



TURKMENISTAN-IRAN ENERGY COOPERATION

Nowadays, Ashgabat and Tehran managed to establish more trusting relations, compared with relations between Iran and other Central Asian states. Due to the fact that the two countries share a common state border with the total length over 1000 km and confessional closeness, Turkmenistan and Iran stress the importance of further intensification of comprehensive cooperation.

Naturally, Turkmen-Iranian relations are based on mutual benefit. Nowadays, Turkmenistan is the only country in Central Asia, which is connected with Iran through the joint electricity grid. In 2003, the parties launched jointly constructed the Balkanabad-Aliabad transmission line for supplying Turkmen electricity to the northern provinces of Iran. Another transmission line to Iran was completed in 2004. Additionally, it is planned to construct the Mary-Mashad power transmission line, which would allow exporting electricity generated at the Turkmenbashi and Balkanabad power plants in western Turkmenistan through the Turkmenistan-Iran-Turkey energy corridor. Since 2006 Iran has become the largest exporter of electricity from Turkmenistan purchasing more than 50% of energy. Last year Iran imported 3,718 million KWh of electricity, 67% of which came from Turkmenistan.

Over recent years, Turkmenistan has become the key trade partner of Iran among the CIS members. The trade turnover between the two countries reached \$3.7 billion in 2014, which exceeded the trade turnover between Iran and Russia. During the last meeting between President of Iran, Hassan Rouhani, and his Turkmen counterpart, Gurbanguly Berdimuhamedov, held in Ashgabat in March 2015, the high-ranked officials expressed readiness to boost the volume of bilateral trade to \$60 billion in the next 10 years.

In order to make progress towards the stated target, the parties intend to increase the flow of goods along the newly opened Kazakhstan-Turkmenistan-Iran railway line, which was put into operation on December 3, 2014. The first cargo from Kazakhstan including 45 railcars entered Iran at the beginning of June 2015. Ashgabat and Tehran expect that in the next 5 years, the annual railway transit capacity would be about 10 million

tons of goods. Therefore, at the inter-departmental level, Turkmenistan and Iran have already reached an agreement for further improvement and expansion of the railway infrastructure.

The presidents of Turkmenistan and Iran also admitted that the countries would continue to increase Iranian imports of Turkmen gas providing energy security for the northern provinces of Iran, which are suffering from energy poverty. Over the last decade, Iran has constantly been among the top three major customers of Turkmen gas. Moreover, after Russia announced that the volume of natural gas purchased from Turkmenistan would be reduced from 11 billion cubic meters (bcm) to 4 bcm per year in 2015, Iran would be the second major customer after China.

Nowadays, two gas pipelines connect Turkmenistan and Iran allowing Tehran to deal with gas shortages in its northern region. The Korpedzhe-Kurdkui pipeline with the export capacity of 8 bcm per year was launched at the end of 1997. It was also the first pipeline that gave Turkmenistan an export route outside the former Soviet Union. The second gas pipeline, the Dauletabad-Sarakhs-Khangiran pipeline, with the capacity of 12 bcm annually, was put into operation in early 2010. A new gas-compressor station built specifically to increase the export of Turkmen gas up to 20 bcm annually started its operation in western Turkmenistan in December 2013.

However, until now, the parties have not been able to provide full loading of their gas pipelines. Despite the fact that Iran has two contracts with Turkmenistan enabling delivery of 14 bcm of Turkmen gas annually, Ashgabat supplied only 7.5 bcm of gas to Iran in 2014. One of the key reasons for such a low level of supply is economic sanctions imposed against Iran. For instance, after disconnection of Iranian banks from the International banking transaction system SWIFT, Tehran owed Ashgabat more than \$1 billion for gas in 2013, which even caused a temporary suspension of Turkmen natural gas exports to Iran.

Recently Turkmenistan was faced with another problem of unpaid debts. Ashgabat announced that Russia has not paid off its debts to the Turkmen State Corporation for the

delivered natural gas volumes since early 2015 requesting reconsideration of the purchase price of the Turkmen gas. In contrast, it is evident that Iran shows its desire to continue the energy cooperation by demonstrating readiness to pay off all the existing debt as soon as access to the SWIFT international payments system is unblocked.

Particularly, Iranian officials emphasize the importance of resuming the oil swap operations with northern neighbors, especially, Turkmenistan. In the period of 1997 to 2009, Iran swapped oil from the Caspian littoral states but due to the disputes on transit fee and due to the oil embargo imposed by the EU, Iran had to leave this policy. In the period of 12-years, Iran earned \$880 million from the Caspian oil swap operations. Therefore, Tehran has already started negotiations with Ashgabat to restart crude oil swap operations from the Turkmen port of Turkmenbashi to the Iranian port of Neka.

Since January 2015 Iran has repeatedly declared its readiness not only to be a transit country for transport of Turkmen gas to Europe via Turkey but also to join the project as one of the major natural gas suppliers. However, the final decision on this issue would largely depend on the position of the EU officials, who have clearly demonstrated their intention to take a political decision in favor of the Trans-Caspian gas pipeline, which could bring gas from the post-Soviet countries bypassing Iran and Russia. That is why, European countries would not be able to consider the Trans-Iranian gas pipeline as an alternative to the Trans-Caspian project until all international sanctions imposed on Iran would be lifted.

In conclusion, Turkmen and Iranian officials constantly highlight the necessity for deepening mutual cooperation in key regional issues. Iranian authorities have always considered that collaboration with Turkmenistan could give an opportunity to overcome political and economic isolation. Turkmenistan, in return, supposes that strengthening bilateral cooperation with Iran would help to prevent transformation of its self-imposed foreign policy Doctrine of Positive Neutrality, which moved the state toward isolationism, the policy of economic isolation.

Politics, Foreign Affairs and Security

- The Prime Minister of India, Narendra Modi, has finished his official visit to Central Asian countries and Russia. During the official visit, Narendra Modi held talks with Presidents of five Central Asian nations and inked key agreements to strengthen bilateral cooperation in the fields of economy, security, culture and tourism.
- An association consisting of Brazil, Russia, India, China and South Africa (BRICS) held its 7th Summit in Ufa, Russia. The leaders of the BRICS countries adopted a declaration expressing deep concern about the terrorist activities and the conflict in eastern Ukraine pitting government forces against pro-Russian separatists. The BRICS members also adopted an "Action Plan" that would map activities of the group in 2016.
- Russian city of Ufa also hosted the Shanghai Cooperation Organization (SCO) Summit. During the meeting, the SCO ratified the resolution on starting the procedures of granting India and Pakistan full memberships of the organization. The SCO also elevated Belarus to a status of an observer from a dialogue partner, and took in Azerbaijan, Armenia, Cambodia and Nepal as new dialogue partners. The leaders also inked a Declaration on the results of the Summit and approved the SCO Development Strategy until 2025, which set targets and tasks for the development of the organization in the upcoming 10 years.
- The United States Air Force and the National Nuclear Security Administration tested the latest version of a nuclear bomb that was originally developed in the early 1960s. The test was the first of three development flight tests scheduled for later this year for the B61-12 Life Extension Program.

Economy, Finance and Energy

- The Minister of Oil and Gas of Turkmenistan, Baymyrat Hojammedov, announced that the Gazprom Export LLC (100% subsidiary of Russian state-run Gazprom company) have not paid off its debts to the Turkmenogas State Corporation for delivered natural

gas volumes since early 2015 without explaining the reason.

- On the eve of the BRICS Summit, the Heads of the Central Banks of the BRICS' member countries agreed to create a currency reserves pool in the amount of \$100 billion. Besides, it was also announced that the BRICS Development Bank has begun operations. The Bank would receive a rating and would be able to finance its first projects by the end of 2015.
- The Prime Minister of Kazakhstan, Karim Massimov, and his Indian counterpart, Narendra Modi, launched the first exploratory drilling of the Satpayev oil block by KazMunaiGaz and India's OVL. The OVL committed to invest \$400 million in the exploration of an offshore field located in the northern part of the Caspian Sea. The Satpayev oil block potential reserves were estimated at 1.8 billion barrels of oil.
- The national atomic company of Kazakhstan, Kazatomprom, and the Department of Atomic Energy of India signed a uranium supply contract, according to which, Kazakhstan would supply 5,000 tons of uranium to India by 2019. The Contract would provide for a market pricing mechanism.
- The International Monetary Fund (IMF) has improved its prediction of decline of the Russian economy by 0.4% in 2015, from -3.8%, according to the report published in April, to -3.4%. The IMF also revised its prognosis of growth of the Russian economy in 2016 by 1.3%, from -1.1% up to 0.2%.
- According to the report of the General Administration of Customs of China, trade turnover between Russia and China in the first half of 2015 fell by 30.2% compared to the same period last year and amounted to \$31.1 billion. The volume of exports of Chinese goods to Russia fell by 36.2% against the same period last year and amounted to \$14.6 billion. The volume of imports of Russian goods to China also declined by 23.9% and amounted to \$16.5 billion.
- The Industrial and Construction Bank of Uzbekistan, Uzpromstroybank, increased its assets by

20% or up to 8.191 trillion soums in January-June 2015 compared to the same period in 2014.

- The Central Bank of Azerbaijan (CBA) announced the reduction of the discount rate from 3.5% to 3%. According to the report prepared by the CBA, this decision was made in order to create a monetary ground to strengthen the financial support to the economic growth in the non-oil sector.

Society and Culture

- The Federation Council of Russia voted to create a "Patriotic Stop-List" that would include 12 non-governmental organizations, which could cause potential threat to the country. Six of the organizations on the list are U.S. based, including George Soros's Open Society Foundations, Freedom House and the MacArthur Foundation. The others are Ukrainian and Polish nonprofit organizations engaged in monitoring human rights and promoting democracy.
- The Ministry of Defense of Russia announced that it would double its military forces on the Novaya Zemlya archipelago in the Arctic region by 2020. Russia would construct 10 air-defense radar stations, 10 search-and-rescue stations, 13 airfields and 16 deep-water ports across its Arctic coast to establish military superiority in the region.
- The Ministry of Defense of Kyrgyzstan, the National Guard of Kyrgyzstan and the OSCE Centre in Bishkek signed long-term agreements on cooperation in the spheres of combating terrorism and arms control. The agreements would contribute to overall joint efforts in combating internal and external threats and protecting security in the country.
- The second meeting of the Kazakh-Belarusian working group for cooperation in aerospace sector was held in Minsk. Delegations discussed the issue of joint innovative research in the field of development and production of unmanned aerial vehicles including weather satellites. Following the meeting, the parties signed a protocol, which outlined the promising areas of cooperation in the aerospace sector.