



global witness

ALL THAT GAS?

FIVE REASONS WHY
THE **EUROPEAN UNION** IS
WRONG TO BOW TO THE
DICTATORSHIP OF
TURKMENISTAN

Hello Mr. President,
it's me, José. Hate to
bother you ... just wanted
to know if you've ... umm,
figured out how much
gas you actually have?



What? No, please,
I didn't mean any dis-
respect! You know I ...
I ... love you. We all do.
Your charisma; your
luscious black hair ...



Your firm commitment
to exploring the option of
beginning to think about
considering the possibility
of maybe improving human
rights ... or not ...



Look, Berdy, just
tell me where to kiss
and let's get it over
with, okay?



TURKMENISTAN is seen as one of the most repressive regimes in the world.¹ This has not changed in the three years since Gurbanguly Berdymukhamedov became president, following the death of the despotic Saparmurat Niyazov. The country has one of the world's least free media² and is perceived to have become even more corrupt since Niyazov died.³ No political opposition or popular dissent is tolerated. Turkmenistan is still very much a police state.

This is the unpleasant regime that the **EUROPEAN COMMISSION**, backed by certain EU member states, is trying to cosy up to in the hope of securing energy supplies. Disputes between Russia and Ukraine have severed this gas supply twice in the last three years, sending the European Union on a frantic search for new sources of gas. The ultimate aim is to fill the fabled **NABUCCO** pipeline that is planned to link Turkey with Austria. The European Commission views Turkmenistan, unwisely, as one viable source of supply for the pipeline.

It tries to reason that engagement will lead to positive change in Turkmenistan. Yet all signs from the Commission indicate that this engagement is to be without conditions. In other words, Turkmenistan will simply be rewarded with lucrative gas deals with little in return once the gas and money is flowing.



Here are
five reasons
why the
Commission's
reasoning is
wrong.

5 REASONS WHY THE EUROPEAN UNION IS WRONG TO BOW TO THE DICTATORSHIP OF TURKMENISTAN



Turkmenistan is a dictatorship of the worst kind, ranked alongside Burma and North Korea.¹
Credit: Carolyn Drake/Panos

1 THE COMMISSION THINKS THE EU HAS TO TURN TO TURKMENISTAN TO REDUCE EUROPE'S VULNERABILITY TO RUSSIA CUTTING THE GAS SUPPLY. THIS IS BASED ON SHAKY LOGIC.

The Commission is looking to Turkmenistan for its gas because it is nervous about further cuts in supplies due to the problems between Russia and Ukraine. But Turkmenistan at the moment is only offering to sell Europe 10 billion cubic metres of gas a year⁴ – just 2% of the 500 billion cubic metres the European Union consumes. So Turkmenistan does not solve the challenge of Europe's energy reliance on Russia.

The best way to get more Turkmen gas to Europe, without going through Russia, is to build a pipeline across the Caspian Sea. The Commission hopes that such a pipeline would form part of a 'Southern Corridor' and possibly link up to Nabucco.

Just after his retirement in 2009, Steve Mann, the veteran diplomat who for many years co-ordinated US energy diplomacy in the Caspian region, warned against rushing into pipeline projects that don't make commercial sense out of a fear of Russian supply cuts, a factor which he considers to have been "overplayed".

Presidents
Berdymukhamedov
of Turkmenistan (left)
and Medvedev of Russia.
Russia is seen as an
unreliable gas supplier
but can autocratic
Turkmenistan really be
the solution? Credit:
Mikhail Klimentyev/
RIA Novosti/Kremlin
Pool/Epa/Corbis



“[Turkmenistan has] got to double what they’re doing now before there’s a molecule left for Nabucco.”¹¹

JIM GILLET, GAFFNEY, CLINE & ASSOCIATES

Mann said European energy security “can be achieved in ways other than pipelines. The best thing Europe could do for its security is to link its energy grid, which it’s already doing.”⁵

The diversification of the EU’s sources of energy is an obvious positive step, but Turkmenistan poses numerous problems on so many levels that the logic of turning to this country is questionable to say the least, especially when we consider how much gas is currently available. It is a ludicrous notion that the solution to the problem of dealing with one unreliable supplier is to turn to a potentially even more unreliable one in Turkmenistan.

2 THE COMMISSION ASSUMES THAT TURKMENISTAN IS WILLING AND ABLE TO SELL LARGE AMOUNTS OF GAS TO EUROPE. BUT IT MAY NOT BE.

In October 2008, an audit by Gaffney, Cline & Associates found that Turkmenistan has at least the fourth largest gas reserves in the world. The biggest gas fields are onshore but their current output is not for sale to Europe; this gas is earmarked for domestic use or for export to Russia, China and Iran.⁶

There are offshore fields in the Caspian Sea but currently Turkmenistan and Azerbaijan are in



dispute over who controls certain areas. Russia and Iran also border the Caspian and may be unhappy with the idea of a pipeline that doesn't serve their own interests.⁷ An executive from a Western oil company interested in Turkmenistan observed to Global Witness that "if anyone thinks the Russians are going to be helpful, they've got another thing coming."⁸

It is also not clear whether the Turkmen offshore fields contain enough gas to make the 'Southern Corridor' viable. People in the Nabucco consortium privately told Turkmen expert Michael Denison of Leeds University that the prospects for offshore Turkmen gas "do not look particularly good." The exception is the Serdar/Kyapaz field, but this field is at the centre of the boundary dispute between Turkmenistan and Azerbaijan.⁹

Even if the pipeline across the Caspian gets built, it could take at least 5-10 years to become fully functional, with Nabucco on a similar timeline. This pipeline is to be built at massive cost and traverses difficult regions in Georgia and Turkey. The project has been questioned by Jonathan Stern, director of gas research at the Oxford Institute for Energy Studies, who said it still looked "very problematic."¹⁰

Nabucco needs to be economically viable for investors. For this to happen, there has to be enough gas to fill the pipeline. As Jim Gillett, Gaffney Cline & Associates' business development manager, said in early 2009: "[Turkmenistan has] got to double what they're doing now before there's a molecule left for Nabucco."¹¹ Even if Turkmenistan opened up its onshore

fields and a pipeline to Europe existed, it may not be possible to fill it with gas. The Turkmen regime has on previous occasions made ambitious pledges to different customers, including the European Union, about how much gas it can supply them. But historically Turkmenistan never meets its projected production figures due to the chaos that reigns in the country's oil and gas sector: it lacks people with sufficient knowledge to run it and its infrastructure is in bad need of investment.

In October 2009, Berdymukhamedov sacked almost all of his energy officials, complaining of their "total negligence",¹² adding, "instead of oil production going up, it is in constant decline."¹³ This is the fifth time – in just fourteen months – that Berdymukhamedov has made changes in the energy sector's top management.

These latest sackings were accompanied by reports that Turkmenistan had even exaggerated its gas reserves.¹⁴ Simply put, the Turkmen gas sector is so opaque that it is not possible to predict its medium-term output with any accuracy.¹⁵

Perhaps sensing this, a spokesperson for Energy Commissioner Andris Piebalgs told the press that other countries in the region were viable gas suppliers, adding: "The case for Nabucco is completely justified even if the volumes of gas that people expected to find in Turkmenistan are a little bit smaller or much smaller."¹⁶ There is no need to fall over ourselves to court Turkmenistan, nor does it seem wise to do so. So why do we seem to be doing just that?



Berdymukhamedov has yet to come good on his vow to move this statue of Niyazov that rotates to face the sun which came to symbolise the personality cult.
Credit: Global Witness



3 THE COMMISSION THINKS A SOFTLY-SOFTLY APPROACH TO TURKMENISTAN WILL REDUCE HUMAN RIGHTS ABUSES. BUT THERE'S LITTLE SIGN THAT IT WILL.

The Commission and the Council both pushed for an Interim Trade Agreement with Turkmenistan, without any clear plan of how this would improve the situation in the country for its citizens. The European Parliament had the good sense to block this agreement initially, but with strong pressure from the Council and

Commission, it voted in its favour in April 2009 despite strong dissenting voices.¹⁷ The Commission is clinging on to the idea that President Berdymukhamedov is improving conditions for Turkmenistan's people: the European External Relations Commissioner, Benita Ferrero-Waldner, talked about the Turkmen government's "desire to make progress and to open up to change" during a debate in the European Parliament in March 2009.¹⁸

There is a risk that the Turkmen regime is learning to play to Europe's need for "progress" on human rights by making small cosmetic reforms that could be reversed in the future. Though welcome and obviously necessary, such reforms would change very little for the majority of people in Turkmenistan. But they would enable certain parties in the European Union to claim that "engagement" with Turkmenistan is working.

One might argue that citizens are left alone by the regime as long as they do not challenge its incredibly narrow and autocratic views. But so narrow-minded is the regime that students who applied to the American university in Kyrgyzstan were reportedly labelled as "traitors" by the education ministry and were not given permission to leave the country.¹⁹

Those citizens (and their relatives) who are deemed by the Turkmen authorities to have stepped out of line still face intimidation, arbitrary arrest and even torture. One activist, who is currently living in exile, says the situation for such people is "like the Middle Ages."²⁰

It goes without saying that it is impossible for





A new personality cult emerges: A picture of Turkmen president Berdimukhamedov faces a bust of first president Niyazov. Credit: Global Witness

“We will honour [Saparmurat Niyazov, the first Turkmen president] and he will always be honoured throughout the ages because he did a great deal for our country. Today in fact we are continuing his legacy.”³³

PRESIDENT BERDYMUKHAMEDOV OF TURKMENISTAN

civil society to operate freely in Turkmenistan. In October 2009, the Turkmen authorities sentenced ecologist Andrei Zatoka to five years in jail for assault, despite the fact that he was reportedly the victim of the attack. His sentence was then commuted to a fine.²¹ Zatoka had previously been imprisoned in 2006 before being released in an amnesty soon after Berdimukhamedov became president. The Turkmen government’s supposed “desire to make progress” now looks very much like a case of ‘one step forward, two steps back.’

4 ANY PAYMENTS FOR GAS BY EUROPEAN COMPANIES MAY DISAPPEAR INTO A BLACK HOLE.

As Global Witness documented in *It’s a Gas* (2006), under Niyazov most of Turkmenistan’s earnings from gas were kept in opaque off-budget funds.²² The most notorious, the US\$3 billion Foreign Exchange Reserve Fund (FERF), was held by Deutsche Bank in Frankfurt. Niyazov used his control over gas revenues to prop up his police state, repress his citizens and fund a lavish



Turkmenistan's citizens have yet to see the benefit of the money from the country's oil and gas exports.
Credit: Global Witness



One activist, who is currently living in exile, says the situation for people who step out of line is “like the Middle Ages.”

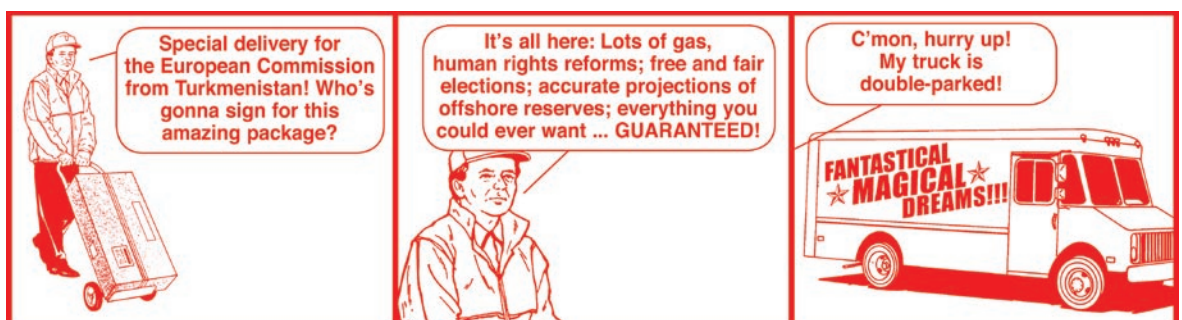
personality cult which included glittering palaces, the promotion of his own made-up holy book and an infamous gold statue of himself that rotates to face the sun.

The country's finances are no less opaque now. In October 2008, President Berdymukhamedov announced that a new “Stabilisation Fund” would be created,²³ but it is doubtful whether this fund will have any independent oversight at all. This fund may well become another fiscal black hole, like the FERF.

It is impossible to say whether things have improved under Berdymukhamedov because there is still almost no available information

regarding gas revenue management. The lack of transparency is so great that the European Bank of Reconstruction and Development (EBRD) has maintained its policy of not lending to the Turkmen government, despite the change of leader.²⁴

Under Niyazov, Turkmenistan was notoriously unreliable to deal with. In 1996, Niyazov reneged on an agreement with Argentinean firm Bridas to build the Trans-Afghan Pipeline, in favour of the US firm Unocal. Another pipeline project fell through in part, because Niyazov insisted on being paid US\$5 billion upfront, according to former US Caspian energy diplomat Steve Mann.²⁵ This capriciousness has not gone away.



Numerous sources say that employees of a major Western energy company have been unable to get visas after it inadvertently offended a top Turkmen official in 2008.²⁶

It is particularly worrying that production-sharing agreements with foreign companies in Turkmenistan are reported to be allocated not on the basis of open bidding but through direct negotiation with Berdymukhamedov himself; as one Western oil executive told Global Witness: "the only guy who really makes the decisions is the president."²⁷ In opaque environments, energy companies often come under pressure to make payments to government officials, leaving themselves open to prosecution under legislation like the US Foreign Corrupt Practices Act. President Nazarbayev of neighbouring Kazakhstan was famously accused of diverting money from international oil companies into private accounts in the mid-1990s in the *Kazakhgate* corruption scandal.²⁸ *Turkmengate* is a definite possibility.

Global Witness wrote to the majority of the major energy companies hoping to invest in Turkmenistan and asked them whether they would be willing to publish any payments they make to the Turkmen government to reduce the risk of the money being corrupted. Most of the companies that replied claimed they could not publish unless the Turkmen government agreed to it. This will not happen – given the above, the Turkmen government clearly doesn't care much for transparency. With companies unable or unwilling to promote transparency, it is up to the European Union to enforce a collective action which will create a level playing field for all

potential investors in Turkmenistan's energy sector. Yet at the moment the Commission seems only interested in getting the gas. By investing in Turkmenistan at this time without conditions, there is a serious risk that Western energy companies will be complicit in the gross corruption and human rights problems of the current regime.

5 THE COMMISSION BELIEVES THAT IT CAN ONLY PLAY A WEAK HAND WITH TURKMENISTAN. THIS IS A MISTAKE.

Commission officials argue that Europe cannot afford to take a strong line with Turkmenistan on corruption or human rights at this stage because this would just push the regime into the less scrupulous arms of Russia or China.

These officials argue that once gas deals have been struck, the mere fact of an energy relationship allows leverage that will gradually influence conditions within Turkmenistan and lead to a better standard of living for the population. But Western energy investment in such African states as Angola and Equatorial Guinea has not led to better living standards for their impoverished people and has arguably just entrenched autocratic regimes. Just across the Caspian Sea in Azerbaijan, the revenues flowing to the government from international oil companies have been increasing in recent years, but in terms of freedom of the press, civil liberties and democratisation, the situation has regressed.²⁹ The Commission argues that engagement is better than isolation, that at least there is a potential for change once the EU engages.



"Have a seat Mr President": European Commission President José Manuel Barroso with Berdymukhamedov. How far will the European Commission go to please the Turkmen dictator?



Yet without conditions, engagement – particularly in the energy sphere – may only exacerbate an already bad situation.

It is laughable to suggest that the European Union can exert more influence over Turkmenistan after gas deals have been struck. In fact, the reverse is true. If companies invest billions of euros in gas infrastructure and European countries start to receive Turkmen gas, then there will be greater political pressure on the Commission not to upset the Turkmen regime so as not to lose this investment and supply. The time for placing conditions on engagement is now.

Europe currently has a strong hand with Turkmenistan. The Commission should play it.

Even if all the above supply obstacles are overcome, then Turkmen gas could still only form a small part of Europe's energy supplies. But Turkmenistan stands to benefit from Europe's world-class expertise and equipment in the energy sphere, would gain legitimacy from dealing with internationally recognised companies and earn billions of euros in the process. As Steve Mann commented: "Nabucco is far more important to ... Turkmenistan than it is to the EU."³⁰ The Turkmen regime needs to avoid dependence on Russia for its gas exports and Europe could provide that balance. Gas deliveries to Russia have been sharply cut by a mysterious explosion

in the pipeline linking the two countries in April 2009.³¹ As this is Turkmenistan's most lucrative export contract, the country faces a severe shortage of cash.

So why is the Commission so fearful of placing conditions on human rights reforms and enforcing transparency in its engagement with Turkmenistan? Why is it selling Europe so short?

Aside from the economic and political arguments, there is a strong moral argument for taking a tougher line with Turkmenistan. The EU Central Asia strategy of May 2007 states: "The development and consolidation of stable, just and open societies, adhering to international norms, is essential to bring the partnership between the European Union and Central Asian States to full fruition."³²

But just how does the Commission intend to achieve this noble aim in Turkmenistan by kow-towing to the regime in the hope of getting some gas? The policy is short-sighted, based on dubious analysis and risks selling out Europe's principles for very little in return, especially for the people of Turkmenistan.

There is another approach. The Commission and EU member states could make clear to Turkmenistan that they expect the country to ratify, and stand by, international conventions on human rights and corruption. They could insist that the government publishes a budget that includes all the gas revenues, including any revenues held in secret funds offshore. And Europe could insist that the Turkmen regime allows its people the basic freedoms of expression and association that are accepted elsewhere in the world and demanded by the European Union in many other countries. In return, Turkmenistan would receive European investment, technical assistance and diplomatic support to enabling it to maximise the benefit from its gas reserves, for its own people. That would be a policy worthy of the European Union. The current policy seems like a bad joke, but its consequences for Turkmenistan's citizens – and Europe's reputation – will not be funny.

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