

[POLICY BRIEF]

The EU-Turkmenistan energy relationship: difficulty or opportunity?

By Jos Boonstra, senior researcher at FRIDE¹

The European Union (EU) is facing a dilemma over developing relations with Central Asia's gas behemoth, Turkmenistan. If the EU keeps quiet about human rights abuses and the complete lack of democratic and economic development while forging strong energy ties with Ashgabat, it is likely to obtain profitable results in the gas sector. But if the Union sticks to its moral values of democracy and human rights and actively tries to influence the problematic situation in Turkmenistan, opportunities for gas import will almost inevitably decline, with Ashgabat increasingly focusing on export to China and other markets. Over the last decade, Turkmenistan has emerged as a classical dilemma for international 'Western' donors of pursuing development and democracy at the same time as building profitable economic relations.

Brussels chose wisely with a 'middle ground' approach, but has had difficulty fine-tuning a policy that takes both moral values and energy interests into account. Moreover, this more balanced option also presents another dilemma. All energy-related business with Turkmenistan without strings attached will strengthen the rentier state, and most likely block democratic development and diversification of the economy.

In addition, three other challenges are being widely debated among European policy and research communities. First, does Turkmenistan have enough gas reserves to deliver sufficient volumes to Europe and make investment worthwhile? For the purposes of this paper, we presume so. While the Turkmen government has always claimed the country has an enormous gas deposits reserve, international studies argue – rather more modestly – that Turkmenistan's reserves are substantial, with the country coming fourth in the global ranking. However, production capacity remains an issue. Second,

This policy brief seeks to establish how the EU should further its policy towards Turkmenistan and reconcile democratic values with energy interests. This brief is partly based on the work of the EU-Central Asia Monitoring (EUCAM) project co-chaired by the author.

Jos Boonstra is a senior researcher at FRIDE. His research focuses on Eurasian and transatlantic security issues as well as democratisation in Eastern Europe, the South Caucasus and Central Asia. He takes a keen interest in EU, NATO and OSCE security policies. Jos is currently coordinating the EU-Central Asia Monitoring (EUCAM) project.

¹ This brief is partly based on the work of the EU-Central Asia Monitoring (EUCAM) project co-chaired by the author. In particular, it draws on some of the conclusions reached in the EUCAM report *Into EurAsia. Monitoring the EU's Central Asia Strategy* by rapporteurs Michael Emerson and Jos Boonstra (February 2010) and the EUCAM working paper *The EU and Central Asia: Commercialising the Energy Relationship* by Michael Denison (July 2009). Outside of EUCAM the author made use of the paper *The Nabucco Gas Pipeline: A chance for the EU to push for change in Turkmenistan* by Neil Endicott of the Quaker Council for European Affairs (December 2009) and data on recent developments on Turkmenistan and EU-Central Asia energy relations. The author would like to thank Martina Weitsch of the Quaker Council for European Affairs and Michael Denison of Control Risks for their review of an earlier version of this paper.

will the Nabucco gas pipeline (that would connect Caspian producers with many European countries via Turkey) be built? A final investment decision is likely to be forthcoming in the first quarter of 2011. Again, here it is presumed that Nabucco will be built, as significant progress has been made in negotiations, despite the numerous delays. Third, will Europe and Turkmenistan be able to transport gas over or through the Caspian into Nabucco? This question is problematic indeed. A pipeline through the Caspian is politically difficult owing to contested borders between the Caspian littoral states. But a number of possibilities exist, from investment in liquefied natural gas (LNG) capacity to connecting offshore lines between Azerbaijan and Turkmenistan.

The final presumption of this paper is that engagement with Turkmenistan's regime best serves the interests of the EU and of Turkmenistan's population. EU conditionality should remain on the table but non-engagement (or even sanctions) is likely to be counter-productive, given that the objective is to 'open up' Turkmenistan. Thus, the central question is how the EU should further develop its policy and combine moral values with energy interests.

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Gas from Turkmenistan

The prospect of bringing Turkmen gas to Europe became a serious policy option through the 2004 Baku Initiative. This undertaking seeks to enhance integration of the energy markets of mostly Black Sea and Caspian Sea littoral states with that of the EU, so as to create transparent energy markets capable of attracting investment, as well as enhancing the security of energy supply. Turkmenistan's role in the EU's energy plans has been reinforced with the prospect of the Nabucco pipeline becoming stronger; increasingly positive talks between the EU and partners over the creation of a Southern Corridor for energy and transport; and the establishment of an EU Strategy for Central Asia in June 2007. In April 2008, the European Commission and the Turkmen government signed a Memorandum of Understanding on strategic energy partnership. Ashgabat indicated a willingness to reserve 10 bcm of gas for Europe each year.

Despite these advances, numerous aspects of European engagement remain largely absent. The European Investment Bank (EIB) is taking a keen interest in the Nabucco pipeline, but has not yet engaged directly with Turkmenis-

tan. The European Bank for Reconstruction and Development (EBRD) has limited involvement with Turkmenistan due to the latter's poor human rights record and lack of transparency and accountability. Turkmenistan is not yet a member of the Extractive Industries Transparency Initiative (EITI), which is becoming a global standard for transparency in the extractive industries in order to create a stable environment for investment to which the EIB and EBRD contribute.

Meanwhile, the basis of EU engagement with partner countries that sets out cooperation in political, trade, economic and many other areas, the Partnership and Co-operation Agreement (PCA), has not yet been concluded with Ashgabat. While PCAs are in place with Kazakhstan, Kyrgyzstan and Uzbekistan, the European Parliament has blocked the enforcement of the PCA with Turkmenistan over the latter's failure to meet human rights standards. Following intense debates in April 2009, an Interim Trade Agreement was agreed in order partially to bridge the gap in contractual relations.

Aside from the development of a contractual basis and high-level diplomacy, there is still much to do before Turkmen gas can be brought to Europe. The June 2010 EU Joint Progress Report on the Strategy for Central Asia admits as much.¹ The report argues that increased investment for the Southern Corridor is required in order to bring Central Asian gas to Europe. The EU also acknowledges that it must better define interests, priorities and even constraints in its dealings with the region, as well as recognising that it lacks visibility in Turkmenistan, where there is no official EU representation.

While the EU has been considering the Nabucco project for seven years now, China opened its gas pipeline link from Turkmenistan through Uzbekistan and Kazakhstan to Western China in December 2009. At the same time, Chinese investments and loans to the Turkmen government for exploration of gas fields sky-rocketed. Over the past year, China's gas imports from Turkmenistan surpassed those of Russia – traditionally the recipient of the bulk of Turkmenistan's gas exports – and are close to those of Iran that had already surpassed Russia and was in 2009 (and this year) the largest importer of Turkmen gas.

1. 'Relations with Central Asia', Joint progress Report by the Council and European Commission to the European Council on the Implementation of the EU Strategy for Central Asia, (Brussels, 28 June 2010), <http://register.consilium.europa.eu/pdf/en/10/st11/st11402.en10.pdf#page=2>

After disputes over gas prices between Moscow and Ashgabat in 2009, and the pipeline explosion as a result of low pressure after Russia decreased gas imports, bilateral relations between Russia and Turkmenistan turned sour. This year, relations between both have been restored. This brief rift has led Turkmenistan increasingly to explore links with the Middle East as well as European and US companies, while closely working with China and Iran. Europe should act swiftly if it wishes to import gas from Turkmenistan, regardless of the fact that it would only account for a very modest percentage of EU consumption. In this sense, further development of the Southern Corridor is urgently required. The EU's mediation in August to solve the territorial differences between the Caspian Sea littoral states of Azerbaijan and Turkmenistan is a good start.

Development, democracy and human rights

Little has changed in Turkmenistan under President Berdimuhamedov. The country remains globally isolated with little participation in international organisations, and most outside contact is geared towards the energy sector with its immediate neighbours – China, Russia and Iran. In June 2009, Freedom House ranked Turkmenistan among the nine most repressive countries in the world, joining the likes of North Korea.² The president has made some minor positive changes, however, of which currency reform probably is the most concrete achievement. The Turkmen population now has freedom of movement within the country and to some extent externally, and the former president's idiosyncratic education policies have been partly reversed.

Despite these limited advances, the only NGOs present in Turkmenistan focus on family problems and citizen's advice, while free media is still unknown to the country. Human rights violations are rampant due to the persecution of dissidents and civic activists, the practice of collective punishment of family members of prisoners and forced prison labour in dire conditions. The EU has sought to initiate a dialogue with Turkmenistan on human rights questions – as it does with a host of other countries through the European Instrument for Democracy and Human Rights – and has succeeded in having three

2. Freedom House, Freedom in the World 2010, 'Worst of the worst' (June 2010), http://www.freedomhouse.org/uploads/special_report/88.pdf (accessed 3 August 2010).

meetings so far. The Human Rights Dialogues should form part of an improved coordination process within EU institutions, ranging from the Parliament to the Commission and from the member states to European businesses that plan to invest in Turkmenistan.

Besides human rights, there is a broader development question that impinges on EU dealings with Turkmenistan. The Turkmen system is endemically corrupt and detached from global realities, having wasted huge amounts of its natural resource wealth on grandiose construction in the capital city. Turkmenistan is a classic example of a rentier state that bases its economy on natural resources. This situation, combined with the lack of any democratic or human rights standards, leaves little space for the EU to develop its relations with Turkmenistan in an in-depth way.

Where aid activities are concerned, the best option at this stage is to support scholarships for students to study outside the country, although this is restricted by the authorities. Where the EU plans to work with Turkmenistan in the energy sector, it will be important to attach projects with a development objective to investments in the gas industry. Projects that touch on good governance would be most helpful but difficult to get started. Assistance in the form of technical capacity building and providing micro-finance are likely to be more realistic to establish. In addition, energy-related issues such as environmental issues and alternative energy sources can be linked to gas exploration and transportation projects. An active and varied interlinked policy could deepen the EU-Turkmenistan relationship and, over time, hopefully help Turkmenistan to open up and 'free up'.

Policy recommendations

Increase EU visibility: The EU should seriously endeavour to increase its visibility in Turkmenistan. It should do so by pushing harder with the Turkmen authorities to open a fully-fledged EU representation under the new External Action Service. The existing Europa House exercises some functions of an official representation but on a small scale, without diplomatic accreditation, and is staffed by contracted consultants. If the current set-up prevails, the EU – if the population has even heard of it – will remain an abstract idea for Turkmen citizens. An enhanced presence would also enable streamlining of energy and development policies, as well as creating a

working relationship with Turkmenistan's rulers and business communities.

Broaden and intensify the Human Rights Dialogue: There is a risk that this mechanism will become a standardised exercise with little to show in terms of actual improvement of human rights, as the discussions have been rather detached from the broader EU policy towards Turkmenistan. The EU has only been able to progress as far as consultations, handing over lists of individual cases. Turkmenistan might lack a critical civil society, but nonetheless, the EU should push for international seminars uniting European civil society and Turkmen grassroots organisations. Such meetings could revolve around the Human Rights Dialogue, as in the case of most other Central Asian countries. Lastly, the EU should strive for increased transparency vis-à-vis what is discussed during the meetings, as well as outlining what it hopes to achieve in the short and medium terms.

Enhance European coordination: A unified and clear policy coordinated by the Commission, the Council (including the new External Action Service) and the Parliament is crucial for engaging with Turkmenistan and delivering a coherent message of interests and values to a government that lacks international experience and is unclear as to what exactly the EU is and what its aims are. In the case of energy policy towards Turkmenistan, an extra dimension needs to be added: increased coordination is needed with European energy companies that plan to invest in Nabucco and in Turkmenistan itself. One particularly helpful instrument would be a mechanism to enhance dialogue between EU institutions, including the EIB and EBRD, and energy companies with a view to sharing information and improving transparency, accountability and streamlining of commercial and political engagement.

Push for Turkmenistan's EITI membership: The EU should prioritise its diplomatic efforts towards Turkmenistan in urging the latter to become a fully-fledged member of the Extractive Industries Transparency Initiative. The Turkmen leadership is likely to be suspicious of EITI because the government's opaque way of doing business would likely be questioned by the international community. Still, this has not stopped Azerbaijan and Kazakhstan from joining, despite being unable to boast top-rank democratic credentials. The EU should explain to the Turkmen leaders the benefits of a better-structured investment climate for energy companies, which in turn would give Turkmenistan greater leverage in diversifying its gas export partners to a host of European, American and Middle Eastern companies, thus making it less reliant on exports to China and Russia.

Facilitate dialogue between Azerbaijan, Kazakhstan and Turkmenistan: Promoting regional cooperation is an important agenda point for the EU. Within the energy sphere, in August the EU brought Turkmenistan and Azerbaijan to the table to discuss the territorial dispute over demarcation of the Caspian Sea. Next to this, inclusion of Kazakhstan in broader regional energy talks with Turkmenistan would be helpful in unlocking substantial energy reserves. Azerbaijan and Kazakhstan could also share their EITI membership experience with Turkmenistan.

The EU should increasingly engage with the Turkmen regime on all fronts: energy, economic development, governance and human rights. The policy will of course be part and parcel of the EU Strategy for Central Asia, but needs to be further defined on a country specific basis given that each of the five Central Asian states offers a unique case.

EADI
Kaiser-Friedrich-Strasse 11
D-53113 Bonn

Tel.: (+49) 228.2 61 81 01
Fax: (+49) 228.2 61 81 03
www.eadi.org
www.edc2020.eu

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