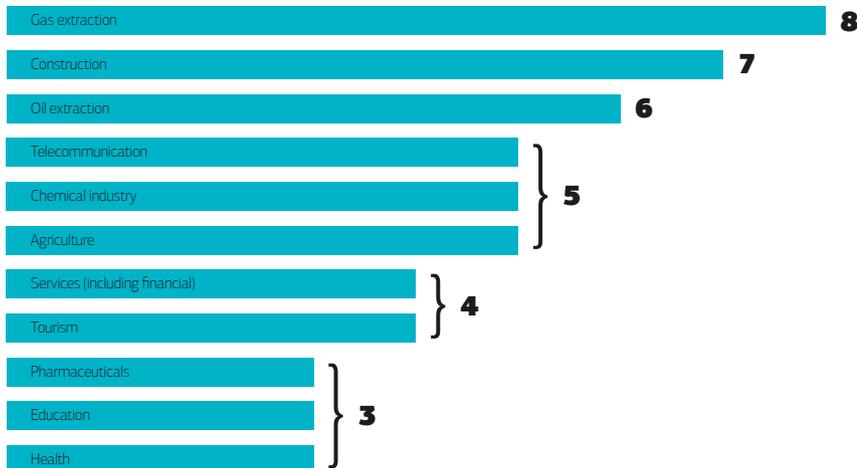


# Section 3

Industry  
Appeal

## 25. Please evaluate the investment appeal for the industries in the economy of Turkmenistan

(ten-point scale, one – being the lowest)



The majority responses included a notion that the evaluation was based on the potential of the industries, but the appeal itself was outcast by the negative investment climate. In general, investments in Turkmenistan were rated as risky by out experts, but oil and gas industry came out as the most prospective for foreign investments in Turkmenistan.

The answers to the survey question are not surprising, because Turkmenistan has enormous deposits of natural gas. By the year 2000, Turkmenistan has been extracting up to 60-70 billions of cubic meters per year (in 2008 the production reached 66,1 billion of cubic meters), and about 20 billion of cubic meters being consumed domestically (in 2008 the consumption was 19,4 billion cubic meters).<sup>119</sup> Considering that the deposits size is considerably large, and the domestic consumption, the most of the extracted gas is available for export. Turkmenistan is number 16 in the world to extract natural gas and number 6 to export. It is the fourth in deposits after Iran, Qatar and Russia, even though the real potential remains unknown.<sup>120</sup>

In the oil and gas industry foreign investments are limited by the holdings or production sharing agreements.<sup>121</sup> The Law on Gas and Oil Resources (2008) regulates most of the agreements. Companies have to pay a twenty percent tax on their profit, as well as one to fifteen percent royalties, depending on the level of production. The social tax is twenty percent, and it is based on the general expenses of the company on labor, which is paid by all foreign companies and sub-contractors. Profit tax is ten percent.<sup>122</sup>

The number of production sharing agreements is limited. According to the 2011 data, there are nine PSAs, among which three are for

on the shore extraction, and nine for off the shore extraction with a concession for 20-25 years. Burren Energy operates on the shore contracts in Nebit-Daga, project Khazar in partnership with the state corporation Turkmennebit; Mitro International, Chinese National Petroleum Corporation (CNPC) are developing the territories in Bakhtiarlyk. Petronas works on one of the sections for off the shore PSA; Dragon Oil works on Block 2 (Chelken); Buried Hill develops Block 3; Maersk Oil and Wintershall have Blocks 11 and 12; RWE – block 23; Itero – Block 21.<sup>124</sup>

## **Among those expressed their interest the following companies: BP, Chevron, ConocoPhillips, ExxonMobil, Shell, and Statoil, Total**

Crude Accountability Report "Reforms in Turkmenistan: A Comfortable Façade," notes that many company express a long-term interest in making new agreements with the Government of Turkmen. Among those expressed their interest the following companies: BP, Chevron, ConocoPhillips, ExxonMobil, Shell, and Statoil, Total. Among the less known companies are Marathon Oil, OMV Group, and TX Oil Ltd.<sup>125</sup>

ExxonMobil had offices in Turkmenistan in 1998-2002. It worked on the deposit Garashyzyk-2, but was not successful. ExxonMobil left Turkmenistan in March 2002 for economic reasons. The company returned in 2010, and, in June 2010, participated in the US business mission of Council on Business for the US and Turkmenistan. In October 2010, ExxonMobil opened its official office in Ashgabad – President Berdymukhamedov attended the opening ceremony.

In 2007, the representatives of BP and Chevron met with Berdymukhamedov. While nothing is known about the future projects of BP, Chevron opened its office in the country in 2008, and began to lobby its interests in the United States among the high level officials. The company sent its recommendations to President Barack Obama with an advise to strengthen 'oil connection' with Turkmenistan, Kazakhstan and Azerbaijan in order to insure the Caspian resources get out to the world market. In November 2009, Chevron announced about its negotiations with the Government of Turkmenistan about the potential participation in the development of the deposit Yuzhny Yolotan. Georg Krol, Deputy Assistant to the Secretary of State wanted from Turkmenistan an opportunity for the US companies to invest in the development of such deposits as Yuzhny Yolotan.

ConocoPhillips participated in the first US business mission in June 2010, and in August, the Turkmen Government shortlisted the company to apply for the development of Deposits N9 and N20.

In the attempt to access to the resources of Turkmenistan, Shell sponsored oil and gas expositions for several years. The company was a Bronze Sponsor for Oil and Gas Conference in Turkmenistan in 2010, a Silver Sponsor for the International Conference on Oil and Gas in 2010, as well as a Bronze Sponsor for the next Conference on Oil and Gas in Turkmenistan planned for 2011.

The Executive Director of Total started direct negotiations with President Berdymukhamedov to discuss the opportunities to extract and transport gas, first of all towards the Caspian direction over Nabucco in November 2010.

TX Oil Ltd. could emerge as a new player, and led by Neil Bush, the son of President Bush Sr. The Company was established with a sole purpose of energy contracts in Turkmenistan in 2010. TX Oil Ltd. was on the short-list among other four companies, participating in the completion for the development of Blocks N9 and N20 in November 2010. Neil Bush met with President Berdymukhamedov twice in 2010.

Investors are interested in other industries of Turkmenistan apart from oil and gas, with the most attractive for investment industries being construction, chemical and Telecommunications industries.

The construction industry has a potential for the investors to cooperate with the Turkmen authorities.

The official Turkmen media notes, "Lately the state actively engaged in the construction of gyms, schools, stadiums and other social infrastructure. In a city with a 100,000 population they build stadiums and recreation areas among many others."<sup>126</sup>

Wikileaks, though, share the information that differs from the publications in the official media of Turkmenistan. Some construction does take place. The released Wikileaks by the US Embassy in Ashgabad the major construction projects include palaces for ministries and local governments.<sup>127</sup> As for schools and hospitals, there is a noticeable misuse and inefficient resource distribution. The government invested 80 million dollars for the construction of the building for the Institute of International Relations, but the construction sub-contractors complain about the lack of interest of the authorities to make the building usable for the future students and their professors.<sup>128</sup> In Ashgabad the schools are built from white marble, priced at 6-7 million each, but there is no money to build schools in the rural areas.<sup>129</sup> Berdymukhamedov built several specialized hospitals from white marble and with modern equipment, while the hospitals in the rural areas started to laterally fall apart.<sup>130</sup> One expert points out that the above-mentioned practices do not exist any more.

## Shell sponsored oil and gas expositions for several years

The palaces for the public institutions experience some trouble as well. All buildings, especially skyscrapers, have technology and require elaborate maintenance. Electricity, elevators and plumbing experts are often hired without much qualification.<sup>131</sup> Such practices make the 'elite' buildings deteriorate, while the elevators stop working, water stops running, the garbage is not being removed, and the electricity constantly breaks.<sup>132</sup> Thus, some observers note that the construction projects do not consider seismic risks of the region, which led to the complete destruction of Ashgabad in 1948.

Transport infrastructure has been growing in the country. The US decision to make Turkmenistan the grounds for its delivery point via northern Afghanistan instead of Pakistan for the military operations played a crucial role in the Turkmen infrastructure development. Pentagon plans to deliver up to 75 percent of its non-military goods to Afghanistan via the Northern Distribution Network by the end of 2011. To compare, a year before only 35 percent of deliveries to Afghanistan came via the Northern network, and today, the volume of the goods transportation comprises about 50 percent. For many years, the transit of goods to Afghanistan was via Pakistan, but this has changed due to the increased number of the attacks by Islamic extremists.<sup>133</sup>

Turkmenistan has not played a significant role in the Northern Distribution Network up until a few years ago. The country did not sign any transit agreement with the United States or NATO, but the Turkmen Government allows the use of the Ashgabad airport for the refuel of the US military planes. Commercial business use Turkmenistan to deliver major industry lubricants for the military bases in Afghanistan, and energy sub-contractors often buy fuel from Turkmenistan, and in general without paying taxes.<sup>134</sup>

In case the US Central Command and other interested commercial structures are successful in their plans, Turkmenistan will have a developed network of highways and railroads to enrich the Northern Distribution Network. The US sub-contractor, Dutch Maersk Line Ltd., has already developed "a North-European transit across Turkmenistan," that will go from the Latvian Port of Riga in the Baltic to Serkhetabad-Turgundi on the Turkmen-Afghan border.<sup>135</sup>

According to the US Surface Deployment Distribution Command, Turgundi on the Turkmen-Afghan border has a potential to become an important point for export and import for the entire system. The Military Command calls for sub-contractors to service the technology and commodities supply for the US military supply. Ayarton on the Afghan-Uzbek Border and Sherkhan on the Afghan-Tajik border are the major entry points today.

## The construction industry has a potential for the investors to cooperate with the Turkmen authorities

The 2010 statement notes, “An additional entry point could be used per the US government decision. Land transits in Afghanistan and Pakistan will experience on average up to the 5,000 foreign deliveries (including the Northern Distribution Network) and 500 export distributions. These numbers can either increase or decrease depending on the US military needs.

Adding Turkmenistan to the Northern Distribution Network is in everybody’s interest for the success of the growing distribution needs. The transportation of goods across Turkmenistan will lead to the decrease in the country’s current expenses. It is yet unclear whether Ashgabat will agree to play an active role in the Network.<sup>136</sup>

Today Turkmenistan works to modernize the Telecommunications Industry, and that is why experts noted this industry as appealing. The government allocated approximately 24 million, US dollars borrowed from the Chinese Exim Bank, for the telecommunications development. Chinese companies arrived to Turkmenistan along with the Chinese credits. Zhenzhen Zhongxing Telecom Equipment Corporation (ZTE) and Huawei Technologies Co. Ltd. are among the companies at the Turkmen market, dealing mostly the telecommunication equipment from China. A significant amount of the supply was for the needs of MTS, which later was pushed out of the country. At a time, MTS owned up to 80 percent of the market. After the company left, Altyn Asyr became the major cellular phone operator. The company has long lines for simcards. The distribution network has not been developed enough. One expert points out, “for example, to add more money on the account, you need to go to the company’s office and buy a calling card with a pin code. The distribution has not been developed, because the operator does not want to be responsible (see further down in the analysis). Calling cards resale is blooming, and some citizens buy them by the pounds, which causes lines in the offices of Altyn Asyr.” After MTS left the country the connection quality has decreased.

Communications Ministry of Turkmenistan planned a large-scale program for 2010-2011 to develop and upgrade the telecommunications network. China represents the key source of investments.<sup>137</sup> The Ministry signed contracts with Huawei Technologies and Nokia Siemens Networks for the additional expansion of the network for Altyn Asyr on the basis of 2G and 3G.<sup>138</sup> Some experts were unsure about these statements.

Chemical Industry investments are concentrated around deposits development and non-fossil fuels production. Belarus and Turkmenistan agreed to develop together potassium deposits in Turkmenistan and build a mineral refinery.

China is also interested in fertilizers. The Export-Import Bank of China gave Turkmenistan a three hundred

**After MTS left the country the connection quality has decreased**

million dollar credit for twenty years with a three percent annual rate. The credit will finance the reconstruction of the production facility Maryazot, specializing in ammonia and nitrogen fertilizers.

The finance sector in Turkmenistan is poorly developed, but has some investment potential. The Turkmen banks dominate this economy sector,<sup>139</sup> with the largest being: the State Bank for Foreign Economic Affairs of Turkmenistan. State banks take up to 95 percent of the market.<sup>140</sup> There are five banks with foreign capital: Turkmen-Turkish Joint Bank, a branch of the National Bank of Pakistan, German Deutsche bank and Commerzbank, and a branch of the Saderat Bank of Iran.<sup>141</sup>

## There is a limited circulation of credit cards such as Visa or MasterCard

Our source comments on the financial sector in the country: “There is a limited circulation of credit cards such as Visa or MasterCard. You can use them in a few places only. Turkmenistan refused the conditions these companies offer when they enter the country. There is no bank-client system, which slows money transfers, and the ancestors system is the one in use. There is a need to establish bank machines and payment systems, as well as to upgrade the existing. Russians tried to access the market, but failed. The payment machines used a calling system to connect to banks, which was similar to the modem system when the Internet just started. The machines often were empty due to the connection problems, and people are not used to using them. Another indicator of the under-developed financial system is lack of credit cards in use. There might be a thousand of them. Managers can name the exact number of cards in their branch being in use. There are about 20,000 credit and debit cards currently in use.”

Experts consider agriculture, tourism, pharmaceuticals and health the least appealing for foreign investments. Agriculture is important for the general employment (more than half of the country’s population works in agriculture), but the investment opportunities are not as attractive. Cotton was the major production for Turkmenistan, before the country started gas extraction. It is true that lately the cotton production has decreased, but it is planed on the half of all the watered lands in the country. Among the former Soviet Republics, Turkmenistan is second after Uzbekistan to produce cotton, with the harvest of 823 000 tones in 2009.<sup>142</sup> Cotton processing is one of the key industries in Turkmenistan for investors, and first of all for Turkish businessmen. There are approximately seventy textile plants with 40 000 employees. Turkish investments amount to one billion US dollars.

One of the experts notes, “the Turks use Turkmenistan as a resource for its own textile industry, and use the country to make goods under Turkish brands.”

Turkmen food industry depends on the export from Russia and Kazakhstan.<sup>143</sup> This dependency is especially noticeable in the context of the growing food prices in the world. Some analysts point out that last year the poverty class had to substitute potatoes in their daily ratio to cheap pumpkin due to the increase in prices by 20-25 percent.<sup>144</sup>

Our expert points out “Turkmenistan has a lot of its own products, but has problems with reprocessing. Juices are imported even though there is a capacity to produce own supply. Some groceries are imported from Iran. Food processing has a potential in Turkmenistan due to the industry’s underdevelopment. Low purchasing ability of the population, half of which lives in rural areas, could represent a risk.”<sup>145</sup>

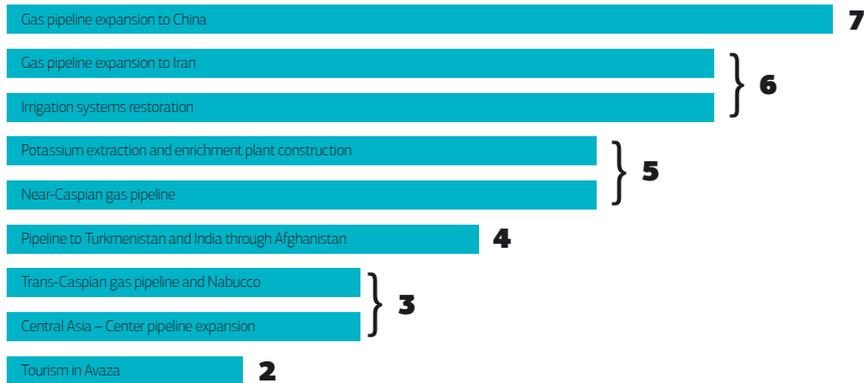
Education has a potential, but, considering a long-term return on investment and lack of interest from the government to develop this sector, makes it less appealing. The level of education in the country is low in comparison with the Central Asian standards and sufficient amount of teachers.<sup>146</sup> Many qualified teachers in Turkmenistan lost their jobs because they did not speak Turkmen language (Russian was the official language before the Soviet Union collapse). The new teachers know better about the subject of Rukhnama rather than about the specialized subjects they teach.<sup>147</sup> The education quality in Turkmenistan remains a mystery, because the authorities do not allow international tests of students and schoolchildren. According to the recent data, the schools are over-enrolled. In 1975-76 the country had 1,800 schools for 700,000 students, and in the mid 2000s there were 1,705 schools for one million pupils. There are not enough books.<sup>148</sup> One can notice there are signs of Berdymukhamedov’s cult of personality, and the students are requested to study his works.<sup>149</sup>

Water management, infrastructure innovation, energy and transportation are among industries with a potential pointed out by the interviewed experts.

## **Turkmen food industry depends on the export from Russia and Kazakhstan**

## 26. Please evaluate the economic rationale for the indicated projects

on a 10-pint scale



Experts name gas pipelines the most in the survey.

### Existing pipelines

Until recently, 90 percent of all natural gas was directed to Russia via Central Asia-Center gas pipeline system, and further it was transported to the European markets (mostly to Ukraine).<sup>150</sup>

The conflicts arisen in 2009 with a decrease in natural gas demand and an explosion on the pipeline, which lead to a ten-month delay in gas export to Russia.<sup>151</sup> Export did not re-start until January 2010. Gazprom agreed to pay Turkmenistan the average price of 240-250 US dollars per a thousand cubic meters instead of 140 US dollars paid in 2008. The company signed a contract with Turkmenistan for purchase of up to 65 billion cubic meters annually until 2028.<sup>152</sup> One executive of a company working in Turkmenistan in the gas extraction industry, the emerging issues in the Arab East significantly increased the European demands in Russian gas. It is possible that Russia might buy more gas from Turkmenistan at the rate of 240 US dollars. Considering that on the spot the price has grown up to 400 US dollars, a possibility of Gazprom purchasing more than 20 billion cubic meters seems quite real. This is a situational spike, which will not provide stable purchase growth of Turkmen gas.

Pipelines construction in China<sup>153</sup> and Iran<sup>154</sup> in 2010 decreased Turkmenistan's dependency on Gazprom in 2010. But the new transit

# Until recently, 90 percent of all natural gas was directed to Russia via Central Asia-Center gas pipeline system

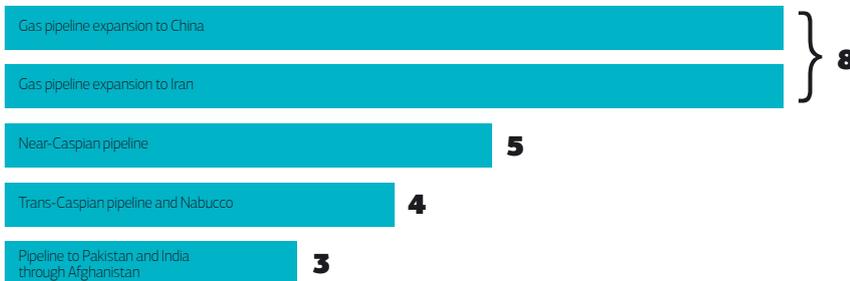
systems do not allow selling large volumes due to the low price the new consumers are only ready to pay.

### Planned pipelines

Based on the survey results, gas pipelines construction seems to have more economic rationale in comparison to other projects. In practice, pipelines construction implementation faces a number of challenges, especially for the most ambitious projects like the Trans-Caspian pipeline for Europe and the Trans-Pakistan pipeline – for India.

## 27. Rate how realistic the pipeline projects from Turkmenistan are on a 10-point scale

(10 – the most realistic, and 1 – the least realistic)



The experts rated already existing gas pipelines in China and Iran as the most economically rationale for further expansion.

### Turkmenistan-China gas pipeline expansion

The annual capacity is planned to increase from five billion cubic meters to 13 billion cubic meters in 2011 and up to 30-40 cubic meters down the road.

First, channel of supply already exists, which speaks to the potential success of the project. Second, Turkmenistan's government wants to diversify its resources supply routs. There are, however, some technical difficulties raising the implementation of the Chinese rout (such as construction of 18 compression stations in addition to the two already existing) as well as some political and economic issues. The dialogue is complicated by China's demand in the Turkmen resources: in the opinion of a Ukrainian company representative, in 2011 China will hardly buy seventeen billion cubic meters of gas, as stated by Baymurat Khodzhamukhamedov, the First Deputy Prime-Minister in Turkmenistan in Singapore.<sup>155</sup>

The price is the key concerns. The cost of the natural gas supplied to Chins is relatively low, according to a Hong-Kong consulting Firm Dragonomics<sup>156</sup> and was identified as 192 US dollars per thousand cubic

# The Trans-Caspian pipeline will definitely meet environmental and sovereignty objections from Russia and Iran

meters. Turkmenistan wants to raise the price, but China holds its position strong and does not want to buy gas for the 240 US dollars per thousand cubic meters as offered by Ashghabad. Chinese consumers have issues with the quality of gas. During the gas transportation through Uzbekistan it is being substituted to Uzbek gas of a much poor quality points out one of our experts. Another issue is the fact, that Turkmenistan receives a part of the payments with credit liabilities instead of money. The sources to finance the gas pipeline expansion are not known.

Security issue is among the concerns. Michael Richardson, Senior Researcher at the Institute for the South-East Asian Studies in Singapore points out that the security of the route depends on the ability of China and its Central Asian partners protect the pipeline from terrorism and separatist activities in Central Asia and the restless Xinjiang Uyghur Autonomous Region. The region experienced a blood conflict between the local Uyghur Muslims and the Chinese majority in 2009, as they started to migrate by large numbers to Setzuan and disappointed the locals.<sup>157</sup>

## Turkmenistan-Iran gas pipeline expansion

The benefits of this pipeline expansion are similar to the Chinese plans and are planned for the pipeline expansion for up to 13 billion cubic meters. There is an existing supply channel built in 1997 and the pipeline provides 6-8 billion cubic meters per year<sup>158</sup> and the Turkmenians want to diversify their routes of gas supply.

Iran, unlike China, does not have a domestic market. The UN sanctions limit Iran's opportunities for re-export. The sanctions are the reason for the need in the export from Turkmenistan. In the long-term, Iran is not as interested in the Turkmen gas, because the country has huge reserves<sup>159</sup> along with the ambitious plans for the pipeline expansion. The regime of the international sanctions does not allow for these plans to come true, and limits access to the foreign credits. Iran's lack of capacity to refine gas and oil resources makes Iran import gas during peak seasons.

Iranians want to buy gas for 160 US dollars per thousand cubic meters, according to an expert statement. Turkmenistan does not agree to sell for less than 220 US dollars. Thus, the pipeline expansion depends on Iran's ability to pay the price assigned by Ashghabad.

In addition, the situation is destabilized by Teheran's conflict with the United States, Israel and Europe. Experts note that the issues with gas supply from Turkmenistan to Turkey via Iran by the existing pipeline has a long history. The diplomats from Azerbaijan confirmed this opinion.

## Trans-Caspian pipeline and Nabucco

The experts rated the Trans-Caspian gas pipeline as the least realistic, even though the businesses and politicians of the European Union and Turkmenistan have been discussing the plans for the pipelines for the past ten years. The future for the Trans-Caspian pipeline is in hands of the conflicting options for Russian and European experts. The latter evaluate the project in more optimistic terms.

According to the Regional Strategic Paper of the European Union regarding collaboration with the countries of Central Asia in 2007-2013,<sup>160</sup> and adopted in June 2007, the diversification of energy supply is one of the major goals of the EU international policy. The document states, “Central Asia with its vast energy resources and a convenient geopolitical location in terms of transportation to the European market, will play a pivotal role in providing the European Union with the necessary energy reserve.”<sup>161</sup>

The European experts' confidence is strengthened by the fact that the world financial institutes plan to support Nabucco. The EBRD, European Investment Bank, and the International Finance Corporation published a note in which “the beginning of the process to evaluate the cost of Nabucco project has been started and is viewed as the first step to the round of investment up to four billion Euros.”<sup>162</sup>

The United States also supports the concept of the south corridor, which will consist of the two pipelines. The major pipeline, Nabucco, will go from Erzurum (Turkey) to Baumgarten an der March (Austria). Its capacity will be 31 billion cubic meters of gas per year by 2014-2016, which will cover five percent of the future gas demand in Europe. Azerbaijan does not have enough capacity to fill in the pipeline. Iran is not acceptable as a partner, and that is why Turkmenistan is viewed as one of the key partners between the European Union and Central Asia.<sup>163</sup>

The key reason for the Trans-Caspian pipeline project is a need for sufficient gas supply, infrastructure development in the Caspian Sea and conflict resolution between the countries bordering the region.<sup>164</sup>

The Trans-Caspian pipeline will definitely meet environmental and sovereignty objections from Russia and Iran.<sup>165</sup> The Nabucco Secretariat representatives stated that the pipeline construction will involved only two countries. An Azerbaijani expert believes that the positions of Russia and Iran could be ignored if there is a political will of the EU, US and Azerbaijan. He argues that there were cases when the de-regulated status of the Caspian Sea did not affect Azerbaijan's deposits development.

The experts believe that all these issues seem to be possible to resolve, but all together they represent a huge trouble.<sup>166</sup> The Turkmen's

# The experts rated the Trans- Caspian gas pipeline as the least realistic



Turkmenistan's oil and gas map

# UZBEKISTAN

-  OIL/GAS PIPELINE
-  PIPELINE UNDER CONSTRUCTION
-  PROPOSED PIPELINE

Dashoguz

LEBAP  
VELAYAT

Turkmenistan-China  
Gas Pipeline

Turkmenabat

Kerki

Gowurdak

Tejen

Mary

Bayramal

MARY  
VELAYAT

Turkmenistan-  
Afghanistan-  
Pakistan-India  
Gas Pipeline  
(TAPI)

Saragt

Serkhetabat

# AFGHANISTAN

deposits and their capacity are not well known, and the political issues remain unresolved. The future of the Trans-Caspian project is murky.<sup>167</sup>

The Nabucco pipeline project agreement was signed in Turkey's Kayeseri on June 8, 2011. The document with a potential to be the key to the project's implementation was signed by Austria, Bulgaria, Hungary, Romania, Turkey and the Managing Director of Nabucco, Reinhard Mitschek.<sup>168</sup>

Richard Morningstar, Aide to the US Secretary of State on the matters of energy in the Caspian made a statement on June 6, 2011 about Russia's position prior to the Nabucco agreement signature: "We always supported the Trans-Caspian pipeline if it enters the waters of Turkmenistan and Azerbaijan, and we do not see why this project could not be implemented. As for the statements about Russia's opposition to the project, the United States and the European Union supports the project. We do not see any obstacles and the issue should be addressed by Azerbaijan, Turkmenistan and the European Union."<sup>169</sup>

The EU political and business elite does face a dilemma to sacrifice the democratic principles and human rights for a profit.<sup>170</sup> The experts point out that closer ties with Turkmenistan has its own risks. The EU takes a risk to see some progress in human rights and democratization in the place where both processes cannot be observed.<sup>171</sup> The EU officials who visited Ashghabad lately indicated some efforts to give a positive characteristic to the existing political regime, and support the illusion of reforms that "take place."<sup>172</sup> These attempts can compromise the EU efforts to represent the model of international politics that is based on strong norms. Energy companies registered at the European Stock Exchange face the similar reputation and other risks as a result of cooperation with the authoritarian regime.<sup>173</sup>

### Near-Caspian Pipeline

The interviewees evaluate the potential of the Near-Caspian pipeline as more realistic in comparison to the Trans-Caspian project. The alternative plan to the Trans-Caspian pipeline emerged in December 2007, when the inter-government agreement was signed by Russia, Kazakhstan and Turkmenistan. The agreement envisions the establishment of additional capacities with the goal to transport the natural gas from the Caspian Sea and other deposits in Turkmenistan and Kazakhstan to Russia.<sup>174</sup> In September 2008, Gazprom, KazMunajGaz and Turkmen signed an agreement about the partnership principles to build the Near-Caspian pipeline, Coordination Committee Bylaws' and Management Agreement. The parties confirmed the lead project to build the pipeline and assessed the basic data. The projected capacity

**The experts give similar conclusions to the future of the Central Asia-Center gas pipeline**

is estimated at thirty billion cubic meters per year from Turkmenistan and up to ten cubic meters per year from Kazakhstan.

Today the project did not move further than the agreements stage and project specification agreements.<sup>175</sup> The major issue is tensions between Russia and Turkmenistan. To move the project along, a climate of the Turkmenistan-Russia relations and Gazprom should change. The experts give similar conclusions to the future of the Central Asia-Center gas pipeline.

### **Turkmenistan-Afghanistan-Pakistan-India gas pipeline (TAPI)<sup>176</sup>**

This megaproject was born in the early 1990s before Taliban took over in Afghanistan. The experts rate low the possibility of the TAPI construction. The project was delayed due to the differences in opinions, and unclear sources of finances for the project. Among the doubts are of course the security issues in Afghanistan. TAPI originally was a US baby, which forced India and Pakistan to reject a project with Iran. It is clear that it will be difficult to implement the project, considering destabilized Afghanistan and its inability to provide the pipeline's security. Moreover, the US plans to leave Afghanistan make any future security questionable. Pakistan faces ethnic and Islamic tensions as well. The US decision to decrease deliveries for the army needs through Pakistan, partially because of the security reasons, is another argument against the project.

# **TAPI originally was a US baby, which forced India and Pakistan to reject a project with Iran**

### **The experts are less enthusiastic about their large projects in the Turkmenistan**

Garlyksky deposit Potassium plant construction has some potential. The Belarusian experts from the Belarus geology and exploration mission work to develop a complex to produce and enrich potassium with a capacity to produce 1.4 million tones of the minerals. The plant's launch is planned for 2014.<sup>177</sup> The details of the agreement are unknown, including potassium production share and export. Belarus hopes to export potassium through its own company BKK.<sup>178</sup> One expert thinks a market for potassium does not exist (mineral fertilizers, first of all) as well as there is no opportunities for reliable transport potassium to other markets.

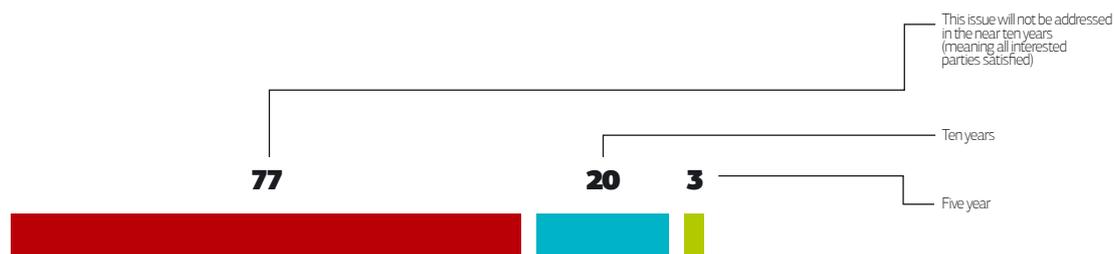
As for other projects, the experts do not believe there is any significant potential for them. Secret communication of the US Embassy in Ashgabad released by Wikileaks indicates that the tourism industry in Avaza is an example of corruption and the lack of the authorities' experience in the infrastructure development.<sup>179</sup> The project is being

developed as a free economic zone and a port. In a mature port development project there should be studies on traffic, deliveries volume, architecture and a 10-percent reserve for technical expertise before the project even begins. None of the above mentioned would be implemented, but 2.8 billion US dollars will be spent on the renovation of levies and piers.<sup>180</sup> The Crude Accountability reports confirm the worries, and point out to the fact that the tourism zone will be located next to the oil extraction infrastructure.<sup>181</sup>

One expert characterized the case of Avaza: Avaza represents an image-boosting project, which helps receive large financial influx to the national budget from oil and gas industry. It is not rational to speak about tourism in one of the most closed countries. Climate specifics of the area are another point for consideration. Tourists from the West, Ukraine, Russia or Central Asia will hardly flow to Avaza due to poor climate, difficulties with visas and other issues. Presentation of Avaza as new Dubai is questionable, because the latter's experience with huge debts is quite pinpointing. Turkmenistan has a risk to get into a worse situation than it already finds itself."

Foreign investments in Avaza in the opinion of our experts were not motivated by economic profits. Itera built a hotel for its employees. Some foreign companies (one expert named Dragon Oil) have to invest in Avaza, because do not have any way to get the money earned in Turkmenistan outside the country.

## 28. In your opinion, how long it will take to address the tensions and divide the Caspian territories?



The majority of experts believe that the off shore Caspian territories will not be divided in the near ten years. The experts differ in their evaluation of the economic consequences of the Caspian borders' unresolved legal status. Some believe that this will be an obstacle to the development of the Caspian. Others insist, that the issues of the Caspian border will remain the key point of conflict for such transnational projects as Nabucco. It especially relates to the disagreements between Azerbaijan and Turkmenistan regarding the gas deposit Serdar/Capyaz in the central Caspian.



## Comparative Analysis of the Turkmen Energy Resources Transportation

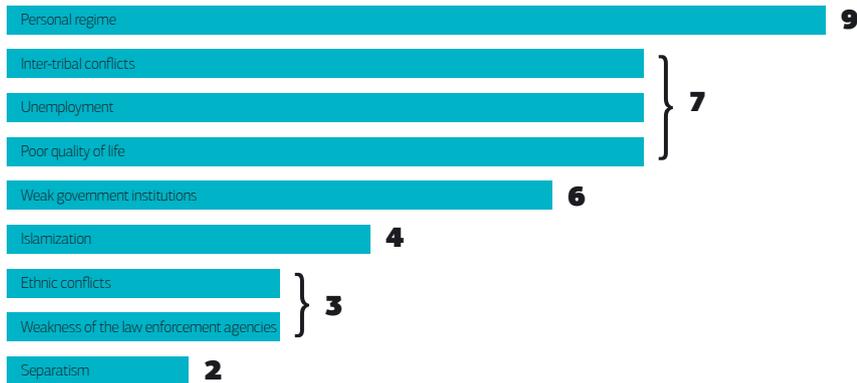
Project Title	Turkmenistan-China Gas Pipeline Expansion	Turkmenistan-Iran Gas Pipeline Expansion	Pipeline to Pakistan and India through Afghanistan
Pros	<p>The pipeline already operates with a capacity of five billion cubic meters per year</p> <p>Turkmen's government desire to diversify its energy markets</p>	<p>The pipeline already works with the capacity of six billion cubic meters per year</p> <p>Turkmen's government desire to diversify its energy markets</p>	<p>US political support</p> <p>Turkmen's government desire to diversify its energy markets</p>
Cons	<p>Chinese lack of desire to pay over 200 US dollars per thousand cubic meters</p> <p>Partial or full dependency on Chinese credits</p> <p>Chinese consumer's poor feedback about the gas quality (perhaps, Uzbekistan mixes in its own gas during the transit)</p> <p>The sources to finance the project to increase the gas pipeline capacity up to 30-40 billion cubic meters per year are unknown</p> <p>It is impossible to predict the Chinese gas demands in the future if prices will grow</p> <p>Political instability potential in the region of Xinjiang Uyghur</p>	<p>Iran's limited domestic market</p> <p>Inability of re-export for Iran due to the UN sanctions</p> <p>Iran's large natural gas deposits</p> <p>A risk of a US military operation in Iran</p>	<p>Political and military instability in Afghanistan</p> <p>The US military planned exist from Afghanistan could cause the country's internal instability</p> <p>A potential for the increased political tensions in Pakistan</p> <p>Worsening of the US and Pakistan bilateral relations</p> <p>Unclear sources to finance the project</p> <p>Inability to forecast the level of gas demand in India and Pakistan</p>

Central Asia-Center Gas Pipeline Expansion	Trans-Caspian Gas Pipeline / Nabucco	Near-Caspian Gas Pipeline
<p>Gazprom's desire to get maximum of the Turkmen resources to prevent implementation of Nabucco's project</p>	<p>US and EU political support</p> <p>Turkmenistan is a preferable partner to fill in Nabucco with the needed gas volumes</p>	<p>Relatively easy project</p> <p>Feasibility study exists</p>
<p>The existing tensions between Turkmenistan and Russia's gas monopoly</p> <p>Turkmen's government desire to diversify its energy markets</p>	<p>Unresolved territorial conflicts between Turkmenistan and Azerbaijan regarding the sea deposit Serdar/Kyapaz</p> <p>Difficulties related to the sea-based section of the pipeline due to the unresolved status of the Caspian</p> <p>Competition between Azerbaijan and Turkmenistan. Azerbaijan is more interested in selling its own gas for a high price rather than profits from transit</p> <p>The need for large infrastructure and establishment of terminals in the enclosed Caspian region</p> <p>Crisis in the US-Iranian relations</p> <p>Enough deposits to fill in Nabucco only if other routs will be minimized (China, Iran, Russia)</p> <p>Poor image of Berymukhamedov in the West</p>	<p>Turkmen's Government policy towards diversification of supply</p> <p>Tense relations between Turkmenistan and Russia's Gas monopoly</p> <p>The need for Turkmenistan to expand its natural resources base</p>

# Section 4

## The Regime's Stability

## 29. Evaluate major internal risks for the regime's stability on a 10-point scale



Among the internal risks for the regime's stability the experts name personality-focused regime, internal tribal conflicts, unemployment and poor quality of life. The authoritarian regime of one person and the absence of basic political and civil liberties contribute to despotism of the authorities and neglect of the rule of law, and poor foreign investment protection. Such regimes are unstable internally due to the lack of mechanisms of power transfer, latent public disappointment and international condemnation of authoritarian regimes.

A European expert states, "A disappointment has been growing in Berdymukhammedov's circles due to the growing unpredictability and increased threats. Another coup is quite possible, and will be similar to the way Niyazov was pushed out."

Tribal controversies are among possible risks. The representatives of Lebap and Dashoguz Counties do not take any important position in the government.<sup>182</sup> Yomud tribe, which was influential during the soviet times (in the 1960s Yomud Balys Ovezov was the First Secretary of the Turkmen Communist Party, and the tribe was widely represented in the 1990s) experiences political discrimination,<sup>183</sup> even though they live in the areas rich with the fossil fuels. Some experts point out that in Krasnovodskaya Oblast in Turkmenistan people believe in the state of Yomudstan, and the separatists believe they can survive on their oil and gas supplies.<sup>184</sup> In the opinion of an authoritative researcher, Shokhrat Kadyrov, the total Yomud population in Turkmenistan and in the bordering territories of Iran is about two million people. In Turkmenistan, the Yomud ethnicity occupies forty percent of the country.<sup>185</sup>

One expert notes a historical tradition of tribal conflicts exist in Turkmenistan even today in the form of tales and myths. "East is east, and what was here one or two hundred years ago will be remembered as if it were yesterday. The Akhals like to recall that the Yomuds

and Mary Tekhe betrayed them during the Russian siege of Geokdep in the 19s century. Te Yomuds and the Ersars did not forget about the 20<sup>th</sup> centuries purges by the Akhal-Tekhins.”

The government’s discrimination of the tribal and ethnic minorities could spark separatists’ trends. According to the US Embassy source, Berdymukhamedov is a nationalist and believes that the real Turkmens are only those who live between Kaka and Bakharly in the country of Akhal, which is the Akhal-Tekhins.<sup>186</sup> Ethnic and tribal tensions could lead to the Arab<sup>187</sup> or Libyan scenario.<sup>188</sup> One US Embassy document released by Wikileaks confirms the rumors about the attempts to kill the President in the summer 2009, and since than the security measures had been increased.<sup>189</sup>

The experts rated the risk of Islamization and the growing Islamist trends as low (4 points). On the one hand, there is a strong control over the religious lives of the general public, and on the other hand, there is a lack of Islamic tradition among the nomad Turkmen tribes and their traditions (in comparison to the farmers of Uzbekistan).

The unemployment (unofficial rates of unemployment and partial employment per the US State Department Date reach seventy present among the capable population!<sup>190</sup>) and poor quality of life create additional risks for the regime’s stability, and, as a result, for foreign companies (The World Bank data indicates that in 2010 per capita profit was only 3,663 US dollars;<sup>191</sup> Turkmenistan is rated 100 out of 180 based on the profit per capita).<sup>192</sup> Economic disparities are another risk factor (Gini rating for Turkmenistan is 40.8, which is larger than in Uzbekistan – 36.7 and Russia – 24.9).<sup>193</sup>

There are protests and destruction of the property and equipment of the companies.<sup>194</sup> In June 2008, six hundred employees of Italian ENI organized a protest. The workers requested a raise in their salaries, because their salaries decreased do to the change in price of the US dollar. The protestors wrote a letter to the headquarters in Ashghabad, where they described their problems and unfair salaries for intensive physical labor. There was no reaction from the headquarters. As soon as the information came outside the company and became known to the local authorities, the law enforcement was called to the protest, and a result sixty-two works were arrested.<sup>195</sup>

Social issues and unemployment create difficulties for the towns near oil and gas deposits. The local population is often hired to do construction and assembly work, which they loose once the project is finished.<sup>195</sup> The companies are forced to hire qualified works abroad, because the Turkmen education system does not provide any opportunities for the people to achieve the needed qualification. As a result, the local population is upset.

## The government’s discrimination of the tribal and ethnic minorities could spark separatists’ trends

One expert comments, “Large construction projects of Chinese and Turkish firms do not address the unemployment problem, because the sub-contractors use their own employees. Besides, Turkish companies tend to hire the Turkmens for five hundred US dollars, and then through them out to the streets without paying or cutting down the promised salary five times. There is plenty of the labor force and the limited Turkmenistan’s industrial complex finds it difficult to employ these human resources.” Another expert points out, “In the 1990s there were cases when the Turkish workers were killed because of the labor conflicts, and the Turkish Prime-Minister had to intervene.”

Some regional examples clearly show the existing situation of social tensions. In the Balakansky Country, which produces 95 percent of oil and 15 percent of gas for the entire country, the population is divided in those who lead a traditional life (fishing and farming) and those who live in the industrial villages (oil and gas industry).

With the growth of oil industry, the differences between the two types of the population have increased. According to the recent UN Environment Programme, “the sea biology resources have been decreasing and the waters grew to be more polluted, which lead to the difficulties of the local population to survive and maintain a healthy lifestyle, produce food and earn enough in non-energy sectors.”<sup>197</sup>

As a result, people are forced to migrate from town to town in search for job opportunities.

Crude Accountability experts state that the number of cases of HIV/AIDs and other infectious diseases has significantly increased along with prostitution, drug abuse, gambling and other social issues related to the population growth in cities along with high level of unemployment. These factors could lead to social tensions of the population inhabiting the Caspian shores of Turkmenistan.<sup>198</sup> Poverty in cities caused by the growth of population there could lead to escalation of criminal activities, especially in the areas, controlled by the Western companies.<sup>199</sup>

The most realistic scenario of destabilization in the country could be an unexpected social explosion caused by economic problems, and which could affect the tribal relations (first of all, between the Akhal-Tekhe and Yomul and the Ersar). A conflict with the Uzbek minority is less probable. The worsened economic situation in the country as well as huge unemployment among the youth speaks in the support of the described above scenario. Another point in support of this scenario is the Turkmen government policies to limit the foreign access to the country as well as limited opportunities to get outside the country.

In the Middle East and North Africa, in the opinion of many acknowledged researchers, for example, Andrei Korotayev, the major (but not the only) element of the revolution was

**the major element  
of the revolution  
was youth – the  
so called “youth  
bulge”**

youth—the so called “youth bulge.” This youth bulge grows with the development of medicine and reduced child mortality, while women continue to give birth to six-eight children. As a result, there is an disproportionately large youth population that does not have a place in the society. Historically it was prove, that the spikes in wars, revolutions and terrorism often happened when the society is dominated by the youth majority of the 15-29 years of age. In this case, religion and nationalism as justifications of violence play a secondary role. This comes a result of young male population domination as an outcome of the growing population, who need to take their respectable roles in the society.<sup>200</sup>

A situation in Turkmenistan reminds the demographic situation of the revolutionary population of the Arab countries: for less than 20 years in the period of 1992-2011 the population of Turkmenistan has grown according to IMF by fifty percent, from 2.8 to 5.5 million people.<sup>201</sup> And oh, by the way, our experts believe that the population growth was stipulated by social quotas system (established by Niyazov), which allows large families to receive tax brakes for the utilities. The result of such population forth is an army of young people, unsatisfied with their social status. The median age in Turkmenistan day is 25.3 years of age. The experts, who believe that the population numbers are not as big, agree that there is a huge age misbalance in the country.

Our expert points out, “There is a marginalized social strata excluded from economic activity. The retired population has a relatively privileged status, because the government protects it. Army partially addresses the problem due to the obligatory service after high school. Some universities do not accept students without military service experience. The army practically releases the tension and helps minimize risks of aggravated youth that does not have a place to go to school or to work.”

Army does not completely address the youth buldge. Out of 100 thousand students, five thousand have a chance to go to graduate school.<sup>202</sup> Another thousand students have a chance to go and study abroad in Ukraine, Turkey, Kazakhstan, and Russia. These lucky students are the children of public officials and bureaucrats who have connections and money to bribe for studies inside the country or abroad.<sup>203</sup>

Youth in the rural areas does not have many good opportunities.

Youth buldge works in those areas as follows: “All rural families rent 2-3 hectares of land, and grow cotton and wheat. There are two or three able members in the family, and the land gives enough harvest to feed the family. It is easy to calculate how many people do not have land if there are six or seven members of the family (which is a standard) with the major-

## Youth in the rural areas does not have many good opportunities

ity of adults who rent the same size of land. It is difficult to agree with the statistics that all able population in the rural area with a rented land is employed.<sup>204</sup>

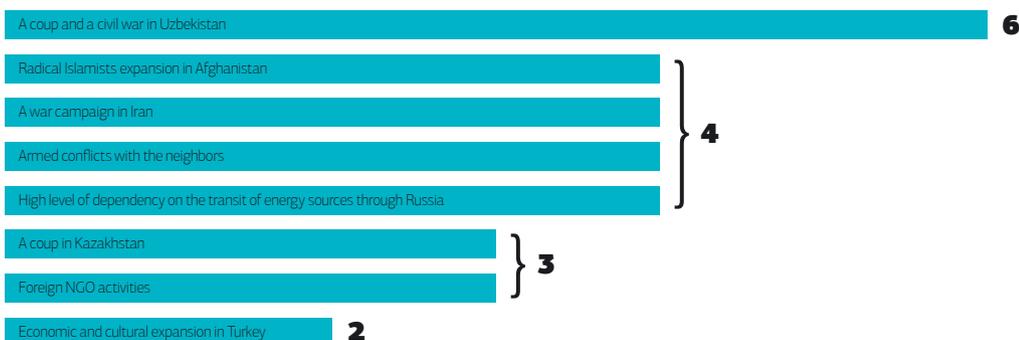
Other sources also confirm this information. “The government’s educational and social policy, as well as conditions against intelligence in the country lead to the youth that degrades, but is at the same level as everywhere else in the country. Access to cable TV partially compensates this problem, but on average the music and the programs do not have much positive effects. The access of labor leads to unplanned land development without basic agriculture norms, which lead to the exhaustion of soil and damping. The average productivity and efficiency allow for survival conditions of a farming society. The children of bureaucrats will be incorporated in business and will not pose a threat. In the past four years of Berymukhamedov’s presidency four hundred thousand students graduated from high schools. Over two hundred thousand of them live in the rural areas in the conditions described as above. Add the youth who graduated during Niyazov’s presidency, and fifty thousand rural population on the annual basis, and you will get a potential revolutionary population.”<sup>205</sup>

Our expert believes that a scenario of political destabilization is quite possible in Turkmenistan, especially considering a large number of the unemployed population the rural areas. “Such spontaneous protests are impossible to calculate and they could spark any day and without a defined leadership at first,” – the expert points out.

The poor capacity of the enforcement agencies and incompetence of the public officials, who do not know how to react to such emergency situations, could turn out crucial.

An expert points out, “The fact that the government made push for the national bureaucracy and got rid of the Russian experts could lead to unexpected outcomes for the statehood of Turkmenistan.”

### 30. Evaluate on a 10-scale external risks for the regime's stability



The experts believe that the external risks for the regime’s stability are less important in comparison to the internal risks. Special cases would be instabilities in Afghanistan, Iran, and of course Uzbekistan.

One of the experts says, “It is easy to invade Turkmenistan. The army is not able to response to pressure from the neighbors. For a long time, the Turkmen border with Afghanistan was protected by one of the separatist commanders. Vulnerability to its neighbors is a historical factor, which dominates the history of Turkmenistan and domestic social tensions.”

Additional risks could come from Iran, a regional super-power, with whom Turkmenistan historically had complex relations. There is a significant Turkmen population in the northern Iran, and Teheran has a strong policy of assimilation towards this population.

During the Soviet era, the borders were cut clear. That is why in Turkmenistan there are ethnically dominated territories: Uzbeks live in Dashoguzsky County, Kazakhs live in Balkansky county, and the Beludzhy and Kurds in Mary. The Yomuds occupy forty percent of the country and has strong family ties in Iran. These factors represent the reason for the external interests in the country.

The major external factor for instability in Turkmenistan is complex relations with the neighboring Uzbekistan.

One expert notes, “In the east of Turkmenistan there is an Uzbek minority, which is controlled by Ashghabad. Historically, the Uzbeks had eyes for the territory in Amudaria basin with cotton fields. In the past two-three years the Turkmen state started politics of the complication of contracts between the ethnic Uzbeks in the country and their families. For example, the visitation time was cut down, a railroad service was cut down, and trans-border trade has experienced a tightened control. The tendency to close down the country is noticeable in the general government policy.” Instability in Uzbekistan, however, could be a serious threat to Turkmenistan (the events in Andijan is a proof).

It will be difficult for Turkmenistan “to maintain the balance between the different countries with opposite interests on its territory.” Any trans-border projects with the participation of Turkmenistan should consider the internal risks for the regime’s stability. It is important to remember about the external conditions, which could shake the existing stability in Turkmenistan, causing problems for the trans-border projects, and first and foremost for the gas pipeline system.

**It is easy to invade Turkmenistan. The army is not able to response to pressure from the neighbors**

Among the external risk factors the experts indicated the following  
(in the decreasing order):

- ▶ The conflict of interest of large countries regarding Turkmenistan;
- ▶ A potential instability in China and the related issues with the pipeline;
- ▶ The growing dependency on China;
- ▶ An economic crisis in China, which could lead to the decrease in the gas purchases;
- ▶ Organized crime and drug dealers;
- ▶ Conflicts in Kyrgyzstan and Tajikistan, which can spark unrest in Central Asia;
- ▶ A US military operation in Iran;
- ▶ Targeted undermining activities of other countries and interested parties;
- ▶ The growing deficit of the water supply in the region and related potential conflicts;
- ▶ A war in the trans-Caucasian region.

# **Rules for Investors in Turkmenistan**

- 1** Establish a personal contact with the President of Turkmenistan.
- 2** Ensure political support of your own government.
- 3** Consider current geopolitical alignment and foresee political risks.
- 4** Ensure a requirement in a contract to arbitrate outside Turkmenistan.
- 5** Include political risks in the price of a contract.
- 6** Do not invest in the infrastructure. It is preferable to work on the contracts received from the Turkmen Government.
- 7** Foresee options to exit the country in the shortest terms with minimal losses for business with an emergency plan on hand.

# **List of Participating Experts, Who Agreed to Share their Name**

### **Michael Denison**

Michael. Senior Analyst, Central Asia Program at Control Risks: Leading Consulting Firm in International Investments Risks. Author of many research publications on Central Asia. (Great Britain)

### **Slavomir Gorak**

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### **Leonid Grigoriev**

Energy Expert, Ph.D., Economics. (Russia)

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### **Shokhrat Kadyrov**

Ph.D., History, Ethno-political History of the Turkmens Expert; author of the book "The Nation of Tribes." (Norway)

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### **Sergey Kamenev**

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### **Yuri Romanenko**

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### **Ivan Safranchuk**

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### **Yuri Shvetsov**

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### **Konstantin Simonov**

President, National Energy Security Fund. (Russia)

### **Jan Šír**

Expert, Central Asia-Caucasus Institute. (Sweden)

### **Dmitry Verkhodukov**

Expert on Central Asia. (Russia)

### **Aleksey Vlasov**

Deputy Director for Research, Department for Near Abroad; Docent of Department on History for Near Abroad at the Department of History, Moscow State University; Executive Director, Information and Analysis Center for the Research of the Post Soviet States. (Russia)

### **Michael Wilson**

Executive Director, Michael Wilson & Partners, Law Firm: Consulting and Legal Services in the Countries of Central Asia. (Great Britain)

### **Alexandra Yaroshevich**

Expert, OSW; Eastern European Studies Center. (Poland)

# Notes

## 1– 24

- 1 "Ruhnama" (Turkmen–Ruhnama — derives from Ruh, spirit, and nama–book: The Book of Soul) — the book, according to the official Turkmen version, was written by the first Turkmen President, Saparmurat Niyazov. The first part was published in 2011. The book's major idea is that Turkmen people are God's chosen people, who were established by Allah five thousand years ago. The Turkmen people according to the book established seventy states, including Parfia the state of Seljuk. The moral of Ruhnama is cult of patriarchal values.
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- 3 EBRD 'Transition Report 2009: Transition in Crisis?', [www.ebrd.com/downloads/research/transition/tr09e.pdf](http://www.ebrd.com/downloads/research/transition/tr09e.pdf)
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- 5 <http://www.doingbusiness.org/rankings>
- 6 <http://info.worldbank.org/governance/wgi/pdf/wgidataset.xls>
- 7 <http://www.bertelsmann-transformation-index.de/en/bti/ranking/status-index/>
- 8 [http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR\\_205258](http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_205258)
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- 14 <http://www.oilandgasinsight.com/file/69910/gaffney-cline--associates-reveals-turkmen-reserves-potential.html>
- 15 [http://www.fni.no/russcasp/Turkmenistan\\_gas\\_field\\_exaggeration\\_scandal\\_2009.pdf](http://www.fni.no/russcasp/Turkmenistan_gas_field_exaggeration_scandal_2009.pdf)
- 16 <http://www.vremya.ru/2009/188/5/239444.html>
- 17 see reference 16.
- 18 <http://eiti.org>
- 19 Jos Boonstra, The EU-Turkmenistan energy relationship: difficulty or opportunity?, FRIDE Policy Brief No 5–October 2010, [http://www.edc2020.eu/fileadmin/publications/Pbrief\\_No\\_5\\_Oct\\_2010\\_The\\_EU\\_Turkmenistan\\_energy\\_relationship\\_difficulty\\_or\\_opportunity.pdf](http://www.edc2020.eu/fileadmin/publications/Pbrief_No_5_Oct_2010_The_EU_Turkmenistan_energy_relationship_difficulty_or_opportunity.pdf)
- 20 see reference 16.
- 21 EBRD–Strategies, Turkmenistan Country Strategy, 2010, <http://www.ebrd.com/downloads/country/strategy/turkmenistan.pdf>
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- 23 Freedom House, Nations in Transit 2009, Turkmenistan <http://www.freedomhouse.eu/images/nit2009/turkmenistan.pdf>
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- 30 Freedom House, Nations in Transit 2009, Turkmenistan <http://www.freedomhouse.eu/images/nit2009/turkmenistan.pdf>
- 31 See above.
- 32 See above.
- 33 <http://www.turkmenistan.ru/ru/articles/35427.html>
- 34 See above.
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