The Nabucco Gas Pipeline:

A chance for the EU to push for change in Turkmenistan

The Quaker Council for European Affairs

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List of Acronyms

BCM	Billion Cubic Metres
CDC	Caspian Development Corporation
DCI	Development Cooperation Instrument
DG RELEX	Directorate General for External Relations
DG TREN	Directorate General for Energy and Transport
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EU	European Union
GHG	Greenhouse Gas
Greens/EFA	The Greens/European Free Alliance in the European Parliament
INOGATE	Interstate Oil and Gas Transport to Europe
ITA	Interim Trade Agreement
MEP	Member of the European Parliament
NGO	Non Governmental Organisation
PCA	Partnership and Cooperation Agreement
S&D	European Parliament Group of the Progressive Alliance of Socialists and Democrats
TACIS	Technical Assistance to Commonwealth of Independent States
TCM	Trillion Cubic Metres

Summary

The European Union has stepped up its engagement with Turkmenistan in order to secure supply for its flagship gas security project the Nabucco pipeline. Turkmenistan is among the most brutal and repressive dictatorships in the world. US NGO Freedom House included Turkmenistan in its 2009 'Worst of the Worst' list of countries without social and political freedoms, alongside North Korea and Burma. In a 2008 report, Amnesty International described 'widespread and systematic abuses'[1] of human rights in the country, while Human Rights Watch noted 'the fundamental and ubiquitous nature of repression in Turkmenistan' and 'the government's abysmal human rights record'[2].

The Council and Commission accept the need to tackle human rights, democratisation and certain development issues with Turkmenistan, but they have not specified the root cause of continuing tyranny in the country: the appropriation and mismanagement of hydrocarbon revenues by an unelected governing elite. The EU is right to target human rights and development issues in Turkmenistan, but should also realise that shortcomings in these areas are enabled by the Turkmen government's stranglehold on the country's collective oil and gas riches. The EU will be part of the problem in Turkmenistan, not part of the solution, unless it combines its energy security goals with dedicated efforts to bring about reform in the management of hydrocarbons in Turkmenistan.

Key Recommendations:

- **The EU should make work on hydrocarbon revenue management a priority in its relations with Turkmenistan. It should do this by seeking to engage the Turkmen government in the Extractive Industries Transparency Initiative (EITI), a scheme which addresses resource revenue management issues and provides protected space for independent civil society groups to operate.**

- **The EU should convene a multi-stakeholder working group comprising representatives of civil society (ideally including Turkmen civil society), European energy companies operating in Turkmenistan and/or with an interest in purchasing Turkmen gas, and Commission, Council, Member State, European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) representatives. This group should work together on building a coherent strategy for constructive engagement between the EU and Turkmenistan focussing in particular on revenue management reform and EITI promotion.**

- **The EIB and the EBRD should require members of the Nabucco consortium to actively promote EITI in any dealings with Turkmenistan as a condition of receiving a loan for Nabucco. Such promotion could include sponsoring seminars on EITI and mainstreaming EITI promotion in dialogue and literature.**

[1] Amnesty International, 'Turkmenistan: No Effective Human Rights Reform', 23 June 2008, p. 1 [online], accessed 30 June 2009, available at http://www.amnesty.org/en/library/asset/EUR61/004/2008/en/f12927cd-4109-11dd-a280-615aa3eb3c6f/eur610042008eng.pdf

[2] Human Rights Watch, 'Letter to UN Human Rights Council Action on Turkmenistan', 10 September 2008 [online], accessed 30 June 2009, available at http://www.hrw.org/en/news/2008/09/10/human-rights-watch-letter-un-human-rights-council-action-turkmenistan

Introduction

Perceived EU energy security requirements create pressure to compromise on other areas of policy such as development, human rights and good governance. EU High Representative for the Common Foreign and Security Policy Javier Solana (1999-2009) acknowledged this in a 2006 speech on EU external energy policy. 'We have to take our energy from where we find it' he said, and went on to suggest that 'the scramble for energy risks being pretty unprincipled'. Moreover, Solana spelt out that 'our energy needs may well limit our ability to push wider foreign policy objectives, not least in the area of conflict resolution, human rights and good governance'[3].

Solana's vision is being realised in the EU's attempts to secure gas supply for the proposed Nabucco gas pipeline. If built, the pipeline would open up a gas supply corridor from the Middle East and Central Asia to a hub in Vienna. At the moment no gas has been secured, but a prime candidate for potential supply is the former Soviet republic Turkmenistan, 'one of the most repressive and authoritarian states in the world[4]' according to Human Rights Watch. The Turkmen dictatorship maintains its power through its control of oil and gas revenues which are its primary source of income. It does not have to rely on tax revenue to survive, and therefore has little incentive to promote economic development. With oil and gas wealth the government can control dissent with police and military forces, or alternatively bribe challengers to keep them quiet. Turkmenistan represents a classic case of the resource curse in action. If Nabucco goes ahead with Turkmen supply secured, European gas consumers will effectively be subsidising repression and adverse development conditions in Turkmenistan.

> *"The Turkmen dictatorship maintains its power through its control of oil and gas revenues which are its primary source of income."*

However, if Nabucco does not go ahead, the alternative scenarios are not very promising either. Isolating Turkmenistan by refusing to upgrade relations with them on moral grounds has not been effective for the EU over the last ten years, nor has it affected conditions within Turkmenistan. The EU could abandon Nabucco and dedicate its resources to renewable projects and energy efficiency. But such a choice would not increase our engagement with Turkmenistan, nor open up a window to wield influence. The Turkmen government does not need Europe in order to earn oil and gas money. The main suitors for Turkmen gas other than the EU are Russia and China, who do not engage in human rights and development work as the EU does. If Russia buys more Turkmen gas, it will export it to Europe (as indeed it already does), so one way or another the moral dilemma will still exist for the EU with or without Nabucco.

The goal of securing gas supply is the driving force behind current EU engagement with the Turkmen regime, and it is unclear in what other area of policy the EU might be able to build up an influential position in relation to the Turkmen government. Despite the misgivings of some Member States, EU political will is pretty much entrenched behind support for Nabucco, so the project is likely to be realised if the hurdles of securing supply are overcome. With that in mind, this paper seeks to examine how the EU's approach to Turkmenistan could be improved so that securing Turkmenistan's

[3] Solana, Javier, Speech at Conference 'Towards an EU External Energy Policy', Brussels 20 November 2006 [online], accessed 2 October 2009, available at http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/EN/discours/91788.pdf

[4] Human Rights Watch, 'Fact Sheet on Turkmenistan' November 2008 [online], accessed 10 July 2009, available at http://www.hrw.org/sites/default/files/related_material/TURK_Fact%20Sheet_110408.pdf

gas is not simply a process of buttering up a repressive government and contributing towards its ongoing tyranny.

The Council and Commission accept the need to tackle human rights, democratisation and certain development issues with Turkmenistan, but they have not specified the root cause of continuing tyranny in the country: the mismanagement of hydrocarbon revenues. The EU is right to target human rights and development issues, but should also realise that shortcomings in these areas are enabled by the Turkmen government's stranglehold on the country's collective oil and gas riches. This fact confers responsibility on the EU to do all it can to attempt to influence the way in which Turkmenistan deals with this hydrocarbon wealth, and to promote its use for productive social projects.

A common refrain from EU officials is that Turkmenistan is too closed a system for us to penetrate. If we impose conditions on our relationship Ashgabat[5] will be alienated. There is some truth in this, and it is certainly true that the country remains secretive, undemocratic and suspicious of foreign interference. However, as the EU acknowledges, the new Berdymukhamedov government is more interested in engagement, and is prepared to listen to EU advice. Unfortunately, as this report establishes, the EU is not even at first base when it comes to approaching Turkmenistan's biggest problem – the misappropriation of hydrocarbon revenues by an unelected governing elite. The EU will be part of the problem in Turkmenistan, not part of the solution, unless it combines its energy security goals with dedicated efforts to bring about reform in the management of hydrocarbons in Turkmenistan. **The EU should do this by working to engage the Turkmen government in the Extractive Industries Transparency Initiative (EITI), a scheme which addresses resource revenue management issues and provides protected space for independent civil society groups to operate. The EU should also augment its limited capacity for dealing with human rights and development issues in Turkmenistan by engaging more fully with civil society groups with expertise in this area**.

> *"The EU is not even at first base when it comes to approaching Turkmenistan's biggest problem – the misappropriation of hydrocarbon revenues by an unelected governing elite."*

Chapter 1 of this report explains the rationale behind the Nabucco pipeline project. Chapter 2 details the current human rights and development situation in Turkmenistan. Chapter 3 maps out the shape of current relations between the EU and Turkmenistan, and Chapter 4 puts forward what the EU should do to improve its approach to Turkmenistan.

[5] Ashgabat is Turkmenistan's capital city.

1 The Nabucco Gas Pipeline

The Nabucco gas pipeline is the flagship project of the EU's gas supply security strategy. The pipeline will traverse 3,300km, crossing four countries – Turkey, Bulgaria, Romania, and Hungary – before terminating in Austria. The pipeline is intended to carry gas from Central Asia and the Middle East to the European market and will have an annual capacity of 31 billion cubic metres (bcm), equivalent to about 5% of current EU consumption[6]. Construction is due to begin in 2011, with the pipeline becoming operational at a limited capacity of 8 bcm by 2014, reaching full capacity by 2019.

First proposed by Austrian and Turkish energy companies OMV and Botas in 2002, Nabucco received €5m in seed funding from the European Commission in 2003. The Commission's grant paid for a feasibility study which concluded in 2004 that Nabucco was economically and technically viable and that the final cost of construction would be around €5 billion. Subsequent volatility in oil and steel prices has seen this estimate increase to the current projected figure of €7.9 billion. Following the positive result of the feasibility study, the Commission's Directorate General for Transport and Energy (DG-TREN) identified Nabucco as a priority project. The European Commission's 2nd Strategic Energy Review of November 2008 reiterated the priority commitment to Nabucco and singled out as key potential Nabucco supplier countries Azerbaijan, Turkmenistan, Iraq, and in the longer term Uzbekistan and Iran[7].

The proposed route of the Nabucco Gas Pipeline, showing potential onward routes from Erzurum[8]

Investment in the pipeline will be provided by the Nabucco Gas Pipeline International GmbH (NGPI), a consortium comprising energy companies from all five Nabucco transit countries and Germany's

[6] See p. 6 for EU consumption figures.

[7] European Commission, *Second Strategic Energy Review* (November 2008) [online], accessed 24 April 2009, available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF

[8] Image: Wikimedia Commons [online], accessed 2 October 2009, available at http://commons.wikimedia.org/wiki/File:Nabucco_Gas_Pipeline-en.svg

RWE-AG. The European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the World Bank have all expressed interest in offering loans to the Nabucco consortium, and NGPI has formally approached the EIB for such a loan. International development banks may contribute as much as 70% of the pipeline's final construction cost[9]. The Commission has also earmarked €200 million for Nabucco in its €5 billion fiscal stimulus package approved by the European Parliament in March. In July 2009 an intergovernmental agreement was signed by the five Nabucco transit countries which provides a legal framework for the pipeline as well as establishing tariff methodology and rules for access to the pipeline.

The European Commission is playing a diplomatic and administrative role. Energy Commissioner Andris Piebalgs has visited the major potential Nabucco supplier countries to encourage them to supply the pipeline. Meanwhile, officials at the Energy and Transport Directorate are designing the Caspian Development Corporation (CDC), a block-purchasing company that would buy gas from potential Central Asian Nabucco suppliers like Turkmenistan. The CDC's raison d'être according to the Commission's Nabucco Coordinator Jozias Van Aartsen is to 'provide secure demand for gas, provide limited infrastructure and perform cash management functions'[10]. In effect, the CDC would be a way of consolidating demand in order to reassure suppliers that Nabucco would be a safe investment. It would also reduce competition between European energy companies, as they would all group together as one entity, with one voice.

1.1 Why is Nabucco being proposed?

In 2007 the EU consumed 492 bcm of gas, slightly down from a 2005 peak of 495 bcm[11]. Around 40% of this gas is currently supplied from within EU borders. EU gas production is however expected to decline rapidly over the coming years. Domestic EU production peaked in 1996 and has steadily declined since 2004. Production in 2020 is forecast to be 39% below 2005 levels[12]. Meanwhile, the International Energy Agency expects EU demand for gas to grow to 771 bcm by 2030[13]. At present the EU imports 60% of its gas needs. This is likely to rise to 84% by 2030[14].

"The International Energy Agency expects EU demand for gas to grow to 771 bcm by 2030"

This increasing dependence on imported gas is compounded by the lack of diversity in the EU's gas suppliers. 84% of the EU's imported gas comes from just three countries – Norway, Algeria and Russia. Russia is by far the biggest exporter of gas to the EU, supplying 24% of all gas consumed, or 42% of EU gas imports[15]. Diversification of supply is a fundamental principle of energy security planning and involves ensuring access to a wide variety of supply sources in order to mitigate the impact of

[9] International Herald Tribune, 'Isolated, Iran offers to supply Europe with natural gas', 16 February 2009 [online], accessed 24 April 2009, available at http://www.iranpressnews.com/english/source/054661.html

[10] Van Aartsen, Jozias, Activity Report: September 2007–February 2009, 4 February 2009 [online], accessed 2 October 2009, available at http://ec.europa.eu/energy/infrastructure/tent_e/doc/axis/2009_axis_linking_activity_report_2007_2009.pdf

[11] BP, *Statistical Review of World Energy*, June 2008, p. 27

[12] International Energy Agency, *Energy Policies Review: The European Union*, 2008, pp. 61-2

[13] International Energy Agency, *World Energy Outlook 2007*, p. 85

[14] European Commission, *An Energy Policy for Europe*, 2007 [online], accessed 22 April 2009, available at http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf

[15] International Energy Agency, *Energy Policies Review: The European Union*, 2008, p. 62

supply disruptions in particular areas. The EU is committed to diversifying its gas suppliers and reducing its dependence on Russia. While Russian gas exports to Europe have been reliable for many years, isolated supply disruptions following disputes between Russia and Ukraine in 2005/6 and 2008/9 have inspired a greater sense of urgency in the EU's efforts to diversify its gas supply. Nabucco would bypass Russia completely and open up a direct and substantial supply route to the gas reserves of Central Asia and the Middle East.

The EU's climate change targets place additional pressure on securing gas supply. The EU is committed to a 20% reduction in greenhouse gas (GHG) emissions by 2020. Gas is the cleanest burning fossil fuel and increased use of gas for electricity generation has helped the UK in particular to reduce the extent of its GHG emissions.

1.2 Which countries could supply gas to Nabucco?

Iran is by far the largest potential gas supplier for Nabucco. The pipeline was initially conceived as a way of bringing Iranian gas to Europe, and indeed it will be difficult for Nabucco to reach its capacity without sourcing gas from Iran. Iran's proven gas reserves are huge at 28 trillion cubic metres (tcm), accounting for 16% of world gas reserves[16]. At the moment Iran is producing 112 bcm of gas annually, and consuming roughly the same amount a year domestically. In order to increase its export capacity, Iran is aiming to increase its current annual gas production to 475 bcm by 2020. Iran has expressed its interest in dedicating some of this increased export capacity to the Nabucco pipeline[17].

Iran's participation in Nabucco is complicated by US sanctions on the country, which discourage European companies from doing business in Iran, for fear of facing US sanctions themselves. Both the Bush and Obama administrations have offered support for Nabucco, but only on the basis that Iran is not involved. Despite Obama's ostensibly more open approach to Iran, the official US position remains that Iran should not take part in Nabucco[18]. Given that Iran's proven reserves are four times greater than all the Central Asian states combined, the US position is inconvenient for the EU, and in the long run may have to be relaxed if Nabucco is to reach its capacity.

Iraq is also a potential Nabucco gas supplier with substantial proven natural gas reserves of 3.17 tcm[19]. In May, Hungarian and Austrian energy companies MOL and OMV, both Nabucco consortium members, struck a deal with the semi-autonomous Kurdish region in the north of Iraq to develop gas fields which could yield as much as 85 million cubic metres (mcm) a day, half of which could supply Nabucco[20]. In theory this would provide about 15 bcm per year, or enough to fill half of Nabucco's capacity[21]. However it remains unclear whether this gas will be exploited soon, given the ongoing dispute between central government in Baghdad and the Kurdish region over distribution of oil and gas revenues. The Baghdad government immediately rejected the MOL-OMV deal with Kurdistan,

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[16] BP, *Statistical Review of World Energy*, June 2008, p. 22

[17] International Herald Tribune, 'Isolated, Iran offers to supply Europe with natural gas', 16 February 2009 [online], accessed 24 April 2009, available at http://www.iranpressnews.com/english/source/054661.html

[18] Press TV, 'US opposes Iran participation in Nabucco', 14 March 2009 [online], accessed 24 April 2009, available at http://www.presstv.ir/detail.aspx?id=88551&sectionid=351020101

[19] BP, *Statistical Review of World Energy*, June 2008, p. 22.

[20] Financial Times, 'Nabucco hopes grow after $8bn Iraqi gas deal', 18 May 2009 [online], accessed 24 April 2009, available at http://www.ft.com/cms/s/0/f19c0f76

[21] Author's own calculation

though following July's signing of the Nabucco intergovernmental transit agreement, Iraqi Prime Minister Nouri al-Maliki announced that in principle Iraq is interested in supplying Nabucco. The Nabucco Consortium made clear in October 2009 that it hopes that Iraq will supply the first gas for the pipeline in 2014[22]. Much now depends on internal Iraqi political factors if this goal is to be achieved.

NGPI hopes to have Azeri gas flowing through Nabucco in 2015 or 2016. Despite its apparent willingness to supply Nabucco, Azerbaijan does not have enough gas available for export to supply much more than 8 bcm per year, less than a third of the pipeline's capacity[23]. In order to fill Nabucco's capacity, Iraqi and Azeri gas would need to be augmented with gas from Turkmenistan[24].

The proposed route of the Trans-Caspian Gas Pipeline which could connect Turkmen gas supply to Nabucco, via the Baku-Tbilisi-Erzurum gas pipeline[25]

Turkmenistan produces 67 bcm of gas annually and according to BP has proven reserves of 2.67 tcm[26]. The Turkmen government keeps close to its chest detailed information about the extent of

[22] Reuters, 'Nabucco sticks to 2014 start, and expects Azeri gas', 1 October 2009 [online], accessed 1 October 2009, available at http://www.reuters.com/article/rbssEnergyNews/idUSVIE00344520091001

[23] Baker Schaffer, Marvin, 'The great gas pipeline game: monopolistic expansion of Russia's Gazprom into European markets', *Foresight*, Vol. 10, No. 5 (2008)

[24] Turkmen gas could be transported to the Nabucco Pipeline by a number of methods. One option would be to build an undersea trans-Caspian pipeline linking Turkmenistan and Azerbaijan, which would link up with the South Caucasus Pipeline before joining Nabucco. Alternatively, existing undersea infrastructure between the two countries could be augmented to carry gas to Nabucco. A third way would be to ship liquefied natural gas (LNG) from Turkmenistan to Azerbaijan.

[25] Image: Wikimedia Commons [online], accessed 2 October 2009, available at http://commons.wikimedia.org/wiki/File:Baku_pipelines.svg

[26] BP, *Statistical Review of World Energy*, June 2008, p. 22

its gas resources, but has claimed that Turkmen gas reserves are as large as 26 tcm[27]. In 2008, the Berdymukhamedov government invited British company Gaffney, Cline & Associates to carry out an independent audit on the South Iolatan gas field in eastern Turkmenistan. The audit concluded that South Iolatan is among the five biggest gas fields in the world, and that this field alone would be capable of doubling Turkmenistan's gas output[28]. Neither Kazakhstan nor Uzbekistan have the export potential in the short term to supply Nabucco substantially, which leaves Turkmenistan as the only Central Asian state that could supply significant quantities of gas to Nabucco.

The European Commission has launched a diplomatic effort to convince Ashgabat to commit to supplying the pipeline. Benita Ferrero-Waldner, EU External Relations Commissioner met with President Berdymukhamedov to discuss energy matters in Brussels in early November 2007. The following week, Energy Commissioner Andris Piebalgs made an official visit to Turkmenistan for further talks. This effort appeared to bear some fruit in April 2008 when President Berdymukhamedov confirmed that 10 bcm of gas annually would be earmarked for export to EU Member States from 2009[29]. In May 2008 a Memorandum of Understanding (MoU) was signed between the EU and Turkmenistan, a development which the EU claimed took 'EU-Turkmenistan relations to a higher level by officialising bilateral energy cooperation in such areas as investment, production, energy technology, energy efficiency, renewables and the transport and trade of energy products'[30]. A further agreement was signed between the Turkmen government and German Nabucco shareholder RWE in April 2009 to develop Turkmen offshore gas resources and the trans-Caspian export route to Europe[31]. These arrangements do not represent a cast-iron Turkmen commitment to Nabucco and the government in Ashgabat is likely to wait as long as possible before finally committing to supply the pipeline. By holding off on committing, Turkmenistan can play off competing potential customers, especially Russia and the EU, driving up the final price they will get for their gas, and using uncertainty over gas exports as a bargaining chip in its international relations.

Apart from one pipeline to Iran, all Turkmen gas export infrastructure currently runs to Russia. Although new pipelines to China and Iran are due to open in December 2009, Russia still maintains dominance over Turkmen gas export routes. Russia buys Turkmen gas, and then exports it to Europe. Facing reduced demand for gas in Europe as a result of the economic recession, Gazprom, Russia's majority state-owned gas company, apparently turned off the taps to its Turkmen import pipelines which may have caused an explosion in one of the pipelines on 9 April 2009[32]. The dispute between Moscow and Ashgabat over this explosion, and over pricing and volume agreements is ongoing, and Turkmen willingness to strike a deal with Europe's RWE may have been influenced by the disagreement with Russia. Russia is working on South Stream, a pipeline which is designed to

[27] Denison, Michael, 'The EU and Central Asia: Commercialising the Energy Relationship', p. 8 [online], accessed 28 September 2009, available at http://www.fride.org/download/EUCAM_WP2_EU_Central_Asia_Energy_Eng_jul09.pdf

[28] Financial Times, "Turkmenistan gas: A big surge in international interest", 30 October 2008 [online], accessed 30 April 2009, available at http://www.ft.com/cms/s/0/698457a2-9ecc-11dd-98bd-000077b07658,dwp_uuid=de664b48-a53e-11dd-b4f5-000077b07658.html?nclick_check=1

[29] Oil & Gas Journal, 'EU assured of Turkmen natural gas supplies', 21 April 2008, p. 5

[30] EU Press Release, 'The EU and Turkmenistan strengthen their energy relations with a Memorandum of Understanding', 26 May 2008 [online], accessed 30 May 2009, available at http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/799&guiLanguage=en

[31] AFP, 'Turkmenistan signs landmark gas exploration deal', 17 July 2009 [online], accessed 1 October 2009, available at http://www.google.com/hostednews/afp/article/ALeqM5g_QM3EMFqQKuWdvdt7nVR-IF5Gfw

[32] Radio Free Europe, 'Slighted by Russia, Ashgabat Courts the EU', 4 June 2009 [online], accessed 9 June 2009, available at http://www.rferl.org/content/Slighted_By_Russia_Ashgabat_Courts_EU/1746716.html

compete with Nabucco by traversing a broadly similar route and locking various EU countries into bilateral deals which threaten Nabucco's progress. The EU and Russia state publicly that Nabucco and South Stream can coexist, but in reality Russia and the EU are competing for the limited gas resources of Central Asia, with Turkmenistan as a prime potential supplier. Despite these problems with Russia, Turkmenistan refused to sign a declaration of intent to take part in Nabucco at May's EU Nabucco conference in Prague. Nevertheless, the RWE deal and the Russia-Turkmenistan dispute work in the EU's favour in the battle for Turkmen gas. Indeed, just days before the 13 July 2009 signing of the Nabucco intergovernmental transit agreement, President Berdymukhamedov expressed his openness to supplying Nabucco with Turkmen gas[33].

[33] Reuters, 'Turkmenistan ready to supply gas for Nabucco link', 10 July 2009 [online], accessed 10 July 2009, available at http://www.reuters.com/article/marketsNews/idUSLA2358920090710

2 Turkmenistan

By most independent accounts, Turkmenistan is among the most brutal and repressive dictatorships in the world. In a 2008 report, Amnesty International described ‘widespread and systematic abuses’[34] of human rights in the country, while Human Rights Watch noted ‘the fundamental and ubiquitous nature of repression in Turkmenistan’ and ‘the government’s abysmal human rights record’[35]. US NGO Freedom House included Turkmenistan in its 2009 ‘Worst of the Worst’ list of countries without social and political freedoms, alongside North Korea and Burma. By Freedom House’s reckoning even countries like Saudi Arabia and Belarus are not repressive enough to sit alongside Turkmenistan in the ‘Worst of the Worst’ rogues’ gallery[36]. The European Parliament reached a similar conclusion as early as 2003 when it passed a resolution identifying Turkmenistan as ‘one of the worst totalitarian systems in the world’ with an ‘appalling human rights situation’[37].

Map of Turkmenistan[38]

A former Soviet republic, Turkmenistan has fared badly since gaining independence from Russia in 1991. The iron rule of President Saparmurat Niyazov lasted from 1985 until his death in December 2006. In 1992, Niyazov was elected President, although no other candidates competed for the

[34] Amnesty International, ‘Turkmenistan: No Effective Human Rights Reform’, 23 June 2008, p. 1 [online], accessed 30 June 2009, available at http://www.amnesty.org/en/library/asset/EUR61/004/2008/en/f12927cd-4109-11dd-a280-615aa3eb3c6f/eur610042008eng.pdf

[35] Human Rights Watch, ‘Letter to UN Human Rights Council Action on Turkmenistan’, 10 September 2008 [online], accessed 30 June 2009, available at http://www.hrw.org/en/news/2008/09/10/human-rights-watch-letter-un-human-rights-council-action-turkmenistan

[36] Freedom House, ‘Worst of the Worst: The World’s Most Repressive Societies 2009’, p. 1, 4 [online], accessed 30 June 2009, available at http://www.freedomhouse.org/uploads/WoW09/WOW%202009.pdf

[37] European Parliament, Resolution on Turkmenistan including Central Asia [online], p. 1, accessed 30 June 2009, available at http://www.europarl.europa.eu/meetdocs/2004_2009/documents/fd/dcas2004100604_/dcas2004100604_en.pdf

[38] Image: Wikimedia Commons [online], accessed 2 October 2009, available at http://commons.wikimedia.org/wiki/File:Turkmenistan-map.png

position. In 1993, he rebranded himself 'Turkmenbashi' or 'ruler of all Turkmens'. In 1999, Nizayov's parliament declared him 'President for life'[39]. His style of governing veered between the whimsical and the tragic. He outlawed opera, ballet and beards, but also abolished the state pension and presided over a severe decline in living standards for most of Turkmenistan's 5 million people. The country's relatively high GDP per capita of $8000 belies the fact that around 60% of the population lives in poverty[40]. An estimated 45% of the population has no access to clean drinking water[41]. Health indicators are poor. Infant mortality is high at 80 per 1000 live births, on a par with a developing country like Congo, despite Turkmenistan having GDP per capita five times higher than Congo[42]. Health services in the Niyazov years were blighted by chronic shortages of staff and medicines. Niyazov systematically ruined health provision by firing one third of the health service's staff in 2004, and ordering the closure of all hospitals outside the capital city Ashgabat in 2005. Life expectancy in Turkmenistan is the lowest of any country in Europe and Central Asia[43].

The education system in Turkmenistan has also declined substantially since the end of the Soviet era, not least because of the malign influence of President Niyazov's 'holy book' the Ruhnama. Study of this book is compulsory throughout the Turkmen education system, from primary school to university. Ostensibly written by Niyazov himself, the book contains moral and spiritual guidance, revisionist nationalist history and autobiography. It pervades the cultural life of Turkmenistan. The book has been instrumental in building Niyazov's personality cult, a force for the consolidation of state power. The book is the centrepiece of a 'state-propagated political religion', 'complete with holy symbols, heroes, temples, texts, ritual and holidays'[44]. When Niyazov took it upon himself to rename the months of the year and the days of the week, he chose to rename 'September' as 'Ruhnama'. A giant statue of the book dominates a square in central Ashgabat. At 8pm each night the book lights up and recorded passages from the Ruhnama are played for any passers-by to listen to. Even mosques have been forced to display the book alongside the Koran, while religious leaders are required to teach the book alongside traditional teachings[45]. Despite making some positive reforms in education since 2007[46], the Berdymukhamedov government continues to maintain the Ruhnama's position in the Turkmen education system[47].

Turkmenistan's poor development indicators seem perverse given the country's abundant natural gas and oil resources. Gas revenue figures are not made public by the Turkmen government, but one estimate suggests that annual revenues from gas exports are likely to amount to around $3.4

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[39] Radio Free Europe, 'Turkmenistan: Looking back on Niyazov's legacy', 21 December 2006 [online], accessed 24 June 2009, available at http://www.rferl.org/content/Article/1073601.html

[40] US Fund for Peace, 'Turkmenistan Country Profile [online], accessed 30 June 2009, available at http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=218&Itemid=348

[41] Rechel, Bernd & McKee, Martin, 'The effects of dictatorship on health: the case of Turkmenistan', BMC Medicine 5:21 (July 2007), p. 2 [online], accessed 1 October 2009, available at http://www.biomedcentral.com/content/pdf/1741-7015-5-21.pdf.

[42] International Crisis Group, 'Central Asia's Energy Risks', May 2007, p. 22, [online], accessed 30 June 2009, available at http://www.crisisgroup.org/home/index.cfm?id=4866&l=1

[43] Rechel and McKee, 'The effects of dictatorship on health: the case of Turkmenistan', p. 7

[44] Mills, Courtney, 'Turkmenbashy: The Propagation of Personal Rule in Contemporary Turkmenistan' University of St Andrews PhD Thesis [online], p. 199, accessed 1 October 2009, available at http://hdl.handle.net/10023/345

[45] ibid, p. 208

[46] Berdymukhamedov restored the length of compulsory education to 10 years and increased university course lengths from 2 years to 5.

[47] Eurasianet, "Ruhnama stays on the curriculum for third-level students", 8 July 2009, [online], accessed 4 September 2009, available at http://www.eurasianet.org/departments/news/articles/eav070809b.shtml

billion, with a further $1.5 billion from oil exports[48]. This money however accrues directly to the governing elite who use it to maintain a state structure based on patronage and repression. In other words, the Turkmen government is able to use oil and gas money to pay off competing political interests, and invest in a sizable police and military to repress any elements that challenge the government and will not be bribed. This pattern of patronage and repression is common in oil and gas-rich developing countries and can be explained as a symptom of the 'resource curse', an idea that attempts to explain why resource-rich developing countries seem to fare worse in terms of economic, social and political development than resource-poor developing countries.

2.1 Turkmenistan and the Resource Curse

Even before resource curse dynamics are considered, Turkmenistan, like the other Central Asian countries, is disadvantaged by geographical location, in the sense that it is physically distant from large markets, especially democratic market economies, with whom trade relations might encourage economic and political reform. Turkmenistan's development has also been influenced by Soviet-era central planning which prevented the country's economy developing along competitive, free-market lines[49]. Beyond these disadvantages, Turkmenistan's entrenched political and social malaise can be attributed to the malign influence of hydrocarbon wealth. In certain circumstances, oil and gas wealth is thought by many scholars of the resource curse to distort a country's economic and political development. Resource curse literature[50] suggests that where governments are overwhelmingly dependent on revenue derived from oil and gas production, they are freed from having to rely on tax revenue from the domestic economy. Such governments are known as rentier states because they survive on rent (excess profits above normal returns) derived from the oil and gas industry. Rentier states with established democratic political and economic institutions like Norway or Venezuela have managed to use oil wealth for the common good by investing in social programmes and long-term funds. However in rentier states where such institutions are weak or non-existent, authoritarian governments tend to prosper at the expense of their citizens, and the risk of civil conflict is high.

Governments in authoritarian rentier states have little incentive to encourage economic development and can rely on oil and gas revenues to maintain government spending. Outside of the hydrocarbons sector, growth is often slow or stagnant. The lack of a strong tax relationship creates a democratic disconnect between citizens and government, so it is difficult for citizens to hold the government to account. Rentier governments tend to spend their wealth imprudently. This has certainly been the case in Turkmenistan, where Niyazov poured state funds into the building of lavish palaces, state buildings with gold facades and an ice palace in the desert[51]. More recently, President Berdymukhamedov has used $1.5 billion of public money to build a Las Vegas-style holiday

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[48] International Crisis Group, 'Central Asia's Energy Risks', p. 20

[49] Auty, Richard, 'Natural resources and 'gradual' reform in Uzbekistan and Turkmenistan', *Natural Resources Forum* 27:4, pp. 255-266, (December 2003)

[50] For example, Karl, Terry Lynn 'The Paradox of Plenty', University of California Press, 1997; Sandbakken, Camilla, 'The Limits to Democracy posed by Oil Rentier States: the case of Algeria, Nigeria, Libya', *Democratization*, Vol. 13, No. 1 (2006), pp. 135-152; Yates, Douglas A, The Rentier State in Africa, Trenton: Africa World Press

[51] BBC News, "Turkmen leader orders ice palace",11 August 2004 [online], accessed 30 June 2009, available at http://news.bbc.co.uk/2/hi/asia-pacific/3554626.stm

resort on the Caspian coast[52]. Reliance on oil and gas money leaves a rentier government vulnerable to price volatility. When the price is high, government coffers overflow. When the price is low, the government lacks funds and is unable to finance public projects and social services. The current dispute between Russia and Turkmenistan over price demonstrates the fragility of reliance on gas revenues, as Russia pushes to substantially reduce the amount they are paying for Turkmen gas. The longer the dispute continues, the longer the Turkmen government goes without payment from Russia, and the greater the losses to Turkmenistan's exchequer.

The Turkmen government's management of hydrocarbon revenues is completely non-transparent. Much of Turkmenistan's gas earnings are siphoned off into offshore bank accounts. A Global Witness report revealed in 2006 that an estimated $3 billion in Turkmen gas revenues were being held in a Deutsche Bank account controlled by President Niyazov. The report also found that no Turkmen gas money makes it into the national budget and that 75% of government spending takes place off-budget[53]. This level of fiscal opacity makes it nearly impossible for Turkmen citizens to know with any degree of accuracy how state funds are being spent.

2.2 Repression of Civil Society Activists and Political Opposition

Even if Turkmen citizens could observe exactly what their government does with their money, they would be prevented from organising themselves to hold the government to account. The dictatorship has been ruthlessly efficient in stamping out challenges from civil society. A law passed in 2003 criminalised NGOs which were not registered with the government and made individual NGO members legally responsible for the actions of the group[54]. To register officially, an NGO must have the support of the Turkmen Ministry of Justice. This support is rarely forthcoming, and in the last two years only one NGO – a gardening association – has received official recognition[55]. Further laws passed in 2003 cracked down on dissent by defining high treason as 'slandering one's own state' and making 'efforts to spread doubt among people about the interior and foreign policy of the first and permanent President of Turkmenistan'[56]. Those brave enough to challenge the state under these circumstances face intimidation, arbitrary arrest, detention without trial often in secret locations, torture and sometimes death. NGO activists' families are often victimised by government security services.

> *"A law passed in 2003 criminalised NGOs which were not registered with the government"*

[52] Turkmen Government, "Gurbanguly Berdimuhamedov: Avaza – new miracle of Turkmen land", 16 June 2009 [online], accessed 30 June 2009, available at http://www.turkmenistan.gov.tm/_en/?idr=1&id=090616i

[53] Global Witness, 'It's a Gas – Funny Business in the Turkmen-Ukraine Gas Trade', April 2006 [online], accessed 30 June 2009, available at http://www.globalwitness.org/media_library_detail.php/479/en/its_a_gas._funny_business_in_the_turkmen_ukraine_g

[54] Crude Accountability, *Turkmenistan's Crude Awakening: Oil, Gas and Environment in the South Caspian*, January 2009, p. 19 [online], accessed 20 June 2009, available at http://www.crudeaccountability.org/en/uploads/File/turkmenistan/Turkmenistan%20Crude%20Awakening.pdf

[55] Huffington Post, 'Reaching Out to Turkmenistan' by Farid Tuhbatullin, 23 June 2009 [online], accessed 23 June 2009, available at http://www.huffingtonpost.com/farid-tuhbatullin/reaching-out-to-turkmenis_b_219233.html

[56] Amnesty International, 'Turkmenistan: No Effective Human Rights Reform', 23 June 2008, p. 14 [online], accessed 30 June 2009, available at http://www.amnesty.org/en/library/asset/EUR61/004/2008/en/f12927cd-4109-11dd-a280-615aa3eb3c6f/eur610042008eng.pdf

Exiled human rights activists report that their family members in Turkmenistan are under police surveillance and face discrimination by the state relating to employment. One activist's father was forcibly resettled to a remote part of Turkmenistan apparently as punishment for his daughter's activities[57]. Activists who remain in the country have travel bans imposed on them to prevent them from spreading the word outside of Turkmenistan, or from seeking asylum elsewhere.

Large numbers of activists and opposition political figures languish in prison following unfair trials. A purge of so-called 'traitors of the motherland' took place in late 2002 following an apparent assassination attempt on President Niyazov. After a series of show trials, prisoners were taken to secret locations where they have been held incommunicado. The International Committee of the Red Cross were denied access to the prisoners, in a continuation of the Turkmen government's policy to block access to all international human rights organisations. Relatives of the prisoners receive no information on their welfare[58]. Torture is also being practised with impunity in Turkmen prisons. In 2008, the UN Human Rights Committee condemned Turkmenistan for failing to investigate and prosecute torture of prisoners. The European Court of Human Rights established that Turkmenistan had no system in place to prevent torture, and in response issued a ruling that effectively imposes a ban on extraditions to Turkmenistan[59].

Repression of civil society is just one of many ways in which the Turkmen government seeks to exert control over the population. A 2006 UN report identified 'severe restrictions on the freedom of expression and information, including repression of political dissent, restrictions on the enjoyment of religion, the situation of minorities, the use of torture, the absence of an independent judiciary and limited access to health care services and education'[60]. The Turkmen media is entirely state-controlled. US NGO Reporters without Borders rank Turkmenistan 171 out of 173 countries for media freedom. Journalists reporting for foreign media are not allowed to operate in the country[61]. All senior media positions within Turkmenistan are appointed by the state[62]. Like civil society activists, all journalists who challenge the state face persecution in the form of harassment, travel restrictions and imprisonment[63].

While Niyazov's death created hope that a successor would lead Turkmenistan in a more progressive direction, the new regime in Ashgabat has only made modest improvements. President Berdymukhamedov was a close colleague of Niyazov and oversaw many of the former dictator's most disastrous policies. Since coming to power, Berdymukhamedov has implemented some positive reforms to the education system and has relaxed some restrictions on internet access. The new regime has gone some way to dismantle Niyazov's personality cult, removing the former dictator's image from banknotes[64], moving a well-known golden statue of Niyazov from the centre of Ashgabat

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[57] ibid, p. 29

[58] ibid, p. 18

[59] Human Rights Watch, 'Turkmenistan Country Summary', January 2009 [online], accessed 22 June 2009, available at http://www.hrw.org/europecentral-asia/turkmenistan

[60] UN General Assembly, 'Situation of Human Rights in Turkmenistan', [online], accessed 30 June 2009, available at http://daccessdds.un.org/doc/UNDOC/GEN/N06/552/49/PDF/N0655249.pdf?OpenElement

[61] Reporters Without Borders, Press Freedom Index 2008 [online], accessed 1 October 2009, available at http://www.rsf.org/en-classement794-2008.html

[62] Amnesty International, 'Turkmenistan: No Effective Human Rights Reform', p. 14

[63] ibid, p. 27

[64] Eurasianet, 'Turkmenistan redonominate currency, further dismantles Niyazov personality cult', 3 January 2009 [online], accessed 30 June 2009, available at http://www.eurasianet.org/departments/business/articles/eav010309.shtml

to the suburbs[65], and taking down publicly displayed pictures of Niyazov, along with Ruhnama-related displays. There is some evidence though that Berdymukhamedov is building his own personality cult, replacing public pictures of Niyazov with pictures of himself, and using the media to bolster his public image[66].

The repressive apparatus of the Turkmen state remains firmly in place, and evidence of continuing human rights violations continues to be collected[67]. Soon after the new President assumed power, 23 political prisoners were reported to have been killed[68]. Berdymukhamedov has also altered the constitution to increase the power of the President and introduced a new crackdown on freedom of artistic expression[69]. Freedom House noted in their 2009 Nations in Transit report that Berdymukhamedov 'ended the second year of his presidency having done little to reform the structure of government' and that Turkmenistan 'retained many of the distinguishing features of the Niyazov era, including the frequent purging of senior officials, a one-party system, tight control of the state-run mass media and severe restrictions on civil liberties'[70]. While the Turkmen government presented with much fanfare 'democratic' presidential elections in December 2008, the reality was that the vast majority of candidates represented Turkmenistan's single state-sanctioned political party, with only limited international observation permitted[71]. Local elections are also tightly controlled, with all candidates being subject to presidential approval[72]. A recent announcement by the Turkmen government also confirms that study of the Ruhnama will remain compulsory in higher education[73]. It would seem that substantive reform remains a distant prospect in Turkmenistan.

[65] The Times, 'Turkmenistan's dictator Niyazov's statue removed to the suburbs' [online], 6 May 2008, accessed 30 June 2009, available at http://www.timesonline.co.uk/tol/news/world/asia/article3876567.ece

[66] Radio Free Europe, 'Turkmenistan: Take Down The Portraits! Niyazov's Personality Cult Being Dismantled', 27 February 2008, [online], accessed 30 June 2009, available at http://www.rferl.org/content/article/1079545.html

[67] Amnesty International, 'Turkmenistan: No Effective Human Rights Reform', pp. 22-23

[68] Denison, Michael, *Turkmenistan and the EU: Contexts and Possibilities for Greater Engagement*, EUCAM Working Paper, accessed 1 October 2009, available at http://www.fride.org/download/EUCAM_WP2_EU_Central_Asia_Energy_Eng_jul09.pdf

[69] Crude Accountability, *Turkmenistan's Crude Awakening: Oil, Gas and Environment in the South Caspian,* p. 9

[70] Freedom House, 'Nations in Transit 2009', [online], accessed 3 July 2009, available at http://www.freedomhouse.eu/index.php?option=com_content&view=article&id=242:nations-in-transit-2009&catid=30&Itemid=92

[71] Radio Free Europe, "Turkmen leaders hail 'democratic' vote, critics unconvinced", 15 December 2008, [online], accessed 30 June 2009, available at http://www.rferl.org/content/Turkmen_Leaders_Hail_Democratic_Vote/1359829.html

[72] Open Society Institute, Turkmenistan News Brief, Issue 27, 3-8 July 2009. Subscription email news service. http://www.soros.org/initiatives/cep/focus_areas/turkmenistan

[73] Eurasianet, 'Turkmenistan: Ruhnama remains on the curriculum for third-level students', 8 July 2009, [online], accessed 8 July 2009, available at http://www.eurasianet.org/departments/news/articles/eav070809b.shtml

3 The European Union and Turkmenistan

3.1 The Central Asia Strategy

Current EU engagement with Turkmenistan is taking place within the context of the Central Asia Strategy agreed upon by the Council in July 2007. The Strategy is an attempt to shift EU relations with Central Asia up a gear, and it puts forward a package of policies towards the region in the areas of trade and economic development, security and energy security, with the additional goal of increasing the EU's diplomatic presence in the region. Furthermore, the Strategy states that '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'[74]. Improvements in human rights, governance, the rule of law and democratisation are pinpointed as central to security and stability in Central Asia, and to the EU's own interests in the region. The Strategy establishes a 'structured, regular and results-oriented human rights dialogue'[75] with each Central Asian country.

The five Central Asian states, bordering Iran, Afghanistan, China and Russia[76]

In the field of energy, the Strategy recognises increasing EU dependence on imported energy and the growing importance of Central Asian hydrocarbons in a potential future EU energy mix. The Strategy seeks to satisfy EU energy security interests 'by addressing the issues of energy exports/imports, supply diversification, [and] energy transit', while also committing to promote 'transparency and capacity-building...in the governance of the energy sector' within Central Asian states[77]. Extending the commitment to transparency, the EU stresses its continuing promotion of the Extractive Industries Transparency Initiative (EITI), a scheme which seeks to bring about

[74] Council of the European Union, The EU and Central Asia: Strategy for a New Partnership, p. 5, accessed 1 October 2009, available at http://www.consilium.europa.eu/uedocs/cmsUpload/EU_CtrlAsia_EN-RU.pdf
[75] ibid, p. 12
[76] Image: Wikimedia Commons, [online], accessed 2 October 2009, available at http://commons.wikimedia.org/wiki/File:Central_Asia_political.png
[77] Council of the European Union, The EU and Central Asia: Strategy for a New Partnership, p. 20

transparency in revenue flows between governments and extractive industries. Andris Piebalgs emphasised the importance of a commitment to good governance in EU external energy relations in a 2006 speech, and made clear that initiatives like the EITI 'need to be adhered to'[78]. In 2008, the Commission joined the EITI's Multi-Donor Trust Fund, donating €530,000 to this World Bank-administered project which provides financial support to countries implementing EITI[79].

The Extractive Industries Transparency Initiative (EITI)

EITI was set up in 2003 to promote transparency in oil, gas and other mineral resource revenues. It is designed to enhance public financial management and accountability, as well as create a more stable environment for domestic and foreign investment in extractive industries.

The EITI requires that companies disclose what they pay to governments to extract mineral resources like oil and gas, and that governments in turn disclose details of payments they have received from the companies. An independent administrator compares the figures from companies and government, and then publishes their findings in an EITI report. This allows civil society within the country – and activists and governments abroad – to scrutinize exactly what is being earned by a government from extractive industries, and to see if there are discrepancies between the declarations of the companies and of the government. A multi-stakeholder group including representatives of government, companies and civil society oversees the EITI process.

EITI is a voluntary scheme, in which 30 countries are currently taking part as EITI candidates. Azerbaijan became the first EITI compliant country in 2009. EITI can be understood as the first step along the path to beating the resource curse, in that it attempts to establish basic transparency in resource revenue management, and create an open relationship between civil society, industry and government to enhance public accountability.

EITI ++

EITI does not attempt to influence what a government spends its resource wealth on. In effect EITI assumes that once transparency has been established, civil society will then have information which it can use to put pressure on the government to spend that money in a constructive way. It is outside the remit of EITI to address the ways in which a government spends its resource revenues.

The World Bank are promoting an enhanced version of EITI known as EITI ++ which promises to deal with the whole chain of resource revenue management 'from how access to those resources is granted, to monitoring operations, to collecting taxes, to sound macroeconomic management and distribution of revenues, and to spending resources effectively for sustainable growth and poverty reduction'[1]. Launched in April 2008, EITI++ is initially focussing on sub-Saharan Africa, with two countries Mauritania and Guinea already on board. In due course, the Initiative is intended to be available to all developing countries willing to take part. The scheme is in the process of seeking funding from international donors, and as such remains at an early stage of development.

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[78] Piebalgs, Andris, Speech at conference 'Towards a EU External Energy Policy' Brussels, 21 November 2006, accessed 11 July 2009, available at
http://ec.europa.eu/external_relations/library/publications/2006_energypolicy_en.pdf

[79] World Bank, *MDTF Donors & Management Committee* [online], accessed 1 October 2009, available at http://go.worldbank.org/OJYG9QNZW0

3.1.1 Technical Assistance

To support the Central Asia Strategy, the European Commission has allotted to the region a budget of €719 million under the Development Cooperation Instrument (DCI) for the 2007-2013 period, doubling the allocation for the previous period under the now defunct Technical Assistance to Commonwealth of Independent States (TACIS) programme. The new allocation will fund bilateral work covering economic diversification, energy, education and human rights, and regional work covering cross-border issues such as crime, terrorism, energy and water management. Core objectives guiding technical assistance to the region are promoting regional cooperation and 'good neighbourly relations', poverty reduction, good governance and economic reform.

The budget for bilateral cooperation with Turkmenistan is small. Under TACIS, Turkmenistan received €15 million between 2002-2006 for projects relating to 'modernisation of customs, reform of statistics, education, and support to rural and economic reform'[80]. Under DCI the budget is slightly more generous at €22 million for the 2007-2010 period[81]. The European Commission's External Relations Directorate General (DG RELEX) identifies good governance and economic reform as its priorities for bilateral assistance programmes to Turkmenistan, along with agriculture policy and rural development schemes. The Turkmen energy sector is targeted for market and regulatory reforms, while civil service capacity building and the 'promotion and strengthening of civil society' are also pinpointed as assistance priorities.

At regional level, technical assistance focussing on energy has revolved around the Interstate Oil and Gas Transport to Europe (INOGATE) programme set up in 1997 to integrate Central Asian, Caspian and Black Sea energy markets and improve energy transit networks in the region. INOGATE's activities were bolstered by the Baku Initiative of 2004 which sought to enhance EU energy relations in these regions by promoting security of supply through modernisation of infrastructure, integrated markets, improvements in energy efficiency and cooperation on joint energy projects. A Ministerial Declaration signed in November 2006 confirmed INOGATE's platform, and noted as an area of common interest the 'fight against bureaucracy, lack of financial and market transparency and corruption'. The Commission's Regional Strategy Paper for Assistance to Central Asia states that 'improving the transparency and public accountability of state and administrative structure at all levels' should be the goal of work on public finance management[82].

In Turkmenistan's case, the EU's ambition does not stretch at the moment to hydrocarbon revenue management. The Regional Strategy Paper for technical assistance makes it clear however that the EU's core energy priority lies in securing the 'significant hydrocarbon resources' of the region, with Turkmenistan marked out for special attention. Transparency in oil and gas revenue management and responsible investment of revenues, are not identified as a specific target area for technical assistance at bilateral or regional level. One EU official told the author that bilateral assistance 'is not touching the hydrocarbons sector', and that this is a 'sensitive' area which would not be approached by the Commission. When I asked about the commitment to EITI in the Central Asia Strategy, the official said it would be a 'step too far' to target hydrocarbon revenue management in Turkmenistan. Instead, bilateral assistance is focussing on providing advice to the Turkmen

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[80] AIDCO, *Turkmenistan page* [online], accessed 1 October 2009, available at http://ec.europa.eu/europeaid/where/asia/country-cooperation/turkmenistan/turkmenistan_en.htm

[81] European Commission, *Central Asia Indicative Programme,* p. 4 [online], accessed 1 October 2009, available at http://ec.europa.eu/external_relations/central_asia/rsp/nip_07_10_en.pdf

[82] European Commission, *Regional Strategy Paper for Assistance to Central Asia* p. 30 [online], accessed 1 October 2009, available at http://ec.europa.eu/external_relations/central_asia/rsp/07_13_en.pdf

government on how to align public finance administration with international standards. Because the Turkmen government is secretive about state finances, this advice is being given by means of simulations using dummy figures.

Such practical difficulties in dealing with the Turkmen government are noted in the Commission's Central Asia Indicative Programme report. The unstable nature of cabinet and civil service appointments in Turkmenistan has made 'it difficult to develop long-term relationships with ministries and ministers'. EU officials note how disconcerting it has been dealing with teams of Turkmen officials who are replaced frequently, swiftly and without explanation[83]. This instability has prompted the Commission to focus on 'short-term policy advice and expertise' responding to 'specific needs rather than large scale reform projects which by their nature may be too challenging for the project to be successful.[84]' In April 2008, a 'Europa House' liaison office was set up in Ashgabat to support technical assistance projects.

The Commission is in the process of planning its Central Asia Indicative Programme for the period 2011-2013, with a consultation period ongoing throughout 2009. Core energy objectives remain the same in line with INOGATE, though there are plans for an additional focus on promotion of renewables and energy efficiency in Turkmenistan.

3.1.2 The Partnership and Cooperation Agreement

EU engagement with the five Central Asian states, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan, has been slow to develop. The principal means of engagement since 1991 has come through Partnership and Cooperation Agreements (PCAs) covering trade liberalisation and legislative harmonisation. As the Commission states, 'PCAs are built upon three pillars: political dialogue, trade and economic relations and cooperation in a variety of sectors. They are based on common values of respect for human rights, democracy and the rule of law and include commitments to align their respective legal frameworks with that of the EU, and to undertake regulatory convergence in economic sectors.[85]' Negotiations on PCAs began with all Central Asian countries in the mid-1990s, and three have been in force since 1999 with Kazakhstan, Kyrgyzstan and Uzbekistan.

Progress on concluding a PCA with Turkmenistan has, until recently, been blocked by the European Parliament on human rights grounds. PCAs may include commitments to human rights and democracy promotion, but are non-specific in exactly how these issues are to be addressed in relations between the EU and the partner country. Negotiations on an EU-Turkmen PCA were concluded in 1997, though the European Parliament's Committee on Foreign Affairs refused to report on the proposed PCA due to the state of human rights in the country. Although the PCA was signed with the Turkmen government in 1998, four of the then fifteen EU Member States would not ratify the agreement. Given this impasse, an Interim Trade Agreement (ITA) was prepared as a stop gap measure, but this, too, was opposed by the Parliament in 2000 because of the ongoing human rights abuses of the Niyazov regime.

The European Parliament's opposition to the ITA was confirmed most recently in its resolution of 20 February 2008 which laid down a set of benchmarks that Turkmenistan would have to meet before Parliament could offer its approval. These included unrestricted access for the International

[83] Private discussions with EU officials

[84] European Commission, *Central Asia Indicative Programme,* p. 35

[85] European Commission, *Regional Strategy Paper for Assistance to Central Asia*, p. 3

Committee of the Red Cross, unconditional release of all political prisoners and freedom for NGOs and human rights organisations to operate in the country. Parliament's insistence on benchmarks has, however, been short-lived.

Prompted by calls from the Council and Commission, Parliament debated the Turkmen ITA in March and April 2009. On 22 April, Parliament adopted a resolution giving the green light for the ITA to proceed. The resolution notes President Berdymukhamedov's 'willingness to carry out major reforms' and states that the ITA would have 'the potential to contribute to the advancement of ongoing democratic reforms in Turkmenistan' and be 'a possible stepping stone towards steady and sustainable relations between the European Union and Turkmenistan' as well as acting as 'a potential lever to strengthen the reform process'. The resolution makes clear that the Parliament's support of the ITA is a test run for ultimate support of the PCA, for which Parliament's assent would be required. It stresses Parliament's desire to be fully consulted on human rights developments by the Commission and Council and that if either institution fails to reassure Parliament that progress is being made, then Parliamentary assent for the PCA will be jeopardised. The resolution highlights the long-identified human rights issues in Turkmenistan, and calls for a clear human rights clause to be written into the PCA, but it does not lay down any specific standards by which the Commission and Council's relations with Turkmenistan will be judged over time. While final approval of the EU-Turkmen PCA may still be some way off, the Parliament's volte face appears to open the door to that possibility.

3.1.3 European Investment Bank (EIB)

The EIB was established by the Treaty of Rome in 1958 to serve as the European Union's 'long-term lending bank'. Its stated objective is 'to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States'. It raises money on the international capital markets which it then 'lends on favourable terms to projects furthering EU policy objectives.[86]' Lending to energy projects is 'one of the EIB strategic lending priorities both inside and outside the EU' and amounts to around €4 billion a year. Priority areas within energy lending operations include diversification and security of EU energy supply and external energy security and economic development[87].

The Nabucco pipeline consortium approached the EIB in January 2009 to request a loan. EIB President Philippe Maystadt made clear that the Bank was in principle ready to offer a loan, but needed more information on the project's viability before it could proceed[88]. The EIB is reported as having suggested it could provide up to a quarter of the pipeline's final construction cost, which would amount to around €2 billion[89]. The Bank will require confirmation of gas contracts between European energy companies and Nabucco suppliers before it can make any final investment decision. It will also need to be satisfied that its environmental and social standards have been adequately met during its appraisal of the project.

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[86] European Investment Bank (EIB), *About the EIB* [online], accessed 1 October 2009, available at http://www.eib.org/about/index.htm

[87] EIB, *Sustainable, Competitive & Secure Energy* [online], accessed 1 October 2009, available at http://www.eib.org/projects/topics/energy/index.htm

[88] Reuters, 'EIB asked to help finance Nabucco pipeline project' [online], 26 January 2009, accessed 21 April 2009, available at http://www.reuters.com/article/rbssEnergyNews/idUSLQ25425220090126

[89] Financial Times, 'Transit states release tension on Nabucco', 9 July 2009, accessed 1 October 2009, available at http://www.ft.com/cms/s/0/8733a9b2-6cab-11de-af56-00144feabdc0.html

The Bank is committed to 'trying to improve where practicable the environmental and social outcomes of all projects'. It makes clear though, in its Environmental and Social Practices Handbook, that the ultimate responsibility for these outcomes lies with the borrowing party, not the Bank[90]. Even so, the Bank published in February 2009 *The EIB Statement of Environmental and Social Principles and Standards*[91] which 'must be applied by the staff of the EIB in all operations.[92]' The Statement makes clear that the Bank will not finance any project that does not meet the standards laid out in the Statement, and is straightforward in its assertion that the Bank 'will not finance projects which result in a violation of human rights.[93]'

The Bank's social standards are driven by a 'human rights-based approach' and aim to 'protect the rights and enhance the livelihoods of people directly and indirectly affected by projects financed by the EIB'[94]. The EIB states that its investments should 'contribute to the EU development goal of poverty reduction and sustainable development'[95]. To further that goal, the Bank has chosen to endorse the EITI, which it hopes will tackle 'weak governance, corruption and lack of transparency' in countries 'where the failure to disclose information on payments and revenues can lead to a misuse of resources.[96]' The Bank has donated €100,000 to the EITI secretariat to support its activities[97] and has committed to work with borrowers 'to introduce greater transparency and consistency in reporting in payments at a project level.[98]' It also commits to promoting EITI with governments and national authorities, to 'encourage them to adopt EITI principles for reporting and publishing extractive industry revenues'[99].

The Bank requires borrowers to carry out an Environmental Impact Assessment (EIA) for large and complex projects such as the Nabucco pipeline. This can include a social impact assessment if lending is taking place outside of the EU. The Bank is yet to decide whether a loan to the Nabucco consortium would constitute external lending, given that Turkish company BOTAS is part of the consortium[100]. The Statement says that the EIA 'should relate to the entire project and its sphere of influence, not just the part that is being financed by the Bank.[101] In the case of Nabucco, the Bank faces a problem in relation to the application of its Social Principles. On one hand, the Bank would be financing a discrete pipeline project from Vienna to the east of Turkey. On the other, the pipeline is intended to link up to existing and yet to be built infrastructure which would enable suppliers to connect to it. The Bank will know at least some of the countries that will be supplying

[90] EIB, *Environmental and Social Practices Handbook* [online], September 2007, p. 1 accessed 24 April 2009, available at http://www.eib.org/attachments/environmental_and_social_practices_handbook.pdf

[91] Improvements to the Statement's human rights provisions were made and new provisions on conflict sensitivity were introduced as a direct result of QCEA's and the European Peacebuilding Liaison Office's advocacy during the EIB's consultation process in 2008.

[92] EIB, *Statement of Environmental and Social Principles and Standards*, February 2009, p. 6, accessed 1 October 2009, available at http://www.eib.org/attachments/strategies/eib_statement_esps_en.pdf

[93] ibid, p. 10

[94] ibid, p. 17

[95] EIB, *Environmental and Social Practices Handbook*, p. 45

[96] EIB, *EIB support for the Extractive Industry Transparency Initiative* [online], 28 February 2008, accessed 1 October 2009, available at http://www.eib.org/projects/eib-support-for-the-extractive-industry-transparency-initiative.htm

[97] EIB, *EIB support for the Extractive Industry Transparency Initiative* [online], 14 July 2009, accessed 1 October 2009, available at http://www.eib.org/about/partners/cso/joint-initiatives/eiti/index.htm?lang=-en

[98] EIB, *EIB support for the Extractive Industry Transparency Initiative*, 28 February 2008

[99] ibid

[100] Private email communication with EIB

[101] EIB, *Statement of Environmental and Social Principles and Standards*, p. 13

the pipeline by the time it makes its investment decision. If Turkmenistan has not signed Nabucco gas contracts before the Bank makes its investment decision, the Bank will nonetheless know that it is the intention of the Nabucco consortium to secure Turkmen supply at a later date. The Nabucco pipeline itself and the gas that will pass through it are inseparable – a pipeline is useless without gas to flow through it. To that end, gas suppliers clearly fall within the 'sphere of influence' identified in the Bank's Statement. It is reasonable therefore to expect the Bank to factor supplier countries into its environmental and social appraisal of the project.

Having discussed the matter with EIB Officials, it remains unclear how Nabucco supplier countries will be factored into an EIA. Officials have pointed out that it is not feasible to require the Nabucco consortium to add supplier countries into their EIA, and so the Bank would need to carry out its own internal assessment of human rights conditions in Turkmenistan, should it supply the pipeline. Officials are mindful of the Bank's commitment to EITI and the need to promote the scheme through their project work, but were unable to explain how such promotion might take place in the case of Nabucco if Turkmen supply is secured. Now that an intergovernmental transit agreement on Nabucco has been signed, efforts to confirm supply will be stepped up, and the EIB is likely before long to receive another request for a loan from the Nabucco consortium. The Bank has offered civil society organisations a consultation meeting as part of its appraisal process to discuss possible Turkmen involvement in Nabucco and the Bank's response to that.

3.1.4 European Bank for Reconstruction and Development (EBRD)

Established in March 1991, the EBRD's stated purpose is 'to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative'[102] in the former Communist countries of Europe and Central Asia. The Bank's founding agreement includes a commitment to 'the fundamental principles of multi-party democracy, the rule of law, respect for human rights and market economics'. The Bank's subscribed capital is provided by diverse nation states including Russia, Japan and the USA. The EBRD is not an institution of the EU; however EU countries and institutions provide the majority of the EBRD's capital base[103]. Between 2006 and 2008, the EBRD invested €2.7 billion in energy projects focussing particularly on energy efficiency improvements in existing energy infrastructure[104]. The Bank has endorsed EITI and commits to promote the scheme and 'help build capacity in countries of operations to enable them to implement the objectives of EITI'[105].

Like the EIB, the EBRD has expressed public interest in Nabucco and is open to the possibility of providing a loan to the consortium. Unlike the EIB, the EBRD has a specific and detailed policy on Turkmenistan which is likely to make it difficult for the Bank to lend to Nabucco if Turkmen supply is secured. The current EBRD Strategy for Turkmenistan was approved in 2006 at the tail end of the Niyazov era. The Strategy makes clear that the EBRD will not lend to the Turkmen government or to private hydrocarbon projects in the country given Turkmenistan's 'continued failure to take any

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[102] European Bank for Reconstruction and Development (EBRD), *Basic Documents of the European Bank for Reconstruction and Development* [online], accessed 1 October 2009, available at http://www.ebrd.com/pubs/insti/basics.pdf p. 5

[103] 63% according to the author's calculation

[104] EBRD, *Sustainable Energy Initiative: Action and Results 2006-2008* [online], p. 4, accessed 1 October 2009, available at http://www.ebrd.com/pubs/cs/sei.pdf

[105] EBRD, *EBRD participation in the Extractive Industries Transparency Initiative* [online], accessed 1 October 2009, available at http://www.ebrd.com/about/policies/sector/nateiti.htm

measures which would indicate a willingness to make progress towards multi-party democracy, pluralistic society and a market-based economy'[106]. A revised Strategy for Turkmenistan is due in early 2010 and is likely to acknowledge the modest reforms that have taken place since Berdymukhamedov came to power in 2007. However it is unlikely that the Bank will be able to justify a major shift in its policy given the evidence of continuing human rights abuses and lack of political and economic reform. Even though no Nabucco supplier country would receive loan money directly from the Bank, the Bank will have a hard time squaring its Turkmenistan policy with lending to Nabucco if Turkmen supply is secured before a final investment decision is made. Likewise, even if Turkmen supply is not secured before the investment decision, the Bank is fully aware that the Nabucco consortium intends to import Turkmen gas in due course. This is likely to be incompatible with the Bank's revised Turkmenistan policy.

3.1.5 The EU position on Nabucco and relations with Turkmenistan

The European Parliament's approval of the ITA, subsequently ratified by the Council on 27 July 2009 confirms that the EU has abandoned conditionality in its relations with Turkmenistan. The Council and the Commission presented their case for unconditional engagement with Turkmenistan to the European Parliament during the debate on the ITA on 25 March 2009. Both Council President-in-office Alexander Vondra and Commissioner for External Relations Benita Ferrero-Waldner stressed the importance of the EU-Turkmen relationship for the success of Nabucco. Both made much of the modest improvements in Turkmenistan since the death of Niyazov, while recognising that the human rights situation was still unacceptable. Both urged Parliamentarians to agree that the relative openness of the Berdymukhamedov government required a response from the EU. Mr Vondra said that the Soviet-era trade agreement with Turkmenistan 'provides for only a rudimentary bilateral dialogue', while a PCA would allow 'a fully-fledged political dialogue' to take place.

Ferrero-Waldner made clear that 'our relations with Turkmenistan must be shaped as much by our values as by our interests', and asserted that only through engagement and ultimately ratification of the PCA could this be achieved. She noted that both the ITA and the PCA allow for suspension 'in the case of an established, continuous and serious breach of the human rights clause'. David Martin MEP (S&D, United Kingdom) put forward that it was not clear how the human rights clause would be invoked and implemented, and in response Alexander Vondra conceded that this would be at the discretion of the Council, with a possible consultative role for the Commission and Parliament. Marie Anne Isler Beguin MEP (Greens EFA, France) went as far as to say that the Commission and Council's case for engagement with Turkmenistan was entirely motivated by the Nabucco project.

Neither the Council nor Commission have publicly addressed the problem of gas revenue management in Turkmenistan. At the root of EU reticence to engage more fully on human rights and hydrocarbon revenue management issues with Turkmenistan is a fear that a values-based approach will put the EU at a competitive disadvantage in the great game for access to the country's gas. Privately EU officials suggest that the only way the EU could have influence in relations with Turkmenistan is if a gas relationship is established through Nabucco, and that on that basis, any approach that jeopardises securing a gas deal should be avoided. They believe that leverage on human rights and development issues will increase as mutual energy dependence is cemented and Western companies gain a foothold in Turkmenistan. In short, the only hope for influence is by developing energy relations.

[106] EBRD, *Strategy for Turkmenistan* [online], 15 June 2006, p. 1, accessed 1 October 2009, available at http://www.ebrd.com/about/strategy/country/turk/strategy.pdf

4 What can the EU do to promote change in Turkmenistan?

Conditionality and disengagement has failed to impact on the Turkmen government and there are no signs that a continuation of this policy will bear fruit. The EU is right to conclude that more positive engagement with Turkmenistan is necessary if strategic, economic and values-based goals are to be achieved. The gas relationship is the predominant strategic motivation for EU engagement with Turkmenistan and energy is probably the only arena in which the EU may be able to build influence in relation to the Turkmen government. The Turkmen government is building a new multi-vector foreign policy based on energy engagement with multiple countries, and is engaging with the international community as never before. The door is open for the EU to solidify a long-term relationship with Turkmenistan. However, the human rights and development situation in Turkmenistan remains woefully inadequate and the EU must address this more robustly in its dealings with the country.

The EU is crucially lacking in ambition in its approach to Turkmenistan, favouring a soft, generational approach to human rights and development issues and veering too close to a pure energy security approach to the country, at the expense of a values-based approach. This gives fuel to the criticism that the EU is selling out its values to secure gas. It would be counterproductive at this stage for the EU to harangue Turkmenistan publicly about human rights and development concerns. Given the fragility of current relations, that approach would likely push Turkmenistan away from Europe, and towards closer relations with Russia and other suitors. However, at the same time it is inappropriate for the EU to selectively focus on modest reforms and play down continuing shortcomings, in the absence of dedicated, albeit quiet efforts to work on human rights and development issues in a credible way. The EU might not attract such strong NGO criticism of its approach to Turkmenistan if those NGOs could see real evidence of meaningful work on hydrocarbon revenue management and human rights going on behind the scenes. Unfortunately, the EU-Turkmenistan Human Rights Dialogue has made very little progress and is widely perceived to be a window-dressing exercise by the NGO community. The EU is not addressing revenue management issues at all.

If the EU believes its leverage in relations with Turkmenistan will increase after a gas deal is struck, then it should begin to plan for that eventuality now. While it may be true, as one EU official told me, that 'we need Turkmenistan more than they need us', Turkmenistan still has an interest in dealing with Europe. Europe is a huge and reliable gas market, payment can be made in valuable Euros, and export to Europe would be an important factor if Turkmenistan is to reduce its dependence on Russia with whom relations have become unstable. In addition, much of Turkmenistan's onshore and offshore gas reserves will require the skills and expertise of Western energy companies if they are to be optimally developed. This does not change the fact that if Turkmenistan feels threatened by the EU's approach to human rights and other issues, it could forgo those benefits and make do with alternative export routes. It does indicate, however, that the EU can be bolder in planning for a relationship of some influence with Turkmenistan. This report offers two core recommendations to the EU relating to **EITI promotion** and **NGO engagement**.

4.1 Extractive Industries Transparency Initiative (EITI)

The EU should pinpoint work on hydrocarbon revenue management as a priority in its relations with Turkmenistan. In particular it should work to encourage Turkmenistan to join EITI. EITI can appeal to the Turkmen government's self-interest, in that improved transparency and civil society involvement help generate a safer investment climate for foreign energy companies, thus boosting competition and in turn the implementing government's ability to strike more lucrative deals with such companies. The stability promoted by EITI could help boost foreign investment outside of the hydrocarbons industries in Turkmenistan, a crucial factor if the country is to diversify its economy. Participation in EITI is also a way of cementing good will towards Western governments and the international community, which would be useful for Turkmenistan in its efforts to loosen Russia's grip on its energy exports. This latter point is only valid, however, if the EU makes it clear to Turkmenistan that EITI implementation is important to them. EU officials have told the author that EITI has not been raised on a regular basis in negotiations with Turkmenistan. This should be remedied as soon as possible.

EITI implementation would face several challenges in Turkmenistan, not least the government's likely suspicion of a process which can improve revenue transparency and increase civil society freedoms. Civil society is severely repressed in Turkmenistan, and state finances are managed in a completely opaque manner. The EITI process, however, has helped address these shortcomings in other countries where political and social freedoms are restricted. Civil society organisations were either non-existent or very limited in Gabon, Cameroon, Equatorial Guinea, Kazakhstan and Azerbaijan before these countries began the EITI process. EITI provides internationally protected space for civil society groups to operate under the oversight of the EITI secretariat, international NGOs including the Publish What You Pay (PWYP) coalition and foreign government sponsors of EITI. The Azeri government for instance was initially resistant to the idea of Azeri NGO involvement in the EITI process. Yet pressure from international NGOs and foreign governments persuaded the government to allow NGOs to take part. More recent attempts by the Azeri government to limit NGO participation failed as a result of pressure from strengthened Azeri NGOs[107]. Azerbaijan became the first EITI compliant country in February 2009[108]. EITI implementing governments have in some cases harassed and arrested civil society activists engaged in the process[109], but the efforts of the international EITI network have resulted in the release of such prisoners who have been able to continue their work.

> *"EITI provides internationally protected space for civil society groups to operate"*

EITI is by no means a panacea for the ills of resource-rich countries, but in Turkmenistan's case it may represent the only viable means by which some kind of international help could be given to repressed civil society groups in the country. EITI is a voluntary scheme, and must be entered into willingly by a candidate government. If the Turkmen government weighs the pros and cons it may conclude, like other authoritarian regimes have, that it has more to gain from engagement with EITI than it has to lose. The EU should seek to mainstream EITI promotion in its dealings with Turkmenistan, including through the EU-Turkmenistan Human Rights Dialogue. The EU should direct some technical assistance towards seminars promoting EITI to Turkmen officials. It should consider facilitating experience-sharing dialogue on EITI between Turkmenistan and regional peers and EITI implementers Azerbaijan and Kazakhstan. The EU could promote EITI discussions between

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107 Eurasianet, 'Azerbaijan abandons controversial NGO amendments', 1 July 2009, accessed 1 October 2009, available at http://www.eurasianet.org/departments/insightb/articles/eav070109a.shtml

108 For more on the Azeri experience of EITI see Asadov, Farda, 'The public oversight of oil projects in Azerbaijan, 2004-2007', *International Social Science Journal*, Vol. 57, No. 1, pp. 93-106

109 EITI and PWYP pressure has helped bring about the release of imprisoned EITI activists most recently in Niger, see http://www.publishwhatyoupay.org/en/resources/pwyp-welcomes-civil-society%E2%80%99s-decision-re-enter-eiti-process-niger

Azerbaijan and Turkmenistan alongside discussions on the Trans-Caspian gas export route. The EIB and EBRD could also play an important role here by requiring members of the Nabucco Consortium to actively promote EITI in any dealings with Turkmenistan as a condition of receiving a loan for Nabucco. Such promotion could include sponsoring seminars on EITI and mainstreaming EITI promotion in dialogue and literature. Mainstreaming of EITI through both diplomatic and corporate channels will help send the message to the Turkmen government that participation in EITI is important to the EU and European energy companies and that it is a way to solidify a mutually beneficial gas relationship.

4.2 NGO Engagement

The EU has developed a combative and distant relationship with NGOs over Turkmenistan policy. Many EU officials feel alienated by what they consider unfair and unnuanced criticism of their approach. This is unfortunate, as the EU would benefit on a number of levels from closer engagement with NGOs working on Turkmenistan. Some Western NGOs can act as conduits for repressed Turkmen civil society activists, whose vital contribution to EU-Turkmenistan policy is currently not being heard by EU officials. Given the relatively small number of EU staff working exclusively on Turkmenistan, the EU should look to build bridges with NGOs working on Turkmenistan in order to expand their approach to hydrocarbon revenue management in particular.

The EU should convene a multi-stakeholder working group comprising representatives of civil society (ideally including Turkmen civil society), European energy companies operating in Turkmenistan and those companies seeking to purchase Turkmen gas, and Commission, Council, Member State, EIB and EBRD representatives. This group should work together to form a coherent long-term strategy for constructive engagement between the EU and Turkmenistan, focussing in particular on revenue management reform and EITI promotion, as well as on energy company sponsored social projects.

5 Recommendations

EU

- Fulfil the Central Asia Strategy's commitment to promotion of EITI by making Turkmen participation in the scheme a goal of EU-Turkmen relations.

- The EU should convene a multi-stakeholder working group comprising representatives of civil society (ideally including Turkmen civil society), European energy companies operating in Turkmenistan and/or with an interest in purchasing Turkmen gas, and Commission, Council, Member State, EIB and EBRD representatives. This group should work together on building a coherent strategy for constructive engagement between the EU and Turkmenistan focussing in particular on revenue management reform and EITI promotion.

- The EU should facilitate dialogue on EITI between Turkmenistan and regional players with EITI experience – Kazakhstan and Azerbaijan.

- The Commission should ensure that DG TREN and DG RELEX coordinate EITI promotion in their dealings with Turkmenistan.

- Regional technical assistance could include work on developing cooperation and exchange of experience on EITI implementation between Turkmenistan and Central Asian EITI candidate countries Kazakhstan and Kyrgyzstan. Similar exchange with Azerbaijan may also be possible.

- The European Commission and Member States should prioritise the setting up of a permanent delegation in Ashgabat, so that a local EU diplomatic presence can work on a daily basis with the Turkmen authorities.

European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD)

- The EIB and the EBRD should require members of the Nabucco consortium to actively promote EITI in any dealings with Turkmenistan as a condition of receiving a loan for Nabucco. Such promotion could include sponsoring seminars on EITI and mainstreaming EITI promotion in dialogue and literature.

- Before a final investment decision is made, the EIB should publish on its website any internal human rights assessment it makes of Turkmenistan.

- The EIB should add a Guidance Note on the resource curse and on revenue management best practice to its Environmental and Social Practices Handbook. The note should make clear the relevance of resource curse mitigation measures in fossil fuel projects and the Bank's responsibility to use its projects to promote such measures (including EITI and EITI++) in every relevant fossil fuel project.

Appendix

Background information on the QCEA Sustainable Energy Security Programme and 'The Nabucco Gas Pipeline' paper

The QCEA Sustainable Energy Security (SES) programme started in July 2008 at a time of record high oil prices and unprecedented EU concern about energy security and climate change. The programme is informed by the understanding that both energy resource competition and climate change are significant conflict drivers, and that EU energy security policy has important development implications for many supplier countries.

The programme consists of five projects, four of which focus on energy demand reduction and consumption issues, reflecting Quaker concern for lifestyle simplicity and a tradition of individual transformation in response to wider social and political issues.

This paper on Nabucco and Turkmenistan is the first publication of the fifth strand of the SES programme, the EU Security of Supply project, which is tackling the human rights, development and conflict implications of EU energy security policy. The next paper in this project will look at the militarization of EU energy security policy with particular focus on the proposed Trans-Sahara gas pipeline and the EU's first naval mission Operation Atalanta.

As this paper explains, the EU is facing serious problems in securing gas supply over the coming years, and is concerned about dependence on supply from too few sources, especially from Russia following the gas supply disruptions of 2005-6 and 2008-9. Nabucco is the centrepiece of a wider Southern Corridor strategy which aims to bring Central Asian and Middle Eastern gas to Europe avoiding Russian territory.

Nabucco reflects the increasing desperation of EU energy security planners and the perceived commercial imperative of European energy companies eager to exploit the dwindling hydrocarbon reserves of Eurasia. The Nabucco and Trans-Sahara pipelines are among the last options for new piped European gas supply, and it emphasises the gravity of the EU's energy security problems that these projects are being seriously considered at all.

There are many who are sceptical about Nabucco, given the amount of public money that is likely to be given to the project in the form of a loan from the EIB. There are several reasons for such scepticism:

Every investment decision has an opportunity cost. Money spent on Nabucco cannot be spent on investment in renewable projects. But EU political will is now entrenched behind Nabucco and there is very little sympathy in the EU institutions for anti-Nabucco arguments. The EU has been supporting Nabucco since 2003. The gas supply crises of 2005-6, and 2008-9 have strengthened political resolve in the EU to see the project through. The Commission is fully behind the project, with specialist staff working full-time to ensure the project is realized. There is no substantial opposition to Nabucco in the European Parliament which has already passed the Commission's fiscal stimulus package including €300 million earmarked for Nabucco. While some Member States have been reluctant in their support for Nabucco, they have nonetheless acquiesced to its progress. If supply issues are resolved in 2010, then Nabucco will be built. Even if Nabucco is not built according to schedule, given the increasingly difficult gas security situation, it or another pipeline fulfilling the same function is likely to be built over the next 10-15 years.

Opposing the Nabucco project outright might have been an effective strategy much earlier in the project's gestation. Now it seems a much better use of limited QCEA resources to campaign for Nabucco to be used as a vehicle for change in Turkmenistan. If persuading the EU to abandon Nabucco were to be successful (an outcome we do not believe is realistic) this outcome would also have a moral consequence – the forfeit of the opportunity for the EU to push the Turkmen government to implement reforms in the management of hydrocarbon revenues and allow civil society groups the chance to operate. As this paper argues, EITI is the appropriate vehicle for these reforms. The irony pointed out in this paper's introduction is that if Nabucco does not go ahead, Europe will still receive Turkmen gas via Russia. The difference with this indirect relationship is that the EU will have no contact or influence over Turkmenistan.

We may feel that the EU should not be spending funds on fossil fuel projects at all. But the continuing use of gas – especially scrubbed or cleaned gas – is accepted by many environmentalists including George Monbiot in his book Heat[110], as a necessary part of a transitional energy system. Many Quakers are committed to reducing their personal energy consumption, but still have to rely on electricity from gas-fired power stations, and require gas to heat their homes and cook their food. Gas is the cleanest burning fossil fuel, producing half the carbon emissions of coal and a third less than oil. Continuing to use some gas is not out of keeping with achieving overall reductions in greenhouse gas emissions. On climate change grounds Nabucco is not necessarily a bad thing, if any gas received replaces coal and oil, in the framework of reduced overall greenhouse gas emissions which the EU is already committed to.

Nabucco's annual capacity of 30 bcm (5% of current consumption) may seem insubstantial. In fact over time, it is possible that Nabucco's capacity could be doubled, and with the addition of the proposed White Stream pipeline linking the Caspian region to the EU via Ukraine, the EU could be importing as much as 80 bcm from this region in the future, equivalent to nearly 15% of current consumption. Even 5% in itself is not insubstantial given the generally tight supply and demand forecasts up to 2030.

So, this paper does not oppose the construction of the Nabucco pipeline. Instead, it puts forward the argument that Nabucco should be used to promote positive change in Turkmenistan, a country whose lack of social and political freedoms put it on a par with North Korea and Burma. If the EU decides not to pursue an energy relationship with Turkmenistan, it will effectively be abandoning any further substantive contact with the country, and with it any real chance to promote change there. Efforts to promote human rights and good governance could in theory continue, but the EU would have no opportunity to build the leverage that might put bargaining power behind the values being promoted.

The great powers with influence in the region – the United States, Russia and China - appear uninterested in promoting change in Turkmenistan. The EU then is the only normative power on the scene, but has ten years of failed isolation policy behind it which did little to help the people of Turkmenistan. For the foreseeable future, engagement with the Turkmen government driven by energy interests may be the only initiative on which substantial human rights and development work could be pinned.

Through its relations with Turkmenistan, the EU has been exposed as all too easily sidelining the ethical dimension of energy security policy. The EU is happy to promote its commitment to schemes like EITI and to good governance, democratization and human rights around the world, but seems willing to discard these commitments when it becomes inconvenient to pursue them. It is our job to hold the EU to account when it appears that these commitments are being cast to one side.

Pushing the EU to live up to its professed values in the fields of human rights, development, democratization and in the support of initiatives like EITI is crucial work. The relevance of this work stretches beyond Nabucco, to all cases in which the EU and Member States try to secure natural resources from countries afflicted by dictatorship, bad governance, poverty and conflict.

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In an increasingly interconnected world, progress in the areas of development, security and human rights must go hand in hand. There will be no development without security and no security without development.

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