

Iran's Key Role as Turkmenistan's Gateway to the World Market

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Abstract

After the collapse of the Soviet Union, Iran was the second country, after Turkey to recognize an independent Turkmenistan in the year 1991. This sincere diplomatic attitude by Iran did not end there, it was also reflected in the economic, political and socio-cultural relations it established with the country in the coming days. The 1,148 km long land border, sharing the Caspian Sea border, thousands of years of historical relations and the more than 1 million Turkmen living in Iran make Iran a natural and ancient ally of Turkmenistan. This article examines the post-Soviet economic, diplomatic and political relations between Turkmenistan and Iran. In particular, it underlines how Iran plays the key role of being a gateway to Turkmenistan, which is a landlocked country, and therefore has a strategic role in diversifying the energy routes for the future of the country and opening channels to Turkmenistan from highways and railways. In addition, it discusses how Russia's efforts to monopolize Turkmenistan and the US embargo of Iran affect bilateral relations, and that despite this, the two ancient, friendly countries have developed new strategies to strengthen their relations.

Keywords: Turkmenistan, Iran, Energy, Transit Routes

Introduction

With the disintegration of the Soviet Union, the Central Asian countries faced a huge set of risks and opportunities. In other words, being independent brought with it a great struggle. On the one hand, establishing a new state, ensuring order and stability, determining an independent foreign policy, expanding the foreign trade volume, opening the economy and holding diplomatic negotiations was not an easy task. Turkmenistan managed to be successful in all of these to a certain extent, but opening to the foreign market seemed a bit difficult due to the geopolitical situation of Turkmenistan. Turkmenistan was a land locked country and did not have a chance to open to international seas. Although there is the Caspian Sea in the west, that sea did not have a channel opening to the international seas. This problem made him even more dependent on Russia.

This article is about Iran's being a gateway to the world for Turkmenistan in terms of Turkmenistan and Iran relations.

Turkmenistan-Iran Relations

When Turkmenistan gained its independence in 1991, Iran was one of the first countries to recognize it, and subsequently, it opened an embassy in Ashgabat and started diplomatic relations. Iran has a special position for Turkmenistan. It can be an important gateway for Turkmenistan to reach international

waters. Natural gas exports constitute a significant part of Turkmenistan's exports (This number corresponds to 82% of total exports of Turkmenistan as of 2019¹) in this case, if Turkmen gas can be sold to Turkey and Europe via Iran, it will both lead to a great development in the economy and freed from the monopoly and control of Russia. Iran is also an important strategic partner for Turkmenistan in terms of security in the region. Since Turkmenistan gained its neutrality in 1995, it has always been the representative of peace and tranquility in the region. The Turkmen population of more than one million living in Iran also strengthens the bond of Turkmenistan to Iran. Iran also plays a very important role in the case of Turkmenistan's commercial partner.

Turkmens in Iran

Turkmenahra is a place in Iran which more than 1 million Turkmens live. Although there is no province called Turkmenahra in today's Iran, the region considered as such. Turkmenahra represents a wide geographical area that includes Iran's Gulistan and North Khorasan provinces. It is very difficult to give clear information about the Turkmenahra Turkmens and especially about the demographic structure of the region, since the social studies conducted by Iran are not based on ethnicity. Only estimations can be made about the population distribution in the region.

The independence of Turkmenistan in 1991 created great joy among Turkmenahra Turkmens. In this way, the Turkmens in the region also became a state. Saparmurat Niyazov (Turkmenbashi), the first President of Turkmenistan, did not ignore other Turkmen living in the world. Bringing the Turkmen of the world together, sharing ideas, The World Turkomans Humanitarian Coordinatorship was established in order to cooperate in civil, scientific and cultural cooperation, and Turkmenahra Turkmens actively contributed to the coordination. From time to time, programs promoting Turkmenahra were made on Turkmenistan television channels. Artists from Turkmenistan and Turkmenahra organized mutual concerts.²

Although the Turkmens of Turkmenahra have a common history, culture, language and dialect with Turkmenistan, today they try to protect their traditions and identities responsibly by respecting Iran's territorial integrity and Constitution. Providing education to their children in their own language while preserving their identity, reducing the unemployment rate by creating job opportunities in the region are important issues that Turkmen demand from the Iranian government.³

Turkmenistan-Iran Cultural Ties

Turkmenistan and Iran have shared the same fate in those lands for thousands of years. Although the historical scene has witnessed the conflicts of this ancient friendly country with each other, after the independence of Turkmenistan, cultural relations are regularly improving and strengthening. Every year, these relations are deepened by joint programs and projects organized by these countries on the occasion of the Nowruz holiday and with the participation of large masses from politicians to artists.

In addition, there is the tomb of Magtymguly, the national poet of Turkmenistan, in Iran, and this tomb is visited every year by the representative delegation of Turkmenistan. However, Iran actively participated in the annual book fair held in Turkmenistan.

Iran has taken part in sports activities, championships and competitions organized in Turkmenistan. Iranian sports teams were able to win 36 Gold, 23 Silver and 59 Bronze medals in aggregate with a total of 118 medals,⁴ securing third place, after Turkmenistan and China in Asian Indoor and Martial Arts Games Championship in Ashgabat, Turkmenistan, which was held from 17 to 27 September 2017. Two nations' football teams used to match occasionally.

The Positions of Iran and Turkmenistan on the Legal Status of the Caspian

The Caspian Sea with 370,000 km² shared between Iran and Soviet Union until collapse of USSR. After dissolution of USSR, 5 littoral states came to scene and it made this issue more complicated. Kazakhstan and Azerbaijan supported idea of the Caspian should be treated as an open sea. Iran and Turkmenistan claims that this landlocked water should be considered as lake. This conflict arises because of its legal status. If it is considered as a sea, then it would be covered by the United Nations Law of the Sea which sets rules on how countries use the worlds seas and oceans. This law covers areas such as territorial and environmental rights, management of natural resources which allows access to its resources by other parties than littoral countries. However if it defined as a lake, it would be divided equally among five littoral states. Although Russia agreed with the latter idea at first, it moved toward supporting a dual regime according to which the littoral states would share the surface, but divide the sea bed.⁵ It was initially thought that the prolongation of this dispute could benefit Iran, because due to the lack of a clear legal regime, oil companies would remain undecided.⁶ But in practice, Azerbaijan, Russia and Kazakhstan came to a series of bilateral agreements and began to exploit the North Caspian resources.⁷ Iran and Turkmenistan, with a similar view on the legal regime, opposed those bilateral agreements. In August 2018, all five countries come together in Aktau Kazakhstan and agreed in principle on how to share Caspian sea. The leaders signed convention on dividing resources of Caspian Sea and preventing other powers from setting up a military presence there.

Joint Projects

Implementation of the Mashad–Sarakhs–Tejen railways in 1996 was important in developing economic and trade relations between Iran and Turkmenistan. The Mashad–Sarakhs–Tejen railway route connected the Iranian railway system to Turkmenistan. At the same time it connects Central Asia to Persian Gulf through Bafq-Bandar Abbas railway. Henceforth several border markets have appeared which facilitate trade between two allies. Trade turnover between Iran and Turkmenistan reached over 3.7 billion USD in 2012, and this favourable trade relation pursues by 2015, however it declined to 1 billion USD in 2017-2018.⁸

Energy Field

According to BP Statistics in 2020 Turkmenistan's estimated natural gas reserves are 19.5 tcm. This is the 4th reserve in the world.⁹ Turkmenistan's natural gas production is 63.2 bcm, 31.5 bcm of which is consumed domestically while 31.6 bcm is exported. Turkmenistan is the world's 5th largest natural gas exporter.¹⁰ Post independence, Turkmenistan's gas revenues were the main engine of the country's economy. However, Turkmenistan was totally dependent to Russia for gas exports. Hence, Ashgabat began to look for alternative routes. These alternatives will be mentioned briefly.

The only gas pipeline to which Turkmenistan had access and which has retained its importance is the CAC pipeline, a legacy of the Soviet Union, that transferred natural gas from the east to the south of the Soviet territories and then to Europe. Its construction was completed through several stages between 1960 and 1974. This two thousand kilometers long pipeline transferred 90 bcm of natural gas per year from different fields to Russia.¹¹ A decade after independence, still more than 30 bcm of Turkmen gas was transferred through this pipeline.¹²

Another planned route to transfer Turkmenistan's natural gas was TAPI, which transfers Turkmen gas through Afghanistan and Pakistan and then to India. An agreement for the construction of the pipeline was signed in Ashgabat on 11 December 2010. The pipeline will be 1,735 km long, with a capacity of 33 bcm/y. The project is estimated to cost about \$8 billion. Although the US strongly supported this plan, however in current scenario maintaining the security of this project may collapse after Taliban overthrew the government. However, it is early to come to a definite conclusion about this project for now, the countries that have the project continue their talks with the Taliban government.

Second US-supported project was the Trans-Caspian pipeline (TCP) which was proposed in 1999. In fact, after the successful construction of BTC, the US was willing to support the construction of a gas pipeline in the region in a rather similar fashion. The idea was to construct a pipeline under the Caspian Sea to transfer Turkmenistan's gas to Azerbaijan, Georgia, Turkey and finally to Western Europe.¹³ Lack of a legal regime for the Caspian Sea and possible environmental hazards were two major concerns in construction of such a pipeline. Both Russia and Iran strongly opposed the project on those grounds.¹⁴ The real cause for their opposition, though, was that such a pipeline, if constructed, would undermine the Russian and possible Iranian routes for the transfer of the region's energy to world markets.

China's increasing gas consumption lead him to involve in Central Asian energy projects. In 2006, China and Turkmenistan came to an agreement to construct a pipeline from Turkmenistan to China, crossing Uzbekistan and Kazakhstan. The pipeline planned to be approximately 7,000 km long, 188 km of which would be in Turkmenistan, 539 km in Uzbekistan, 1,300 km in Kazakhstan and the rest, more than 4,500 km, in Chinese territory, connecting the western parts of the country to the east. The pipeline would transfer natural gas from Amu Darya fields to Urumchi in China.¹⁵ Currently this pipeline transfers more than 30 bcm of Turkmen gas to China per annum.¹⁶

Since Turkmenistan's independence, Tehran has had discussions relating to the transit of Turkmen gas through Iran, a route that many specialists considered both commercially and economically favourable to transfer Turkmen gas to Europe, crossing Turkey as well. Negotiations began in 1994–95 for the construction of a 1,400 km pipeline. It was estimated that the project would take 8 years to complete, and the pipeline would have a capacity of 28 bcm annually (18 bcm for Turkey and 10 bcm for Europe). The gas would be supplied by both Iran and Turkmenistan.¹⁷ Turkmenistan suddenly pulled out of the project while it was in the planning stages, apparently giving in to Washington's opposition to any project which would involve or benefit Iran. The estimated cost of building such a pipeline to the Turkish borders would have been \$600 million less than the Baku–Tbilisi–Erzurum pipeline which was built with US support later on.¹⁸ For Turkmenistan, it meant that it was impossible to attract international investments for the Iran–Turkey project.

However, that the two countries' cooperation in other projects would also come to a halt. In October 1995, Iran's National Iranian Gas Company (NIGC) signed the 25 year Korpeje–Kordkuy agreement with Turkmenistan for exporting Turkmen gas to Iran. The pipeline, 200 km long, would connect the western Turkmenistan gas fields to northern Iran. The cost of constructing the pipeline was \$190 million. When the pipeline came into operation in 1997, it worked with a partial capacity of 4 bcm per annum. It eventually reached 8 bcm per annum, yet it was far lower than that of the proposed Turkmenistan–Iran–Turkey pipeline.¹⁹ The pipeline was significant, nonetheless, because it made Turkmenistan the first post-Soviet energy-rich republic that exported its gas via a non-Russian pipeline. Its importance for Turkmenistan was more political and strategic than economic. Considering that it was completed in spite of Washington's opposition and Moscow's occasional obstructions, it can be considered as a success for Iran and Turkmenistan both.

Cooperation between the two countries continued. The first phase of the second Turkmenistan–Iran gas pipeline was completed on 6 January 2010.²⁰ With the completion of the second phase on 28 November 2010, the pipeline's capacity reached 18 bcm. Construction of this 1,024 km pipeline resulted in connecting the two countries gas networks.²¹ Thus, not only could Iran supply gas to its northeast regions, it would have the possibility of gas swap and the opportunity to export natural gas to East Asia and Europe.

Despite all efforts, the Turkmen natural gas currently pumped to Iran is just sufficient to meet the country's needs in the northern provinces. Other projects have been proposed. One such project is to export Turkmen gas to Armenia and the autonomous region of Nakhjavan in the Republic of Azerbaijan. Armenia and Nakhjavan have conducted negotiations with Iran to import natural gas. Iran declared that the precondition for its participation in the project is the signing of bilateral agreements between Turkmenistan and each of the two other parties.²² Iran completed other minor, less important, projects with Turkmenistan. These included the Korpeje gas refinery unit (\$200 million), liquid gas terminals (\$33 million), and the Korpeje gas compressor station (\$160 million).

Challenges

Challenges of both countries in this field were basically in two reasons. The first is due to internal factors, which is the subject of payment, and the second is due to external factors that are pressured by Russia and the United States.

There have been disputes over pricing and payments between the two countries in energy field, but the disputes have not passed a certain threshold. They have occurred only in bilateral energy relations and not affected relations in other sectors

Turkmenistan cut natural gas supply to Iran on 1 January 2017 due to disputes over the payment on exported natural gas to Iran around \$1.8. Iran offered to pay its debt through highway construction in Turkmenistan via its state owned company but Turkmenistan resisted on cash over services. The two national companies sought arbitration in International Court, Turkmen Gaz was demanding, not payment for exported gas is a breach of the contract, while NIGC of Iran was claiming that cut of natural gas supply is not lawful as per agreement. The court came out with a decision for both sides, but details of

the decision would not to be divulged as per arbitration rule without the consent of the National Iranian Gas Company and State Concern “Turkmengaz”. The press release of the Ministry of Oil of the Islamic Republic of Iran views it: “This decision will pave a way for the further development of relations between two friendly and neighboring countries”. It is important to note that such kind of disputes over payment or pricing have happened several times. The national companies of countries have learned how to tackle deadlock in energy diplomacy.²³

Second challenge for ancient ally in global level has been the United States. Washington’s extensive sanctions and legislation which punishes foreign companies that do business with Iran have virtually blocked any major cooperation between Iran and Turkmenistan in the field of energy. As far as Washington is concerned Iran’s involvement in the energy of the region would increase its power. Moreover, construction of oil and gas pipelines through Iran would increase its strategic importance and lead to regional integration, trust building and enhancement of Tehran’s position. As a superpower, the United States has, successfully, thwarted most of Iran’s economic initiatives in the region.²⁴

One example was the above-mentioned Turkmenistan–Iran–Turkey pipeline project. Another was the 1996 contract between Iran and Turkey. The two countries signed a contract to transfer 30 bcm of natural gas to Turkey and Europe in 1997. Turkey was expected to purchase 190 bcm of natural gas during the life of the contract and provide the means to transit the rest to Europe. Under US pressure, Ankara revoked the contract and declared that it would supply its natural gas directly from Turkmenistan by supporting the Trans-Caspian pipeline.²⁵ In fact, Iran has not been able to actualize the gas transit project from Turkmenistan to Turkey.

Nabucco pipeline project, which is planned to transport gas from the Caspian region and the Middle East to European countries was also stopped by US. The project is worth \$12.6 billion. Construction is expected to start in 2013 and the first supplies to be commissioned in 2017. When the contracts were signed, it was assumed that a project of this scale could not reach its intended capacity without Iran’s participation. Many European countries admitted and even emphasized this. However, US opposition prevented Iran from participating in the project. Meanwhile, using the opportunity, Turkmenistan has declared that it has the ability to supply 25% of the gas for the project.²⁶ Although this claim has been questioned by many experts, it could result in excluding Iran from the project forever.

Conclusion

In this article, the existing opportunities and cooperation potentials in the relations between the two countries are reviewed. Iran's geographical location and the possibility of transferring Turkmen energy to global markets through Iran and the other factors mentioned above are of strategic importance for the two ancient friendly countries. It was stated that the energy factor has enormous potential for cooperation between the two countries. The article revealed that Tehran has not been able to take full advantage of investment opportunities related to the virgin areas of Turkmenistan and many opportunities in areas other than energy trade. Factors such as Iran's energy payments instability, protracted Iran-US conflicts, and rivalry between major powers over Central Asian energy resources are the biggest challenges Iran faces.

It should be noted that the priority of Turkmenistan's foreign policy is cooperation with its neighbours, including Iran. The bilateral countries should be able to move their trade agreements beyond gas and oil transfers. Due to payment issues, it is necessary to sign long-term contracts with net payment systems. Otherwise, like the current trend, there will be occasional cuts in Turkmen gas exports or gas swaps to Iran.

Contrary to the aforementioned, Turkmenistan's relationship with Iran, although it seems active, is well below its potential. The steps taken are not going as planned. Although Iran seems to be a good channel for Turkmen gas to be marketed to the European market, the agreements made so far show us that this has failed. Likewise, Iran is expected to see Turkmenistan as a gateway to Central Asia. The current relations between Iran and Central Asia are far behind the relations between Iran and the Middle East. Turkmenistan plays an important role in both becoming a country that has a say in the region and easing the embargoes imposed by the United States. It is hoped that the two countries will discover their potential in different fields and strengthen their strategic partnerships in the region.

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