

TURKMENISTAN: GAS UNDER PRESSURE

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In October 2008, an audit by the British company *Gaffney, Cline and Associates - GCA* propelled Turkmenistan to the rank of the world's second largest gas producer.¹ This revelation confirmed the assertions of Saparmurad Niazov,² the grotesque *Turkmenbashy – Father of all the Turkmens* – who, from 1985 until his death in December 2006, reigned over his country without sharing power. Less than a year later, two publications which appeared this past September, sow confusion among international energy experts and raise many questions.

These two papers, one – an article written by Arkady Dubnov for the Russian newspaper *Vremya Novosti*³ and the other – a report by the German NGO, the *Eurasian Transition Group (ETG)*⁴, - cast doubt on the estimations made public in October 2008. Arkady Dubnov relies on information gleaned from Russian officials, while it is a Turkmen source behind the *ETG* piece. In summation, they lead us to understand that the Turkmen authorities misled the managers of *GCA* by providing them with manipulated and falsified data.

Disinformation or truth? At present, it is difficult to say. Nonetheless, one cannot really avoid wondering about a certain number of questions surrounding this polemic over resources, real or supposed, of Turkmenistan. This constitutes a new episode in the struggle in which the great powers are engaging for control and exploitation of the formidable energy resources of Central Asia.

1. The official reactions

a) Communiqué of Gaffney, Cline and Associates - GCA

In October 2008, *GCA* certified that the *Yolotan/Osman* gas field contained between 4 and 14 trillion m³ of gas, with a likely scenario placing it at around 6 trillion. Quantities like this from this single field make it one of the biggest reserves of gas in the world and would allow Turkmenistan to raise its annual production capacity to 70 billion m³. The estimations concerning another field, *Yashlar*, place it at between 0.3 and 1.5 trillion m³ with a likely

¹ Cf. <http://www.esisc.org/documents/pdf/fr/turkmenistan-la-revelation-doctobre-421.pdf>

² 'Turkmenistan has reserves sufficient to export 150 billion m³ of gas per year for the next 250 years.' Cf. <http://www.peakoil.com/modules.php?name=News&file=article&sid=43522>

³ www.vremya.ru

⁴ <http://www.eurasiantransition.org/>

hypothesis of 0.7 trillion. These estimations do not take into account gas fields which are still unexplored. They thus confirm the place of Turkmenistan within the ranks of the world's top gas producers.

One of the GCA managers, Jim Gillet, reacted immediately and very firmly. In an email addressed to the editorial board of *EurasiaNet.org*, he defended the reputation and the honour of his company and insists that given the overall method used and the numerous cross-checks performed, fraud was impossible. '*Our audits are in conformity with international norms and standards and they rely on a considerable volume of data of various kinds and coming from a great variety of sources. It is thus impossible to falsify them without its being detected.*'⁵

In a press release dated 15 October,⁶ GCA states that '*in conformity with what was mentioned in 2008, the results obtained are perfectly in keeping with the initial data provided by the Turkmen national geological company, Turkmengeologiya. They are the fruit of independent and rigorous work and in no case have been influenced in one way or another by extrapolations issued prior to this audit made by the Turkmen authorities or by international specialists.*'

b) The silence of the Turkmen authorities

Paradoxically, the Turkmen authorities have remained strangely silent about this affair and abstained from making any official comments. However, one cannot avoid looking closely at the series of dismissals in the petroleum, gas and chemical sectors made by President Gurbanguly Berdimuhammedov this past September.

In a report filed a month later, on 13 October, the correspondent of the agency *Turkmenistan.ru*⁷ cites the presidential press and communications department, wherein the Chief of State, for his part, made public during this meeting of 12 September his grave concerns. He revealed '*flaws and lacunae*' which resulted from '*the irresponsible attitude*' of a certain number of the heads of national companies when carrying out their tasks.

He criticized in particular the director of the company *Turkmennebitgazgurlushik*, Atamyrad Durdiyev, who was also dismissed and replaced by Akmyrat Egeleyev. Orazdurdy Hadzhimyradov, director of the petroleum company *Turkmenneft* since last May, also was subjected to the president's ire. Dismissed for failing to increase oil production, he was replaced by Annaguly Deryaev, till then Minister of the Gas and Petroleum Industries and Mineral Resources.

As for the national company *Turkmengaz* whose director was dismissed last May 17,⁸ his successor was Nury Muhammedov. Dovlet Mommayev, the director of this enterprise, thus only served in this position for a few months before being sent on his way.

In parallel to all these movements of directors of the national enterprises in the energy sector, the President also set affairs right within the Committee of State of Turkmenistan, where Batyr Tekayev, its director, was stripped of his position and replaced by Amanmyrad Sahadov. Finally, the director of the chemical fertilizer factory *Tedzhenkarbamid*, property of

⁵ <http://www.eurasianet.org/departments/insightb/articles/eav102109a.shtml>

⁶ <http://www.eurasiantransition.org/files/293903981280d22280a9be3ecf842b63-243.php>

⁷ <http://www.turkmenistan.ru/> Latest news du 13 octobre 2009 « *Turkmen fuel and energy sector undergoes major personnel reshuffle* ».

⁸ The first deputy chairman of the state company *Turkmengaz*, Dury Tadjiev, as well as his counterpart at *Turkmenneft*, Toidurdy Durdyev, were removed on 17 May for '*grave lacunae in performing their duties.*' Cf.

http://www.turkmenistan.ru/?page_id=3&lang_id=en&elem_id=14944&type=event&sort=date_desc

the national chemical company *Turkmenhimiya*, Sharygeldy Movlamov, was dismissed and replaced by its deputy director Charyyar Tushiev.

At the conclusion of this meeting, the President remarked that he attached ‘a lot of importance to the development and modernisation of the petroleum, gas and chemical sectors and that in return he expected real effectiveness.’

This series of dismissals seems to confirm the hypotheses put forward by *ETG* and *Vremya Novostei*. According to *ETG*, the origin of the controversy goes back to the moment when many Western gas companies got hold of technical data from Turkmen officials in order to fine-tune their offers of services to develop and operate gas fields. These data turned out to be suspect. Very probably, the officials in the Turkmen oil and gas industry provided potential investors with vague or erroneous information in exchange for several hundred thousand Euros.

The scandal assumed its broad scope when it reached the ears of the Turkmen President and the purge of September was likely not sufficient to extinguish the question about the real status of gas reserves.

2. The climate of Russian-Turkmen relations

These allegations come at a moment when Russian-Turkmen relations over gas are at a very low point.

a) The war over prices

Russia has always been the number one importer of Turkmen gas and since 1 January 2009 the rates in force are at the levels of European prices. All during the first quarter of this year, despite the major drop in European demand and in demand from the Community of Independent States (CIS)⁹, *Gazprom* scrupulously honoured its commitments vis-à-vis Turkmenistan. In return, the Russian authorities hoped that Ashkhabad would set aside the vague impulse towards diversification of exports having a common feature that they skirt Russian territory.

During a visit to Moscow in the spring of 2009, President Gurbanguly Berdimuhammedov refused to reassure the directors of *Gazprom* on this point. Such a refusal had as its consequence the deferral of the signing of an agreement on a gas pipeline project which would link gas fields in the East of Turkmenistan with the Caspian Sea. *Gazprom* hoped to participate in this project in two ways. On the one hand, as an investor and on the other hand as operator. In the end, the Russian hope was to direct all of Turkmen production to Russia.

Upon his return, the Turkmen President announced the launch of an international call for bids for the construction of this gas pipeline. In retaliation for this statement, *Gazprom* made it be known to the directors of *Turkmengaz* that it intended to reduce the quantities imported each day. Poor coordination between technical controllers of the two companies led to excessive pressure in the pipeline which resulted in an explosion near the border with Uzbekistan. The Minister of Foreign Affairs of Turkmenistan blamed this accident on *Gazprom* and ever since then the squabbles between the two countries has gotten ever more poisonous without our being able to predict a solution in the near term.

⁹ Gas exports fell by 30% since the start of 2009.

b) China comes into play

During a Council of Ministers meeting on 6 June, the Turkmen deputy minister of energy Tashberdi Tagyev reported on his visit to China during which he negotiated a Chinese loan amounting to 2 billion Euros for the commercial development of the *Yolotan South* gas field. According to the press agency *Turkmenistan.ru*¹⁰, this loan was made necessary due to a major shortfall in the state budget following the stop of gas exports to Russia last April.

With this loan, China is supporting its position in the commercial competition for Central Asian gas resources. The construction of the gas pipeline¹¹ between Turkmenistan and China is well under way. Its inauguration, expected in the start of 2010, foreshadows the end of the Russian monopoly on Turkmen gas.

c) Gazprom holds firm to its positions

However, the Russian authorities and *Gazprom* are behaving as if nothing happened. First of all, the Deputy Chairman of the Board of Directors of the Russian gas giant, Valery Golubev, stated that it was the fall in demand which prompted *Gazprom* to apply pressure on Turkmenistan in order to obtain either a reduction in production, or a reduction in prices.

On 5 June, Igor Sechin, Russian Deputy Prime Minister in charge of energy matters admitted in the course of a statement made outside the St Petersburg Economic Forum,¹² that the negotiations on resumption of deliveries are advancing very slowly. He sees the present conflict situation as the result of a collapse of the gas market and not due to actions by *Gazprom*. Calling upon the Turkmen authorities to show good faith and realism, he believes that in their doing so the relations will be able to return to normal.

Simultaneously, as *Turkmenistan.ru*¹³ reports, President Gurbanguly Berdimuhamedov has restated his wish '*to diversify gas exports according to internationally recognized and approved practices.*' And he adds that '*this diversification is a fundamental principle of the energy policy of Turkmenistan, which is constantly developing its cooperation with the largest worldwide gas and petroleum companies.*' Unfortunately for him, his Russian interlocutors do not believe these statements and believe they are part of a bluff. As Annadurdy Khajiyev, a Turkmen economist in exile in Bulgaria, has remarked: '*The Kremlin knows perfectly well that absent an international status for the Caspian Sea,¹⁴ Turkmenistan cannot hope to export and sell its gas to the West via the Caucasus, i.e., via the Nabucco gas pipeline now in the planning stage.*'¹⁵

More recently, during October 2009, Sergei Kupriyanov, a deputy director of the Communications Department and presidential spokesman for the Board of Directors of *Gazprom*, dotted the 'i's. In an interview with the online journal *Oil and Gas Eurasia*, he says that '*the international projects of Gazprom rely on the will of its top management to find ways and means of cooperation with commercial partners to overcome problems which may arise.*'¹⁶ In order to be better understood by his Turkmen interlocutors, he reminded

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http://www.turkmenistan.ru/?page_id=6&lang_id=en&elem_id=15065&type=event&sort=date_desc

¹¹ Its initial capacity of 30 billion m³ is expected to be raised quickly to 40 billion.

¹² *Vremya Novostei* dated 8 June 2009

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http://www.turkmenistan.ru/?page_id=6&lang_id=en&elem_id=15065&type=event&sort=date_desc

¹⁴ Cf. <http://www.esisc.org/documents/pdf/fr/mer-caspienne-le-casse-tete-du-partage-449.pdf>

¹⁵ <http://www.eurasianet.org/departments/insightb/articles/eav100909d.shtml>

¹⁶ Online magazine *Oil and Gas Eurasia*, October 2009 issue. « *Gazprom's Strategic Goal Is to Gain the Lead in Global Energy Industry* ».

<http://rpc.blogrolling.com/redirect.php?r=f4bb366e180b8112b83eb6f18b40675e&url=http%3A%2F%2Fwww.oilandgaseurasia.com>

them that *'the partnership between Gazprom and Turkmenistan is based on a long-term contract which runs until 2028 and it is precisely on this contract that Gazprom will base its future cooperation with Turkmenistan.'*¹⁷

3. Who profits from the crime?

a) Turkmenistan is clearly the target

There is no doubt that the publication of this information, whether false or proven, is aimed first of all at Turkmenistan. The allegations reinforce the idea that the Russian media have been smugly spreading for some time already, namely that Moscow has already, via its contract, taken in hand all gas production to come out of Turkmenistan. And for proof of the points they are putting forward, they highlight the famous contract signed during the times of Saparmurad Niazov covering the supply of 50 billion m³ of gas annually to Russia. However, they skip over the fact that this contract is the subject of perpetual negotiations and discussions like those of carpet merchants regarding prices.

Due to disagreements over the sales price, Russia has not been importing Turkmen gas since the month of April following the explosion of the gas pipeline coming from Turkmenistan. At the end of the repairs, exports did not resume, precisely because Moscow wants to negotiate a purchase price lower than in the past using a calculation formula including a time variable. Turkmenistan is demanding a fixed price in dollars.

b) The hand of Moscow?

It is interesting to consider several questions about the way in which the stakes and the energy problems are presented in the Russian media. Generally speaking, the facts reported are correct. However, very often during these past few years, the official translations into English of articles originally published in Russian have a tendency to suggest a Russian influence which is greater than it really is and to present as proven facts which are not demonstrated.

Since the signing of a sales contract for 0.5 billion m³ of Azerbaijani gas coming from the second tranche of the *Shah-Deniz* gas field, the Russian media have seized upon the slightest opportunity to present this agreement as a *'right of preemption'* over the production of this gas field. Up to now, no official document confirming this *'right of preemption'* has been made public.

Such statements from the Russian side are in the same vein as the allegations of hypothetical over-evaluation of the Turkmen reserves. The same goes for Moscow's continual insistence on claiming that Russia will in fact be the principal if not only power importing Central Asian gas resources, whether they be Azerbaijani or Turkmen. Similarly we find the idea distilled out by all the Russian energy experts suggesting that the European markets can abandon the hope of getting their supplies directly from Central Asian producers.

Recently, Yashigeldy Kakaev, director of the Turkmen Agency for Management of Hydrocarbon Resources, said that his country envisages in the near future the start of gas exports to China and simultaneously it views favourably Western efforts to establish a direct connection with his country. The Russian media have issued only partial and tendentious reports of this statement in which the Turkmen official seems to prioritise the opening to China while minimising the importance of the European projects. This totally contradicts his recent statements such as in September when participating in an energy conference in

¹⁷ Ibid.

Bucharest, he clearly came out in favour of an opening to the European markets. He was just repeating what he had said in January at the Budapest conference on the *Nabucco*¹⁸ project.

c) The opinion of experts

Some experts, including Igor Ivakhnenko, a specialist in the Caspian Sea Basin for *RusEnergy Newsletter*¹⁹, see this affair of falsified and biased estimations as the result of a rumour spread by Moscow and having in mind geopolitical objectives. The Russian government would seek to undermine the credibility of the Turkmen authorities and so discourage foreign investors so as to protect the interests of *Gazprom* and promote its own plans for gas pipelines rivaling Europe's *Nabucco*.

He believes that the information cited in *Vremya Novostei* and *ETG* is pure speculation. 'These allegations are just intended to make people believe in the inability of Turkmenistan to export its gas to other markets than the Russian and Chinese markets.' The Russian authorities would be especially desirous of forging an image of Turkmenistan which, after having honoured its commercial commitments with Russia and China, would be unable to feed the European gas pipelines being planned.

He also expressed his doubts about a scenario whereby the British auditors *GCA* voluntarily falsified the estimations. He thinks this company had no interest whatsoever in doing something which could injure its image as a serious and rigorous player. The auditors would completely ruin their reputation by playing such a game or showing themselves to have been insufficiently attentive to the data provided by the Turkmen authorities.

Michael Laubsch, General Director of *ETG*, admits that he was unable to verify and cross-check what he was told by his Turkmen informant who figures as the basis for his organisation's report. On the other hand, what he can offer is that in the past this source, who is very close to government officials, proved to be particularly reliable and safe.

4. Conclusion

Just as in the age of the Grand Game which once pitted Great Britain against Russia for control of the Caucasus, all the low blows - rumours, pressures and disinformation – seem to be authorised in a contest between the Western powers and the Russians for control over the immense energy resources of Central Asia. Past masters in the game of chess, the Russians seem to be dominating the match under way. They are playing on several boards at once, and this allows them to sharpen, with a certain amount of success for the moment, their strategy of encircling Central Asia in general and Turkmenistan in particular.

On the Eastern flank of this vast 'operations zone,' the recent visit to Beijing of Russian Prime Minister Vladimir Putin clearly relaunched energy cooperation with China. The Turkmen authorities know that it is in their interest to free themselves from the grip of these two immense countries which could, in the end, unite against them. They thus have a need to find other commercial outlets and have every reason to fear that the Western countries will believe the allegations which have just been made about their estimated reserves

On the Western flank, Moscow is covering its back by supporting its position as gas leader on the European markets. In less than one month, the European pipeline project *Nabucco* was subjected to four new and disturbing setbacks. First came the announcement of the delay to

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http://www.rferl.org/content/Nabucco_Pipeline_Conference_Ends_With_EU_Support_But_No_Cash/1375557.html

¹⁹ <http://www.rusenergy.com/en/>

the fourth quarter of 2010 of its financing, which was initially anticipated to be arranged in January. Then came the joint statement²⁰ of Austrian Chancellor Werner Faymann and the Russian Prime Minister on 12 November in Moscow regarding the need to quickly conclude an agreement on the Russian gas pipeline *South Stream*²¹. On 16 November, Slovenia brought to Russia the missing link in the *South Stream*²² puzzle, undermining somewhat further the *Nabucco* project. The agreement of this fifth country (after Bulgaria, Greece, Hungary and Serbia), essential for the realisation of this project, was signed in Moscow by the Russian Minister of Energy, Sergei Shmatko, and the Slovene Minister of Finance, Matej Lahovnik, in the presence of their prime ministers. Thanks to this accord, nothing now stands in the way of *Gazprom* reaching the Italian and Austrian borders and, consequently, ensuring for itself a new outlet to European markets.²³ The final setback, and not least of all, was imposed on *Nabucco* on 27 November during the visit to France of the Russian Prime Minister. At the conclusion of a meeting with his French counterpart François Fillon at the Château de Rambouillet, he was very pleased with the agreement ‘concluded between EDF and Gazprom on the entry of the French company into the grand international transportation project called *South Stream*.’²⁴ According to French sources, the participation of the French public energy giant in the *South Stream* consortium should border on 10%. EDF thus joins another great European gas company, the Italian ENI, which is already very much involved in this Russian project.

After having dreamed for some time of getting out from under the heavy tutelage of *Gazprom*, Turkmenistan now seems to need to draw a line over a possible seismic event of great scale required to overturn the entire geostrategic and explosive complex which the formidable Central Asian energy reserves present. Such a seismic event would have placed Ashkhabad in the lead of a radical change in the orientation of gas flows intended for European markets. More than ever before, Gurbanguly Berdimuhammedov is going to have to make up with Moscow.

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²⁰Online journal *Oil and Gas Eurasia*. Heading « *News* » dated 12 November 2009. « *Russia, Austria Urge States to Expedite South Stream Deal* »

<http://rpc.blogrolling.com/redirect.php?r=f4bb366e180b8112b83eb6f18b40675e&url=http%3A%2F%2Fwww.oilandgaseurasia.com>

²¹ Cf. <http://www.esisc.org/documents/pdf/fr/turkmenistan-la-revelation-doctobre-421.pdf>

²² <http://www.euractiv.com/fr/energie/slovenie-donne-russie-pice-finale-puzzle-south-stream/article-187349#>

²³The other outlet on the way to implementation is that of *Nord Stream*, which connects Russia directly to the North of Germany via the Baltic Sea, bypassing the Ukraine, Poland, the Czech Republic and Slovakia, countries with which Moscow has tense relations.

²⁴ <http://actu.orange.fr/articles/a-la-une/Poutine-a-Paris-EDF-rejoint-le-gazoduc-South-Stream-et-la-vente-d-un-navire-militaire-est-evoquee.html>