Working paper

Resource Nationalism Trends in Turkmenistan, 2004–2009

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Executive summary

Among the former Soviet countries, Turkmenistan is the second largest gas producer, after Russia; moreover, it possesses the world's fourth largest gas reserves. However, it has also been the slowest to adapt to independence and the market economy. Its self-imposed isolation has limited foreign involvement, even in its most promising economic sectors.

With the sudden death of Turkmenistan's first president, Saparmurat Niyazov, his successor, Gurbanguly Berdymukhammedov, now controls vast hydrocarbon resources. The new leadership has been pushing hard to increase foreign investment, particularly in the energy sector, which still lacks investment and technology. While some steps have been taken to improve the investment climate, other policies adopted by the government have hindered the operations of international oil companies (IOCs). Positive changes include the adoption of a new law 'On Hydrocarbon Resources' and the creation of a State Agency for Management and Use of Hydrocarbon Resources under the president of the country. The new law allows for the extension of contracts from 25 to 35 years; and with the State Agency, power over the sector is concentrated into one legal entity. The creation of this agency also represents a move towards greater centralization in the energy sector.

These rearrangements have had little effect on IOC operations, as the sector still lacks transparency. Personal relations with Turkmen officials remain important for conducting business in the energy sector. Given the geopolitical position of the country, its dependence on Russian transit routes, and its more recent reliance on Chinese demand (as some experts see it, Turkmenistan has gained another assertive player), there are substantial obstacles facing its attempts to maintain resource nationalism as well as its desire to diversify markets. While these obstacles must be taken into account when planning business in this challenging environment, there has not really been a trend towards greater resource nationalism. The Turkmen government seeks foreign investment and export market diversification, so this is definitely not a good time for it to step up pressure on foreign investors.

Introduction

Turkmenistan has become increasingly important to world energy markets because it contains the world's fourth largest reserves of natural gas,[1] and approximately 546 million barrels in proven oil reserves, with possible reserves of up to 1.7 billion barrels on its Caspian shore.[2] It has recently increased production to some 80 bcm of gas annually.

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1 'Turkmen Oil and Natural Gas: The Viability of Delivering Prosperity to Global Markets' American University in Washington D.C. <http://www1.american.edu/ted/turkmen.htm>

2 United Nations Economic Commission for Europe, <http://www.unece.org/operact/opera/sppled/tur.htm >

Despite its massive energy resources and potential, the impact on the global energy market remains insignificant, and growing world demand has not dramatically affected overall state revenues from the sector – for several reasons. The geopolitical position of the country limits access to international markets. Russia and, more recently, China have taken advantage of their transition capacity to dominate the Turkmenistan market. A political order that lacks transparency, consistent regulatory practices and international business norms damages the investment climate. Evidence suggests that good personal relations with Turkmen officials, especially with the new Turkmen president, remain crucial for acquiring a share in Turkmen business.

Cooperation with the select IOCs that operate in the country is managed in a closed manner, featuring classified data and secrecy about contract terms that should have been open to the public. The export capacity of the energy sector is heavily dependent on the Russian state giant Gazprom, which constantly limits Turkmenistan's opportunities for involvement in other international transit projects. This, in turn, forces the government of Turkmenistan to look for alternative transit routes and attempt to diversify its export markets. On the other hand, a recent report by the British firm of Gaffney, Cline & Associates has estimated the country's new hydrocarbon deposits at a minimum of six trillion cubic meters. Although some international experts have questioned the audit results, they do indicate potentially unprecedented prospects for Turkmenistan in the world market. Given its unstable relations with its three main destination markets – Russia, China and Iran – as regards supply and prices, and Turkmenistan's desire to push prices up, its attempts to diversify routes and markets would seem a logical move. On the domestic level, the government has recently pushed for greater centralization of the lucrative economy sector than under the former leadership. However, it faces constant opposition, mainly from Russia, which strives to preserve its monopoly status both as supplier for EU and as a market for Central Asian energy reserves.

All these factors make Turkmenistan a prospective supplier for world demand and thus highly attractive for analysis in terms of IOCs host relations.

Contracts and profits

Turkmen law provides for three types of licenses: exploration, production, and combined exploration and production license. These are issued on the bases of open or closed tenders. Chapter 4 of the law 'On Hydrocarbon Resources' also lists production-sharing contracts, joint venture contracts (JVs), concession on the basis of royalties and taxes contracts, and risk service contracts as available forms of contractor–state petroleum operations agreements. Contracts can be terminated in case of revocation of the license. The validity period and terms of contracts are determined by the agreement on both sides, in accordance with the given law and the license. According to Article 16 of the new Law on Hydrocarbon Resources, exploration licenses are granted for a six-year period and can be extended twice for a two-year period, in compliance with the terms of the Petroleum Law and the License. Production and combined Contracts can be granted for 20 and 25 years accordingly and extended for a five-year period.[3]

The new hydrocarbons law also brought good news for foreign contractors: The earlier maximum extension period was up to 25 years; now, when desired by both sides, the extension period may be up to 35 years.[4] For big, long-term projects that demand substantial inflows of foreign capital, this will be a good stimulus. In JVs the government must hold the majority interest, involving foreigners only for investment and technology. This has been an obstacle for foreign investors not willing to accommodate themselves to tight government control.

To date, all oil and gas contracts have been concluded in the form of PSAs, negotiated on a case-by-case basis. They have been awarded to six foreign companies, including a recent contract with the Chinese National Petroleum Company (CNPC). The approximate terms of the PSAs can be seen from a Model Production Sharing Agreement for Petroleum Exploration and Production in Turkmenistan; however, this model lacks information on real shares and profits.[5] Three PSAs are for offshore operations: the Cheleken project, the Block-1 project, the Blocks 11, 12 projects.

The biggest foreign oil contractor in Turkmenistan is Dragon Oil of Ireland, controlled by the state-owned Emirates National Oil Company (ENOC) of Dubai. It first entered the Turkmen energy sector in March 1996, when it acquired stakes of IPC Turkmenistan Ltd. Energy is the only sector in Turkmen economy where full foreign ownership is allowed. Dragon Oil signed its Cheleken Block PSA in 1999 with a 100% interest. Currently, output from the Cheleken contract area, with its six wells in operation, is averaging 42,000 b/d – up from 32,000 b/d in 2007, 18,000 b/d in 2006 and 13,000 b/d in 2003.[6] The company's CEO, Dr Abdul Jaleel Al Khalifa, presenting 2009 results, said that gross production in the first half of 2009 was up to 42,808, which is about an 11% increase compared to the first half of 2008. However, the company has also had to deal with a higher tax rate, in line with the 2008 Law on Hydrocarbon Resources. It was noted by Dragon Oil executives that their PSA started with a 25% tax rate and was later decreased to 20% by special

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3 Law 'On Hydrocarbon Resources' Ashgabad 20 August 2008, Article 16.

4 Novy zakon – garant nacionalnyh interesov i effectivnogo mejdunarodnogo sotrudnichestva.
State Information Agency TDH. 25 August 2008 retrieved from <http://turkmenistan.gov.tm/_rus/2008/08/25/novyjj_zakon__garant_nacionalnykh_interesov_i_jeffektivnogo_mezhdunarodnogo_sotrudnichestva.html> on 30 November 2009.

5 http://energylaws-tm.sitecity.ru/ltext_2302160238.phtml?p_ident=ltext_ 23 02160238. p_1003135826

6 Turkmenistan - The Oil Producers. APS Review Oil Market Trends 22 September 2008. Retrieved from <http://www.allbusiness.com/mining-extraction/oil-gas-exploration-extraction-oil-oil/11569190-1.html> on 1 January 2010.

presidential decree, so the new petroleum law merely sets things back to previous levels. Despite Dragon Oil's efforts to negotiate these terms, the 25% tax rate will probably stay in force. Executives have also mentioned negotiations over changing the gas pricing formula, most likely because their revenue dropped by 29% due to falling oil prices.[7] In its 2008 annual report, Dragon Oil notes that good relations with the Turkmen government have been important for their development. Dragon Oil has been a good and reliable partner of the Turkmen government, investing USD 618 million in Turkmenistan by early 2007.[8] Not a single report from Dragon Oil or the government of Turkmenistan states profit ratios or shares, as they are provided for in the individual contracts.

There is some evidence that investors work on an equal basis with the government, having 50/50 share in the hydrocarbons output. On 20 April 2006, for example, President Niyazov proposed that foreign companies should have an equal share in the output with the government.[9]

Another big investor in the Turkmen energy sector is Malaysian Petronas, which holds a PSA on offshore Block 1 with 100% interest. Its total investment by 2007 was up to USD 705 million.[10] Other PSA holders include ENI, who operate the Nebitdag project previously held by Burren Energy, the Turkmenneft state concern and Mitro International of Austria, which jointly operate the Khazar project, and the China National Petroleum Corporation (CNPC), signed in 2007.

While production volumes have been gradually rising thanks to better technologies and adjusted infrastructure, official Turkmen economic data remain problematic. Nevertheless, it is apparent that the eagerness with which Turkmen leadership is seeking to attract new investment, combined with gradually rising prices and growing demand, has led to increased production and profits:

> The country plans to produce up to 110 million tons of oil and up to 250 billion cubic meters of natural gas by 2030, according to the deputy prime minister, who also said Turkmenistan was open to allowing international oil companies to drill offshore under production-sharing agreements and partner with domestic companies for work on land.[11]

Tax and business climate

Turkmenistan is the second largest gas producer, after Russia, among the CIS countries. However, since 1991, the young Central Asian republic

7 Dragon Oil plc Annual Report for the periodcended 31 December 2008; Dragon Oil 2009 Interim Results, Premiere Global Services.

8 *2009 Investment Climate Statement*. Bureau Of Economic, Energy and Business Affairs, US Department of State. February 2009

9 Turkmenistan - The PSAs. APS Review Gas Market Trends 18 September 2006

10 *2009 Investment Climate Statement*. Bureau Of Economic, Energy and Business Affairs, US Department of State. February 2009

11 News Analysis Issue 17 (2008) April 18-24, 2008 Open Society

has suffered from limited foreign investment, even in its profitable hydrocarbon sector – due to regional insecurity in Afghanistan and Iran, a poor record on rule of law, rather extravagant domestic politics, the unresolved status of the Caspian Sea, and the lack of reliable data on real oil and gas reserves.

The hydrocarbon sector, like other strategic sectors, remains under the tight control of the government. The new president has secured his control of the oil and gas industry by adopting a new law 'On Hydrocarbon Resources' and establishing the State Agency for Management and Use of Hydrocarbon Resources under the President of Turkmenistan (Hydrocarbon Agency), which is fully accountable to him personally. Previously, the sector was under the former president's control, but other state structures had sufficient power over contracts and investment distribution for elites to profit from the sector. The old petroleum law, for instance, split competencies in the sector between several institutions: the President, the Cabinet of Ministers of Turkmenistan, the Competent Body (state management agency), and the State Concerns (state-owned companies including Turkmenneft and Turkmengas). Although the president and his circle had a major share in oil and gas deals, extensive functions were also left to other institutions.[12] The new law assigns vast powers to the Hydrocarbon Agency, which has the status of an independent legal entity. Its functions include setting the overall standards of conducting oil and gas operations, conducting international tenders and direct negotiations, and dealing with matters of licensing and contracts. Moreover, it performs monitoring and supervision functions, which earlier were distributed among the Ministry of Oil and Gas Industry and Mineral Resources, the national oil companies (NOCs) Turkmenneft and Turkmengas, and other state agencies. The new law has also limited the authority of the Cabinet of Ministers of Turkmenistan and the State Concern, excluding them almost completely from decision-making in the hydrocarbon sector.[13]

Despite the organizational changes taken to ease investor–government relations, the overall atmosphere remains dependent on good relations with the officials involved. The *Wall Street Journal* has noted the frequent denial of entry visas to managers of the Italian company ENI, despite the proclaimed will to establish good relations with investors.[14] Thus far, the Hydrocarbon Agency has largely failed so far to conduct transparent tenders, continuing the trend of direct negotiations on the basis of personal relations with prospective partners for personal gain.

Taxation in Turkmenistan is regulated by the tax code adopted in 2004 and modified in 2008. This code gives foreign partners certain tax, customs, visa and insurance benefits, but it does not apply to oil and gas con-

12 Petroleum Law of Turkmenistan, 1996 retrieved from <http://turkmeniya.tripod.com/turkmenistanlaws/id6.html> on 11 January 2010

13 Law 'On Hydrocarbon resources ' Ashgabad, 30 December 1996, Law 'On Hydrocarbon resources ' Ashgabad, 20 August 2008.

14 Chazan, Guy. *Turkmenistan Denies visas to ENI Managers*. 23 April 2008, retrieved from <http://online.wsj.com/articleSB120889777509535923> on 12 December 2009.

tractors, whose activities are taxed according to individual contracts and the new petroleum law. Recently, however, Turkmenistan has taken steps to attract more investment by improving the legislative base, including modifying the laws 'On Foreign Investments in Turkmenistan' and 'On Hydrocarbon Resources.' The new petroleum law provides for an improved, more transparent policy towards the oil and gas sector.[15] Steps have also been taken to unify the exchange rate,[16] standardize the Turkmen *manat*,[17] and set the conditions for a more favourable investment climate.[18] Nevertheless, the US Department of State's annual investment climate assessment has remained critical. Its criticisms focus on corruption, cronyism, and a lack of rule of law in Turkmenistan. The 2009 Investment Statement holds that government corruption is rampant:

> …government officials expect personal gain for allowing or helping foreign investors enter the local market. Preliminary indications seem to demonstrate that establishing a personal relationship with the new president will remain the most direct -- and in some cases, the only -- way to gain entry to Turkmenistan's market.[19]

The activities of foreign contractors in the hydrocarbon sector are subject to the new petroleum law, and are taxed according to its Articles 48 and 51 and individual contracts. Since independence, the government has maintained a majority interest in any joint venture, and this is probably the major factor that has kept foreign companies away from this form of investment.

So far, all the contracts are PSAs. They have been awarded to six foreign energy companies, only one of which is in the gas sector.[20] Foreign entities holding PSAs are subject to the following payments: a 20% corporate income tax; subsurface use payments, including royalties, ranging from 1% to 15% depending on profitability; a personal income tax of 10%; property tax of 1%; and bonuses paid to the Hydrocarbon Agency determined by the contract. PSA entities are excluded from Value Added Tax; other payments are under the general tax regime.[21]

However, within these general provisions, both the government and contractors remain secretive about the real amounts of payments under individual contracts. Foreign companies have no right to disseminate the in-

15 Ibid.
16 The official and unofficial exchange rates were unified as 14, 250TMM per US Dollar (CIA World Factbook)
17 TMM was denominated at a rate 1 to 1000 State News Agency of Turkmenistan (TDH) 16 April 2008.
18 Attraction for capital, Turkmenistan International Magazine.December 2009N11-12(56-57)
19 *2009 Investment Climate Statement*. Bureau Of Economic, Energy and Business Affairs, US Department of State. February 2009
20 Ibid.
21 Muminov, Abdulkhamid. *Turkmenistan: Taxation of Petroleum Operations*. 13th International Conference 'Oil and Gas Turkmenistan', 19-21 November 2008, Asghabad. *2009 Investment Climate Statement*. Bureau Of Economic, Energy and Business Affairs, US Department of State. February 2009.

formation, as Article 62 of the new law stipulates the confidentiality of all information connected to oil and gas production. Such information could of course be revealed with the permission of the Hydrocarbon Agency, but to date there have been no instances of that.[22]

Despite the secrecy concerning oil and gas deposits and a closed investment climate, it should be noted that recent developments have shown a shift towards attracting foreign investments. The domestic political changes in the oil and gas industry, including the creation of a State Agency for Management and Use of Hydrocarbon Resources, do not negatively affect foreign companies. Indeed, to some extent, they will make relations with Turkmen government easier and more clear, as they will be controlled by one legal entity.

National Oil Companies

Turkmenistan has two main state-owned companies controlling all the spheres of resource extraction – Turkmenneft and Turkmengas. Turkmengas has become the largest state enterprise, uniting numerous entities responsible for all aspects of gas production. The company has a wide range of responsibilities, including exploration of gas reserves, gas extraction and processing, transportation and marketing of end gas products. In turn, the state enterprise has numerous institutions on the lower level, controlling specific activities in the gas sphere, such as regional entities in Mary, Dovletabad, and Lebap province, as well as entities responsible for specific activities (e.g. Turkmengaspererabotka for gas processing). There are also subsidiary entities to supply the gas production industry when it comes to communications, transport, mechanics, etc.

Turkmenneft is responsible for natural resource extraction. Along with oil production, Turkmenneft has joint activities with Turkmengas on production of natural gas, as well as numerous chemical and water projects. It too has a complex structure, controlling eight gas- and oil-extracting entities, most of the oil and gas infrastructure, a research institute, and entities responsible for all activities connected to the extraction of natural resources.

However, the real power to control the oil and gas production industry lies in the hands of the State Agency for Management and Use of Hydrocarbon Resources under the President of Turkmenistan. Under Niyazov ('Father of the Turkmens' –'Turkmenbashi') this state institution (then known as the 'Competent Body') was controlled by the Cabinet of Ministers, which added various actors involved in the process of resource extraction. However, the new law passed by Berdymukhammedov in 2008 expanded both the role of the state and the authorities of the Hydrocarbon Agency. National companies are 'subsidiary to the state agency', which now has exclusive and absolute power over activities in the oil and gas sphere.

[22] Law 'On Hydrocarbon resources ' Ashgabad 20 August 2008, Article 62 (1,2).

Under the 2008 law, both the land and the resources in it are considered the exclusive property of the state, eliminating the prospect of ownership based on extraction. The Hydrocarbon Agency has become an independent economic and legal entity not controlled by the Cabinet of Ministers, accountable only to the country's president. It is has wide-ranging power to grant licenses for extraction, sign contracts with private companies, and, most importantly, to establish and own shares within the private companies. This provides opportunities for interference with and control of private companies through the acquisition of shares – and that explains why private companies prefer to sign PSA rather than opt for co-ownership within Joint Ventures.

State companies receive preferential treatment, and are allowed to process the more attractive gas and oil fields. Turkmengas and Turkmenneft received licenses to develop Turkmenistan's biggest and richest oilfields – those of the Garashsyzlyk block, with the greatest portion of oil production in the country. Its fields include Kotur Tepe, Nebit Dag, Kyzyl Kum, Burun, Barsa-Gelmes and Kara Tepe. As indicated by Begjanov, 'the Garashsyzlyk fields are being re-explored and developed further under a PSA.' State enterprises have better access to the licenses provided by the Hydrocarbon Agency, while private companies have to extract whatever is left after the activities of state enterprises.[23] Private companies have to sign PSAs with Turkmenneft to gain primary access to the biggest oilfields, covering the parts of investment and sharing the profits. In practice, if the government has enough resources and technology to extract the resources on its own, the Hydrocarbon Agency grants the exploration licenses to national companies. However, if additional resources and expertise are needed, it signs a PSA with one or several private companies, thereby ensuring better production conditions for the state companies. Significant investment and advanced technology are usually required if a private company is to participate in exploration of a field.

Domestic Politics

After the basically peaceful dissolution of the Soviet Union in 1991, Turkmenistan was left with vast hydrocarbon resources, and – unfortunately for its population – with President Saparmurad Niyazov ('Turkmenbashi'). He very quickly realized the extent of his powers, and transformed from a Soviet-style servant of the people into the self-professed father of the nation and guarantor of its stability. Turkmenistan opted to pursue a policy of independence and neutrality that was acknowledged by 185 UN members.[24] The country's location on the outskirts of Central Asia, combined with its remoteness from the Russian Federation and its relative financial independence, made Niyazov's isolationist strategy possible.

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23 http://www.turkmenistaninfo.ru/?page_id=6&type=article&elem_id=page_6/magazine

24 Shikhmuradov, B. 'Positive Neutrality as the Basis of Foreign Policy of Turkmenistan.' <http://www.sam.gov.tr/perceptions/Volume2/June-Au gust1997/volII2 POSITIVENEUTRALITYASTHEBASISOFTHEFOREIGNPOLICYOFTURKMENI STAN.pdf>

The Turkmen leader soon realized that his power could only be challenged by clan elites. His family came from the most numerous and strongest Turkmen clan, the Teke.[25] The fact that Niyazov himself was an orphan both weakened and strengthened his position: on the one hand, he had no relatives to rely on; on the other, he could more easily apply his rotation policies. The new constitution, adopted in May 1992, allocated overwhelming powers to Niyazov, allowing him to essentially rule by decree.[26] To avoid any challenges to his power, the president for life[27] managed to concentrate control over gas and oil resources in his hands through the Ministry of Oil and Gas Industry and Mineral Resources, the National Gas and Petroleum Agency, the major NOCs Turkmenneft and Turkmengas, and by applying a rotation policy to gas and oil officials. Since he could not rely on his relatives to administer the oil and gas resources, and he favoured an anti-clan policy, he used rotation to keep the domestic political scene under control. Gas and oil officials were rotated every two months, on average, giving them no time to amass substantial support.[28] At times dismissal was not enough and officials were imprisoned. Thus Saparmamed Valiev, an ex-minister of Oil and Gas Industry, was sentenced to 24 years in prison and Ilyas Charyev, ex-head of state trading corporation Turkmenneftegas, which was abolished in 2005, received 25 years, the longest sentence in the Turkmen state.[29]

The relationship between the Turkmen state and IOCs was further constrained by the state's desire for investment without abandoning isolationism strategy. Another effect of this vulnerable position was the growth in corruption among oil and gas industry officials, which supplied the president with further instruments for pressure. It was widely accepted and acknowledged that gas and oil contracts should be personally approved by the president, and that maintaining good relations with 'Turkmenbashi' could have a positive effect on one's business affairs. To maintain his influence and power, as well as his popularity, Niyazov used subsidies for consumer goods secured by decree – including water, gas, electricity and low prices on petroleum.[30]

This trend has continued under the new president. Unlike Niyazov, Berdymukhammedov has sought more money inflow and has been keen to attract investors. Recognizing the importance of the country's energy resources for his own rule, he strengthened his power over these resources with the new State Agency for Management and Use of Hydro-

25 Kuru, A. 'The Rentier State Model and Central Asian Studies: The Turkmen Case.' Turkish Journal of International Relations, Vol. 6, No. 1, November 2002, <http://www.alternativesjournal.net/volume1/number1/akuru.htm>

26 Nichol, Jim. Turkmenistan: Recent Developments and U.S. Interests. September 10, 2009 Congressional Research Service page 4

27 Ibid.

28 Praim-TASS, from 17 December 2005, Turkmenistan.ru from 31 October 2005, Gundogar.org 15 September 2005, Reuters, from 24 June 2005 (all articles could be found at http://www.centrasia.ru/news)

29 Turkmeniya: ex-minister nefti Valiev osujden na 24 goda, a ex-glava 'Turkmenneftegasa' Charyev na 25 let, Gundogar.org 20 September 2005. Retrieved from <http://www.centrasia.ru/newsA.php?st=1127200380> 21 December 2009

30 Rasizade, Alec. 'Turkembashi and His Turkmenistan.' Contemporary Review, October 2003, < http://findarticles.com/p/articles/mi_m2242/is_1653_283/ai_110266765/ >

carbon Resources, allowing him to rule the sector directly. He has also appointed numerous relatives to strategic oil and gas posts.[31]

President Berdymukhammedov has also expanded cooperation with Russia, Iran and China, allowing more contracts and supplies. However, these relations are not without problems. In 2009, for instance, Turkmenistan expanded its cooperation with Iran by launching a natural gas pipeline from the Dauletabad gas field, adding to the existing Korpeje–Kurtkui pipeline and promising to increase the volumes of supplied gas from 8 to 20 billion cubic feet.[32] Despite their productive and friendly cooperation, Turkmenistan annually pushes up the prices required of its markets. In 2008, it doubled the price for Iran. This led to a dispute over prices and the cut-off of supplies, later resumed after an agreement was reached.[33] A similar trend is evident in relations with Turkmenistan's oldest and most assertive partner, Russia. The Turkmen budget and economy depend heavily on Russian money from gas sales. While Russia wants to preserve its monopolist status over Central Asian reserves with its pipeline system, Turkmenistan has been pushing for diversification. As a result, Russia has to buy huge volumes of unnecessary hydrocarbons at unprofitable prices. Continuing conflict over prices and volumes resulted in the explosion of a pipeline in April 2009. Further negotiations led to a compromise, which decreased prices and volumes, and allowed the resumption of supplies to Russia.[34]

Conclusion

This working paper has reviewed resource nationalism in Turkmenistan from 2004 to the present, indicating future trends and probable implications for prospective international partners in the lucrative Turkmen energy sector. The period studied is important for understanding politics in the oil and gas sector, and provides some insights into the effects of the recent government transformation.

The death of President Niyazov in December 2006 presented an opportunity for this economically backward Central Asian republic and brought greater international interest in its largely unknown hydrocarbon reserves. With projected annual gas output estimated around 80 tcm, and relatively low domestic consumption, international actors will want to see whether Turkmenistan takes further steps to establish solid investment environment and to diversify its export markets by participating in various transit projects.

31 Aman, Esen. Berdymukhammedov ne sirota. Rodnya potyanulas k 'zolotomu tronu' 01 June 2007.Chronics of Turkmenistan. Retrieved from <http://www.centrasia.ru/newsA.php?st=1180696620> 24 December 2009.

32 Iran-Turkmenistan pipeline online in weeks, 12 November 2009. Retrieved from < http://www.upi.com/Science_News/Resource-Wars/2009/11/12/Iran-Turkmenistan-pipeline-online-in-weeks/UPI-30471258042432/> on 20 December 2009.

33 Daly, John. Turkmenistan doubles natural gas prices to Iran. Eurasia Daily Monitor Volume: 5 Issue: 81
28 April 2008 retrieved from < http://www.jamestown.org/single/?no_cache= 1&tx_ttnews%5Btt_news%5D=33590> on 26 December 2009

34 Turkmen natural gas supplies to Russia resumed 9 January 2010. Retrieved from < http://en.rian.ru/business/20100109/157501021.html> on 15 January 2010.

This present analysis has found no trend towards heightened nationalism. On the contrary, the government, realizing opportunities that would open with new foreign inflows, has pushed hard to open up, so as to boost the chances for foreign investment. So far, the Turkmen government has concluded three export contracts, including a recent one with China's CNPC. Some experts, however, are sceptical about Turkmenistan's export capacity – in view of Russia, with its demand and its desire to preserve its monopoly status; rising Iranian demand; and the growing Chinese market. Turkmenistan used the situation with the April 2009 explosion of the Turkmen pipeline transporting gas to Russia to accuse Russia of being the cause of the gas cut-off. So when the Chinese stepped in to fill the gap, money inflow shortages made the Turkmen leadership eager to agree. Russia got the message and made efforts to resume supplies.

Unfortunately for prospective investors, Turkmenistan still suffers from a lack of transparency in the oil and gas sector, weak rule of law and corruption. One emerging pattern is that major export contracts are concluded with countries that do not press for human rights improvements in Turkmenistan. The numerous suggestions made to the new Turkmen president about participation in transit projects, and his statements about willingness to get involved, have succeeded in getting an assertive Russian player to raise prices. Turkmenistan, being interested in selling more gas and being less dependent on Russia, has opted to take the interests of its largest export partner into account. Thus, none of the South Yoloten contracts were granted to big Western energy companies: the deals went to companies from China, South Korea and UAE. This disappointed several Western oil giants, among them Total, Exxon Mobil, BP, Chevron and Royal Dutch Shell.[35]

Taking all these factors into account, we can conclude that during this period Turkmenistan has not engaged in resource nationalism to any great extent. Its energy sector still demands huge investment inflows and technology available only from foreign partners. Turkmenistan still agrees to foreign participation only in those projects requiring considerable resources, expertise and experience. Some minor resource nationalism could be seen in disputes over Caspian reserves with Azerbaijan, prices and exports with Iran and Russia, and with some IOCs due to Turkmen officials' personal engagement.

The Turkmen government's secretive position on any information connected to energy resources leaves much to the imagination. The uncertainties surrounding a recent independent audit of reserves may be another part of the game Berdymukhammedov is playing to reach his objective of attracting more investment. Limited access to actual figures on profits and shares between IOCs and government make it impossible to say whether there has been a shift towards expanding the role of the government in renegotiation of deals. Thus it would appear that foreign com-

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35 Gent, Regis. Zapadnye firmy ne dopustili do kontraktov na razrabotku uglevodorodov 7 January 2010. Retrieved from <http://www.centrasia.ru/newsA.php?st=1262814300> 10 January 2010

panies wishing to get involved should be prepared to play the Turkmen game, accepting compromises and asking no questions.

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