



Part 1: News Analysis

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After years of international concern over the absence of any outside evaluation of Turkmenistan's considerable oil and gas reserves, President Gurbanguly Berdymukhamedov announced this week that the British company Gaffney, Cline & Associates Ltd. will conduct an independent audit, starting with the Southern Yolotan-Osman field. Turkmen experts claim the deposits there exceed the combined reserves of all fields under development in Turkmenistan, and may be among the world's largest gas reserves. The president also met with top energy officials to outline plans for three priority pipelines to China, Pakistan, and Iran, while not entirely dropping consideration of the Western-backed route to Europe skirting Russia. To keep up with its foreign customers' demand, Turkmenistan plans to boost its gas production output by 50 billion cubic meters (bcm) this year, and reach 120 bcm by 2010.

Bilateral relations between the U.S. and Turkmenistan have intensified in the last year, with avid interest in developing Turkmenistan's energy resources and providing technical assistance in areas such as education, health, and agriculture. Nevertheless, the U.S. released two very critical reports this month on both the business and human rights climates, raising concerns about long-term prospects for positive change in Turkmenistan.

The State Department's annual country report on Turkmenistan said that despite some modest reforms, basic civil and political rights were absent, ensuring that an authoritarian system remains in place with numerous abuses of individuals. A few political prisoners have been released, but many remain incarcerated and in poor conditions. While some areas such as education have been showcased for reforms, the fact that not a single masters degree was issued within Turkmenistan or recognized from abroad in 2007, underscores the sluggishness of reform.

The same issues that plague the human rights situation create an unfavourable business climate, such as the concentration of power in the president's office, the supremacy of presidential edicts over the law, rampant corruption of officials, and the failure to respect contracts and comply with international arbitration rulings. Just as NGOs and religious groups are often unable to officially register and operate, businesses have a hard time legalizing, and foreign businesses must wend their way through numerous contradictory laws and regulations, often relying on presidential discretion for each approval for a project.

The U.S. estimated foreign direct investment at \$2.86 billion and production-sharing agreements (PSAs) with oil companies at \$1.34 billion, with three onshore and three offshore PSAs in place. Despite the challenges to foreign investors, investment was estimated to double in the past year mainly in hydrocarbon development, although the lack of transparency in statistics makes it difficult to confirm.

On the same day as the US report on investment was released, March 18, President Berdymukhamedov announced a new law to encourage foreign business, providing streamlined multi-entry visa procedures and the waiving of certain taxes and fees for foreign investment projects.

The president displayed a commitment to reform by visibly firing and replacing key officials, dismissing the first deputy minister of national security and the deputy minister of foreign affairs, and sacking a radio chief for public misconduct.

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1. INTERNATIONAL RELATIONS

a. U.S. Releases 2008 Investment Climate Report on Turkmenistan

Original title: 2008 Investment Climate Statement--Turkmenistan

Source: U.S. Embassy—Ashgabat/03/18/08. Synopsis prepared by OSI Turkmenistan Project.

Full version: http://turkmenistan.usembassy.gov/ic_report.html

Synopsis: The U.S. State Department released its 2008 Investment Climate Statement on Turkmenistan on March 18, the U.S. Embassy in Ashgabat reported. "The government regularly proclaims its wish to attract foreign investment, but its state-control mechanisms and restrictive currency-exchange system have created a difficult foreign-investment climate," says the US. Although there are opportunities for investment in the oil and gas, agricultural, and construction sectors, restrictive currency regulations, lack of the rule of law, and unfamiliarity with international business standards "are major disincentives" to outside investment and companies "must conduct extensive due diligence," the report said.

"Although President Gurbanguly Berdymukhamedov has expressed his intent to improve investment conditions, to date he has taken no specific related actions," the report said. Despite some key legislation to enable foreign investment, "concentration of power in the office of the president has undermined the rule of commercial law," the report said, adding that the president often makes or overturns legislation by decree. Foreign companies face higher taxes; the exceptions are the national tourist zone of Avaza on the Caspian coast, and 10 other free-enterprise zones that have not produced desired results.

Investment decisions are politically driven, with those countries that enjoy a good relationship with Turkmenistan privy to greater access. "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," the report cautions. A key problem is the lack of supporting legislation, as most projects are decided by presidential resolution and granting of privileges, and not overall enabling legislation. The government insists on retaining majority interest in any joint venture. By law foreigners are able to own property and technically, there are no limits on full ownership, but in practice, only oil companies and one mobile phone company have been allowed fully-owned foreign operations. Only the president has the power to grant foreigners the right to lease land as an exception to the rule of government-owned land, a condition that makes foreign companies vulnerable to expropriation. Although no such

confiscations were reported in the last year, the government has a history of forcibly vacating individuals and organizations from their land, i.e. for "beautification" projects in Ashgabat.

In the report, the U.S. brands the international tender process in Turkmenistan as "badly managed and often not transparent, timely, well-prepared, or accessible." With Turkish companies hired to act as advisors during the process, the projects became "politically motivated and/or economically unsound". The report notes the case of one U.S. company that was told it was awarded a tender, invested in initial project design, and then discovered the offer was withdrawn and given to another company at twice the price. The Trade and Investment Framework Agreements (TIFA) established a forum with the U.S and Central Asian countries to discuss improvements in investment, but the Turkmen government "does not actively engage in regional efforts aimed at boosting investment projects," the report says, and notes that Turkmenistan sells electricity to Afghanistan at subsidized prices.

The U.S. estimates that Turkmenistan has received \$2.86 billion in foreign direct investment and that oil companies that have signed production-sharing agreements (PSAs) have invested \$1.34 billion. The Turkmen government's recent reform of the U.S./manat exchange rate to no more than 20,000 manats per dollar and the permission for currency sellers at near 22,800 manats is a "modest step towards overall liberation" of the foreign currency exchange system.

The U.S. urges companies to include an arbitration clause with a venue outside of Turkmenistan, as the government has at times invoked non-delivery of goods or services when in fact it has not been willing to pay in hard currency as contracted. Changes in leadership of a government agency which originally signed a contract can trigger a re-negotiation of the entire contract including profit distribution and payment schedule, says the US. In a case that has been in litigation since 1996, a western oil and gas company failed to receive \$495 million in damages awarded by decision of the International Chamber of Commerce in 2001 and upheld by the U.S. Court of Appeals in 2006.

With each tax and investment incentive negotiated by project, there is great room for arbitrariness. Foreign companies also have to navigate and comply with a welter of tax, insurance, property, customs, sanitation, environmental and labor regulations i.e. that 70% of the company's personnel be local, with some exceptions for large construction projects.

Registration of companies can involve "onerous bureaucratic requirements". Laws on mergers and acquisitions are unclear and such activity requires government approval. Intellectual property law is "arbitrarily implemented or not implemented at all." The process of legislation and implementation is not transparent, and frequently a law has an unpublished by-law or internal regulation. Personal relations with government officials determine how a law is applied. The report concedes "a partial step toward creating a more transparency policy" with the Law on Petroleum of 2006.

The U.S. also deployed "confusing and cumbersome" bureaucratic procedures, lack of coordination of government agencies, and lack of information, used to the personal benefit of various officials; "corruption is rampant," says the report, with bribe requests widespread and frequent, causing foreign companies to waste months on due diligence. Lack of English language capacity and knowledge of international business practices are also viewed as a hindrance to foreign investment.

The report also addresses labor issues, noting that unemployment, officially and "implausibly" claimed at 3%, is more like 50%, and government-sponsored labor exchanges are ineffective to reduce unemployment. Officials often "request investors to employ their relatives and friends," says the U.S.

Ultimately, without transparency in statistics on foreign direct investment, it is difficult to assess the international investment climate, although incomplete information indicates top investments apparently doubled in the last year. The report indicates three onshore PSAs with Burren Energy, Mitro International of Austria and China National Petroleum Corporation and three offshore with Dragon Oil of United Arab Emirates, Petronas of Malaysia and jointly by Maersk Oil of Denmark and Wintershall of Germany. Dragon Oil invested about \$250 million in 2007 and was expected to add \$500 million more this year. Petronas invested \$600 million in 2007. Burren and Mitro invested \$450 and \$225 million respectively.

b. Turkmenistan Encourages Investors

Source: Associated Press (AP)/*Neitral'niy Turkmenistan*//03/18/08. Synopsis prepared by OSI Turkmenistan Project.

Full version: <http://www.chron.com/disp/story.mpl/ap/fn/5629976.html>

Synopsis: A new Turkmen law to promote foreign investment was passed on March 18, AP and *Neitral'niy Turkmenistan* reported. The law provides for streamlined multi-entry visa procedures for foreign investors and also waives certain taxes and fees for foreign investment projects.

"This law has been drafted as part of the policy of deep reforms of our economy and is aimed at attracting foreign investment," Turkmen President Gurbanguly Berdymukhamedov said in televised comments.

Under a law passed in October 2007, foreign investors may create and fully own companies and acquire property, including real estate.

c. U.S. State Department Country Report on Turkmenistan

Original title: *Country Reports on Human Rights Practices 2007: Turkmenistan*

Source: U.S. Department of State/03/11/08. Synopsis prepared by OSI Turkmenistan Project.

Full version: <http://www.state.gov/g/drl/rls/hrrpt/2007/100622.htm>

Synopsis: The U.S. State Department released its Country Reports on Human Rights Practices 2007 on March 11, state.gov reported. The section on Turkmenistan assesses reforms made since the death of dictator Saparmurat Niyazov and the election of President Berdymukhamedov.

The report says the Turkmen leader has brought only "modest improvements," and the Turkmen government continues to commit "serious abuses" and its human rights record remains "poor." Authorities continued to severely restrict political and civil liberties and fail to provide due process in the criminal justice system, restrict speech, press, assembly, association and religious freedom, and freedom of movement.

Improvements noted include the government's effort to revise a variety of national laws to bring them into conformity with international conventions; the registration of two evangelical Christian groups; the pardoning of at least 22 prisoners whose cases are believed to be politically-motivated; removal of some foreign and domestic travel restrictions for some; reinstatement of a 10th year of mandatory schooling and establishment of a government commission to assist Turkmenistan's compliance with international human rights commitments.

In each of the areas of improvement, the report cites remaining problems of cases of prisoners or practices as yet unchanged. The report cites the account of the Turkmenistan Helsinki Federation that Ogulsapar Myradova, Annakurban Amanklichev, and Sapardurdy Hajiyeve were tortured during detention in 2006 to extract confessions, and subsequently imprisoned. Myradova died in September 2006 in custody; Amanklichev and Hajiyeve remain in prison. While some prisoners associated with the 2002 alleged assassination attempt on Niyazov were pardoned, some remain incarcerated, and relatives of the prisoners also continue to face restrictions. The report notes that the judicial system is not independent or impartial, as the president appoints all the judges, violations of due process are common, and also some officials accept bribes to grant amnesty.

The government fails to ensure property rights and fails to apply existing law to legitimately confiscate property. A number of private homes have been demolished without compensation to their owners. Media is heavily controlled, while satellite dishes enable access to foreign television broadcasts. Internet freedom has "increased slightly," says the report, with 15 Internet cafes established and the granting of internet access to NGOs and businesses. However, the cost of service is prohibitive; the government monitors communications and blocks access to certain sites. All printing presses and duplicating centers are government-controlled. Little access to government information is provided.

Despite constitutional guarantees, the government restricts freedom of assembly and never grants permits for independent public meetings or demonstrations. NGO registration procedures ensure that only those loyal to

the government are registered; no new NGO has been registered since 2005; at least five were denied permits despite repeated attempts to register. Of 89 registered, international organizations consider seven to be independent of the government. Only one approved political party, the Democratic Party, formerly the Communist party of Turkmenistan, is permitted to exist. Religious organizations are restricted by the government through forced registration at the Ministry of Justice. The Catholic Church is unable to register due to a law requiring the head of the church to be a citizen. One new evangelical Christian religious group has been registered since 2005, and a second registered as a branch affiliate. Ruhnama, the state religious ideology created by Niyazov, continues to be taught in public schools and universities but the U.S. said that teachers' reports indicate substantial decrease in its use, and a Ruhnama university changed its focus from "studying the deep roots of the nation's great spirit" to including a more international outlook. Only one institution of Islamic education remained open.

Domestic law does not provide for freedom of movement and an internal passport and residency permit system persists. While four cases of restrictions on international travel were resolved, the government still bars citizens from leaving the country. The government denies maintaining a "blacklist" although the law prohibits certain categories of citizens from traveling to foreign countries, i.e. if they have access to state secrets or commit a crime.

No masters degrees or doctorates have been issued in Turkmenistan since 1998, and government permission is required to study abroad; no foreign degrees were recognized during 2007 despite the government's promises to facilitate such recognition. The government reformed the educational system, adding a 10th year of mandatory education. Approximately 95% of children between the ages of seven and 16 attended school on a regular basis; however, a 2003 UNDP report listed school attendance at 81%, and an Institute for War and Peace Reporting release reported that by eighth grade, attendance at some schools was approximately 40 to 50%.

The minimum monthly wage of approximately US \$40-60 "did not provide a decent standard of living for a worker and his family," and the government does not set occupational safety standards to protect workers' health.

2. DOMESTIC DEVELOPMENTS

a. Turkmen President Reshuffles Top Security Officials

Original title: *President of Turkmenistan Relieves Deputy Ministers of MNB and MVD from Their Posts; Gurbanguly Berdymukhadev Makes Personnel Appointments in the MNB.*

Source: [turkmenistan.ru/03/17/08; 03/19/08](http://turkmenistan.ru/03/17/08;03/19/08). Translation and synopsis prepared by OSI Turkmenistan Project

Full version http://www.turkmenistan.ru/?page_id=3&lang_id=ru&elem_id=12424&type=event&sort=date_desc
http://www.turkmenistan.ru/?page_id=3&lang_id=ru&elem_id=12398&type=event&sort=date_desc

Synopsis: According to a report from turkmenistan.ru, President Berdymukhamedov dismissed Khojamyrat Altayev from his position as first deputy minister of national security for "serious shortcomings in his work, defaming the high title of officer of the Armed Forces of Turkmenistan." Altayev was also stripped of his military ranks, state medals and various privileges. In his place, Major Ashirgeldi Belgiev was appointed.

Saparmyrat Khanmammedov was also dismissed from his position as deputy minister of internal affairs, for "shortcomings in his work, turkmenistan.ru reported.

Major Rejepbay Khalliev was appointed chief of the national security ministry's directorate in Mary.

b. Radio Director Fired for 'Misconduct'

Original title: *Director of Char Tarapdan Radio Channel Relieved of His Post*

Source: [turkmenistan.ru/03/17/08; 03/19/08](http://turkmenistan.ru/03/17/08;03/19/08). Translation and synopsis prepared by OSI Turkmenistan Project

Full version: http://www.turkmenistan.ru/?page_id=3&lang_id=en&elem_id=12419&type=event&sort=date_desc

Synopsis: President Berdymukhamedov signed a decree relieving Berdymurad Abdiyev of his post as director of Char Tarapdan Radio Channel and the General Directorate of Turkmen TV, turkmenistan.ru reported, citing the presidential press service. The former media official was fired "for misconduct in a public place and for failing to perform his official duties," the press service said.

b. UN-Sponsored Human Rights Seminar in Turkmenistan

Source: *Neitral'niy Turkmenistan*/03/14/08. Translation and synopsis prepared by OSI Turkmenistan Project

Synopsis: A seminar on preparing a country report on human rights for universal periodic review (UPR) at the UN Human Rights Council was sponsored by UN Development Programme at the Turkmen Presidential National Institute for Democracy and Human Rights, according to an article in the governmental Russian-language newspaper *Neitral'niy Turkmenistan*. Members and experts of the working group of the Interagency Commission on Turkmenistan's Human Rights Obligations were briefed on the basic purposes of the UPR and the principles for gathering information. Turkmenistan is scheduled to submit the final version of its report for UPR on compliance with UN treaties in December 2008.

The seminar was part of a project initiated by the UN in Turkmenistan in 2006 to develop capacity for reporting on human rights reports which has convened a number of meetings with international experts both in Ashgabat and in Turkmenistan's provinces.

3. ECONOMIC NEWS

a. Turkmenistan Commissions British Firm for Independent Gas Reserves Audit

Original title: *Gaffney, Cline & Associates Ltd to Audit Hydrocarbon Reserves of South Yolotan-Osman Gas Field in Turkmenistan*

Source: turkmenistan.ru/03/17/08. Synopsis prepared by OSI Turkmenistan Project.

Full version: http://www.turkmenistan.ru/?page_id=3&lang_id=en&elem_id=12392&type=event&sort=date_desc

Synopsis: Turkmenistan has commissioned the British company Gaffney, Cline & Associates Ltd to conduct an independent audit of the country's big oil and gas fields, turkmenistan.ru reported. The U.S. company DeGolyer and MacNaughton competed unsuccessfully to perform the audit. Gaffney, Cline conducted a number of audits in Turkmenistan in 2004 in central and eastern Turkmenistan. The British firm is expected to start with the largest Southern Yolotan-Osman field, which Turkmen experts claim exceeds the combined reserves of all fields under development in Turkmenistan, and may enter the list of the world's largest gas reserves.

b. Turkmenistan Plans to Increase Gas Output by 50 BCM

Source: *Neitral'niy Turkmenistan* and ITAR-TASS/03/19/08. Synopsis prepared by OSI Turkmenistan Project.

Full version: <http://capital.trendaz.com/index.shtml?show=news&newsid=1159785&lang=EN>

Synopsis: Turkmenistan plans to increase its natural gas output by 50 billion cubic meters (bcm) in the near future, Makhtumkuli Khydyrov, director of the Institute of Oil and Gas said in an interview, *Neitral'niy Turkmenistan* and ITAR-TASS reported. The institute's specialists have prepared an investment plan to develop the gas field in Southern Yolotan and claim that they have discovered six deposits, which increase Turkmenistan's gas reserves to one trillion cubic meters. According to *Neitral'niy Turkmenistan*, Turkmenistan has an estimated 80 bcm produce annually, of which 20 bcm is consumed domestically, 50 bcm is sold to Russia and about 10 bcm to Iran. The current national program envisions bringing output to 120 bcm by 2010, and 250 bcm by 2030, *Neitral'niy Turkmenistan* reported.

c. Turkmen President Outlines Hydrocarbon Development Policy

Original title: Hydrocarbon Development Policy in Turkmenistan.

Source: [Turkishweekly.net/nCa/Neitral'niy Turkmenistan/03/15/08](http://turkishweekly.net/nCa/Neitral'niy_Turkmenistan/03/15/08). Synopsis prepared by OSI Turkmenistan Project.

Full version: <http://www.turkishweekly.net/news.php?id=53569>

Synopsis: President Berdymukhamedov met with top energy executives on March 14 and defined the current priorities of the hydrocarbon sector, turkishweekly.net/nCa and *Neitral'niy Turkmenistan* reported. The president outlined Turkmenistan's active support for three pipelines. The Trans-Caspian pipeline supported by the West was not indicated but not removed from the list. A Program for Development of the Oil and Gas Industry of Turkmenistan to 2030 formed the basis for developing Turkmenistan's energy resources and integrating them into the global energy system. The pipelines discussed included the Caspian Coastal Pipeline (CCC) running from Turkmenistan to China and slated to begin delivery in January 2009 and the Trans-Afghan pipeline (TAPI) which Berdymukhamedov said was a "priority." Both pipelines form the center of the diversification plan; the modernization of the Central Asia-Center pipeline for exporting Central Asian gas to the north was discussed as well as the Turkmen government's plans to bring gas to all rural areas in Turkmenistan and meet the increasing demand in Ashgabat.

The next meeting of the TAPI, slated to have a capacity of 33 billion cubic meters, will be held in April 2008 in Islamabad. President Berdymukhamedov said he was committed to pursuing multiple routes to export energy but a "purely pragmatic" approach dictated prioritization of the TAPI, even though the Trans-Caspian pipeline isn't removed from the agenda. Turkmenistan and Azerbaijan plan to hold a conference on practical partnership in the oil and gas sector.

Unless otherwise indicated, all translations have been prepared by OSI's Turkmenistan Project.

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