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# **CRUDE ACCOUNTABILITY**

## **Turkmenistan's Crude Awakening Oil, Gas and Environment in the South Caspian**

A Report by

Crude Accountability

January 2009

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**Financial support for this report was generously provided by the  
Turkmenistan Project of the Open Society Institute.**

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*Crude Accountability thanks the individuals and organizations who have contributed valuable information to this report, many of them anonymously, out of necessity. We could not have compiled this information without their support and assistance. Crude Accountability assumes full responsibility for the contents of this report. While we have made every effort to ensure the accuracy of the information presented in this report, we cannot be held liable for any errors, omissions or inconsistencies.*

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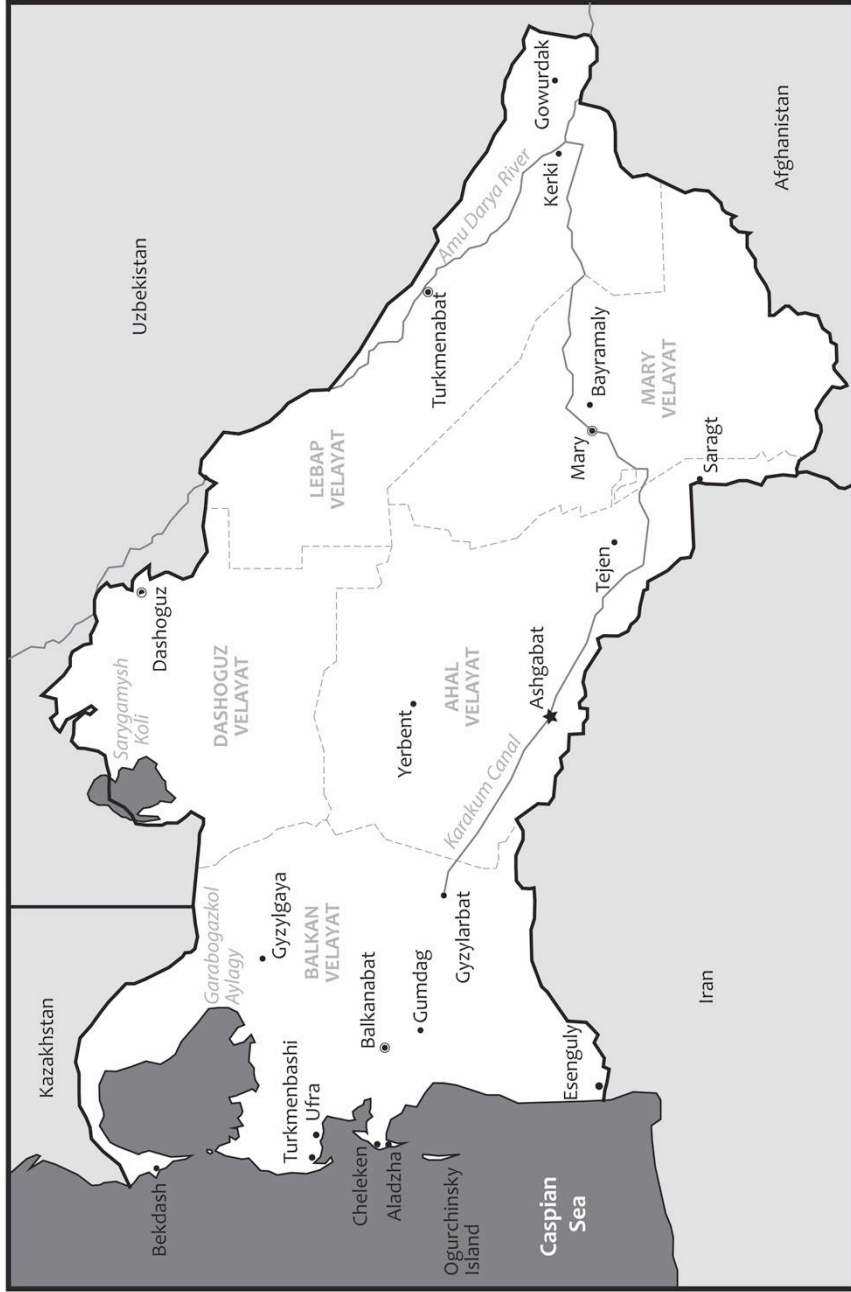
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# Turkmenistan



- ★ National Capital
- Velayat Capital
- Population Center
- International Boundary
- - - Velayat Border
- River or Canal



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## Introduction

Crude Accountability has undertaken this study of the environmental impact of hydrocarbon development in Turkmenistan in an effort to provide information about how the development of this sector is affecting the last country in the Caspian Sea region to be inundated by international oil and gas companies pursuing wealth from hydrocarbons. Since the beginning of Berdymukhammedov's presidency, international oil companies have expressed unprecedented interest in partnering with his government to extract and export hydrocarbons from Turkmenistan. International finance institutions are also reiterating their interest in investment in Turkmenistan, and western governmental officials are visiting Turkmenistan in waves. Russia's Prime Minister Putin has renewed efforts to create an energy alliance with Turkmenistan and other Central Asian countries, creating nervousness within European and American policymaking circles.

Following a decade of intensive investments in Azerbaijan, Kazakhstan and Russia, Turkmenistan represents the last frontier of hydrocarbon investments in this region and, therefore, maintains an important geopolitical position. As petroleum exploration, extraction and transport prospects turn into projects, it is important to provide decision-makers with a comprehensive resource that will encourage hydrocarbon companies, financial institutions and policymakers to base critical decisions regarding Turkmenistan's environmental future on the lessons learned throughout the wider Caspian region. Crude Accountability's goal in writing this report is to provide information that will help decision-makers protect the environment and ensure long-term, sustainable development. We also hope to provide activists and environmentalists in the region and elsewhere with new tools to protect the Caspian Sea and to encourage the development of a strong and viable civil society.

We have utilized written materials on Turkmenistan from the press, academia and other sources; interviews with environmental experts in- and outside of Turkmenistan; and our own experience working in Central Asia and the Caspian region for the past fifteen years.

Rather than providing a comprehensive study of all of Turkmenistan's environmental problems, we instead focus on the environmental concerns most relevant to, and likely to be exacerbated by, oil and gas development, particularly in the Caspian coastal region of Turkmenistan.

The report is broken into several sections. We begin with an overview of Turkmenistan, describing the physical and demographic landscape of the country, as well as its history as part of, and following the dissolution of, the Soviet Union.

The second section of the report focuses on the hydrocarbon sector, describing Turkmenistan's oil and natural gas reserves, naming the international corporations that are involved in Turkmenistan, and discussing their prospects for the future.

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The third section looks at civil society in Turkmenistan, providing a historical perspective, a view of the situation today, and specific information about Turkmenistan's failure to comply with the Aarhus Convention, which governs access to environmentally relevant information.

The fourth section looks at the environmental and social challenges of oil and gas development in Turkmenistan. As oil and gas companies engage increasingly in Turkmenistan, understanding the risks involved is critical to assessments of the pros and cons of their involvement.

The fifth section of the report considers relevant international conventions, Turkmen legislation, and voluntary codes of conduct. It provides a comprehensive list of environmentally significant international conventions to which Turkmenistan has signed on, and focuses specifically on the importance of the Aarhus Convention and the Framework Convention for the Protection of the Marine Environment of the Caspian Sea.

The sixth section examines the role of international finance institutions and private banks in Turkmenistan, looking at the history of IFI involvement and raising questions about transparency and accountability in the closed environment of Turkmen finance.

Finally, the report offers policy recommendations for international finance institutions, governments, corporations, and civil society.

Following the report itself are two appendices, which offer information about the main oil and gas corporations operating, or planning to operate, in Turkmenistan. These dossiers provide as much information about each company as we were able to assemble as of this printing. These profiles are accessible on our website and will be updated as new information becomes available.

The situation on the ground in Turkmenistan is constantly changing, as is the landscape in which the hydrocarbon sector operates. The companies involved, the relevant legislation and the geopolitical scene are volatile elements in a fluid operating environment. As the current economic crisis demonstrates, the world can change quickly, with far-reaching ramifications. In November 2008, the IMF stated that Turkmenistan appeared to be insulated from the international financial crisis with little impact on its economy.<sup>1</sup> Will this be true in the long-term, and how will the crisis impact potential investors? The crisis may, for example, mean that oil companies—with their massive profits and revenues—are in a stronger position to bargain for concessions in Turkmenistan. On the other hand, it may mean that investments will slow, at least temporarily putting on hold the rush to develop Turkmenistan's hydrocarbons. This remains to be seen. Taking into consideration these elements, this study captures the current moment in time, with the intention that it will be relevant over time. With regard to our policy recommendations, we have drawn on experience from other parts of the Caspian region, which share more with Turkmenistan than is

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different, particularly in the hydrocarbon sector. We trust the recommendations will be considered with this in mind.

Finally, Crude Accountability would like to thank our brave and generous colleagues who made critical contributions to this study, many of whom must remain anonymous for reasons of personal safety.

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## Overview of Turkmenistan

Turkmenistan is one of the five Central Asian states of the former Soviet Union (FSU), which achieved independence in October 1991. It borders the Caspian Sea to the west, Iran and Afghanistan to the south, Uzbekistan to the east and Kazakhstan to the north. With a population of around five million, Turkmenistan is approximately the size of California, and over eighty percent of the country is desert.<sup>2</sup> Turkmenistan is divided into five administrative districts, or velayats: Ahal, Balkan, Dashoguz, Lebap and Mary.

Turkmenistan's economy is based largely on natural resource extraction. Although the hydrocarbon sector performs well, according to the US Fund for Peace, fifty-eight percent of the population lives below the poverty level.<sup>3</sup> According to the US State Department, in 2006, GDP per capita was \$8,500.<sup>4</sup> Life expectancy for men is approximately sixty-five years; for women, seventy-one. The infant mortality rate is 51.8 per thousand live births<sup>5</sup>

Fifty-four percent of Turkmenistan's population lives in rural areas,<sup>6</sup> where health concerns are abundant, with only twenty-four percent of the rural population having access to potable water. (The statistic for the country overall is fifty-five percent.)<sup>7</sup> Poverty in rural areas also contributes to lower living standards. In the Caspian Sea region of Turkmenistan, particularly in the Cheleken region where much of the oil development is centered, many people are employed in the oil and gas sector. Others are employed in agriculture, fishing and in the marine transport sector.<sup>8</sup> Lack and poor quality of water contributes to health problems in this region as in other regions of the country. According to the Hakim (Mayor) of Cheleken, a town of approximately 14,000 inhabitants, the reported average life expectancy is forty-six years.<sup>9</sup>

As has been well documented elsewhere, the USSR's oil wealth came primarily from Azerbaijan, Kazakhstan, and Russia itself.<sup>10</sup> Turkmenistan was also a significant contributor of natural resources to other Soviet republics, including oil and natural gas, which the Soviets began exploiting heavily in the 1970s. Other resources included cotton and fruits and vegetables.<sup>11</sup> This created an economy focused on resource exploitation rather than development. Therefore, following the dissolution of the Soviet Union, Turkmenistan, as many republics, went through a period of economic hardship, from which it is still recovering.

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