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Turkmenistan-Iran relations: competition for Asian Energy Market

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Abstract: *Removal of the UN, EU and U.S sanctions on Iran, which had been earlier thought to bring new lease of life for Iranian stymied energy sector floundered with U.S re-imposition of sanctions in May 2018 but it resulted in the implementation of TAPI pipeline project in 2015. This research studies Turkmenistan- Iran competition for energy markets of Asia taking into account of growing energy demand in Asian markets and sanctions on Iran as an independent variable and Turkmenistan Iran competition as a dependent variable. It seeks to explain the effects of the two variables with "energy security" paradigm, taking into the latest developments in the region. The findings of the research will be discussed in the conclusion part.*

Key Words: *Turkmenistan, Iran, Energy Security.*

1. INTRODUCTION: Historical background of Turkmenistan-Iran Energy relations

Turkmenistan shares around 1200 km border with Iran. Turkmenistan and Iran have recorded cordial relations since 1991, after the disintegration of USSR. Iran was the first country that has recognized the sovereignty of Turkmenistan. Even though there have been problems between two countries on the price of exported natural gas and payments, they have never passed a certain threshold. The relations were mainly based on energy and economic interest. Pragmatism and national interest have defined the nature of the relation between the two countries. "Turkmenistan and the Islamic Republic of Iran signed a preliminary protocol on the establishment of diplomatic relations in February 1992"[1], which was a good omen for the subsequent developments.

Turkmenistan was the first among Central Asian republic to be visited by Ali Akbar Hashemi Rafsanjani in May 1992. In Ashgabat, along with a branch of Iranian bank Saderat, he officially inaugurated a Centre for trade and cooperation between two countries and signed energy cooperation with Turkmenistan. In Mary, the Turkmen and Iranian ex-Presidents discussed exploring the possibilities for expanding transport infrastructures between the two countries[2], a roadmap of the relation was defined in this visit.

Despite smooth export-import relations recorded between the two countries, on August 11, 2014, Iranian Oil Minister Bijan Namdar Zanganeh claimed that Iran would not need natural gas from Turkmenistan. He said Iran is importing Turkmen gas only to promote political and economic relations with Turkmenistan[3]. Despite the agreement, that envisages keeping import Turkmen gas, some newspapers started to interpret it as: when it comes to both countries most valuable commodity — natural gas — Iran and Turkmenistan are ostensibly potential export rivals. Iran may serve as a transit state for a Turkmen natural gas to through pipeline directed to Europe, but that hardly serves Tehran's own interests, as Annette Bohr explained in a recent Chatham House report[4]. Another media source went on saying: Iran has no real interest in re-exporting Turkmen gas, given its own huge reserves located in its southern regions. Thus, in the long run, it is likely Turkmenistan to view Iran as a competitor for the potential Asian gas markets than as a trade facilitator, as it is known by Iran's stated interest in building an IPI (Iran-Pakistan-India) pipeline that is rival to TAPI, which is envisaged to deliver gas to the Indian subcontinent[5]. However, this study even though accepts there are some form of competition between the two countries, it tries to prove that there is no stiff competition between the two countries that could result in the zero-sum game, looking at the conundrum from a markets perspective, particularly Asian energy market.

It is generally international media harping on that removal of sanctions on Iran will enable Iran to develop it is untapped energy resources that would make Iran self – sufficient. This would result in harsh competition between Turkmenistan and Iran to export their gas and electricity to the world market, which would eventually lead to harsh competition.

Contrary, to the International media forecasts, which predict harsh competition between Turkmenistan and Iran after the removal of sanctions on Iran that could harm their relations, which had been assiduously constructed during the sanctions era. This study promotes the idea that there is a competition between the two countries but that competition is not a zero-sum game that one country takes the market not leaving the room for others. The two factors are important in this issue: one is the energy security policy of the market states and the other is increasing domestic consumption of

the natural gas in those market states. This study shows that energy security policy (here diversifying the supply of energy); and increasing domestic natural gas consumption how moderates and makes the too much involving in competition futile for Turkmenistan and Iran.

To support the aforementioned premises of the research this study will delve into growing energy demand in Asian market that is increasing domestic natural gas consumptions in India, Pakistan and China shows that there is enough room for both Turkmenistan and Iran, and this continuous increase of domestic natural gas consumption duly mutilating the stiff competition between them. India`s orientation towards natural gas from coal and oil has given to support the premise that consumption is increasing not only in line with population increase but due to advantages of natural gas over oil and coal, with the factor of economic growth that leads to more production of goods which results with more energy consumption.

Why the evaluation of the nature of competition between Turkmenistan and Iran matters? The study takes into account of effects of the removal of sanction on Iran in the past and possibility of complete removal of sanctions on Iran in the future and its effects on Turkmenistan`s energy diplomacy and Turkmenistan-Iran energy relations. The removal of sanctions on Iran has changed Iranian role from the country, which does not has the capacity to compete with Turkmenistan in natural gas, electricity and LNG exports to the country, which is capable of competing with Turkmenistan in energy exports. The continuity is that Iran`s importance to Turkmenistan was continuing with an increase after the removal of sanctions on Iran. What is discontinuing after removal of sanctions, however, is: in the sanction era on Iran, the factor of active competition was almost non-existent but in the post-sanctions era, the factor of competition is come out. However, the nature of competition is matters. On the other hand, the U.S. re-imposition of sanctions in May 2018 also cast doubt on the possibility of complete removal of sanctions on Iran, and Turkmenistan Iran active competition.

Competition factor between Turkmenistan and Iran is activated after the nuclear deal of Iran with 5+1 countries, 2014 onwards. The clear example of the existence of competition is Turkmenistan`s grasping the nettle to start the implementation of TAPI pipeline since 7 November 2015, despite the risks it involves, right after the removal of sanctions on Iran. The implementation of the TAPI pipeline ongoing in its Afghanistan`s part. In the following section nature of Turkmenistan-Iran competition will be discussed from the perspective of energy security and rising energy demand in the Asian Market.

2. Expansion of Natural Gas Demand in Asia:

During his official visit to Turkmenistan in 2015, Prime Minister Narendra Modi during his proposed to import natural gas from the country through a sea and land route via Iran using the potential of the country[6]. India invested Chabahar Port, which would be a viable option in diversifying energy security of India turning Iran energy transit route for South Asia. Considering the rising energy demand for natural gas in the India, Minister of Petroleum and Natural Gas Dharmendra Pradhan said it is already in the process of augmenting its regasification capacity for LNG on its eastern and western coasts of the country[7]. India is a primary LNG importer in Asia.

On 10 February 2016 Pakistan signed 3.75 million tons LNG gas import agreement per year for 15 years from Qatar. Natural gas supply-demand gap in Pakistan is large; the LNG import from Qatar would make Islamabad cover only 20 per cent of Pakistan`s natural gas demand. It seems Pakistan will go diversification in the importation of Natural gas considering TAPI and Iran gas as an additional source[8]. Pakistan should increase natural gas imports 5 times to fulfil only its natural gas demand capacity.

India`s GDP growth has reached 7, 5 -8 per cent annually. Robust economic growth associated with high energy consumption. Despite, in 2013-2014 domestic natural gas demand was only 7[9] per cent of total energy demand in India with 39.78 bcm (2012-2013)[10], India`s Oil and Natural Gas Minister Dharmendra Pradhan said “we want to increase gas consumption” and he wants to make India a natural gas-based economy[11]. It is forecasted natural gas demand in India to increase at an average of 6.8 per cent/year from 242.66 million cu m/day in fiscal 2012-13 to 746 million cu m/day in fiscal 2029-30 due to increasing demand for power generation, city gas distribution and fertilizer production[12]. According to official calculations, Indian natural gas demand would be 188 bcm 2021- 2022, and 273 bcm in 2029-2030[13]. It is quite parallel with the increase in World natural gas demand, natural gas shares for the largest increase in the world energy demand. However, world natural gas consumption would nearly double in 30 years, India`s natural gas consumption would triple in 20 years. The envisaged domestic consumption of the natural gas in India would enable the accommodate both Turkmenistan`s and Iran`s aspiration in the Indian market. India also wants to utilize the natural gas trade with those countries as a means of influence over them.

In the last 10 years, domestic natural gas demand in China has increased by 4.5 times to 185.5 bcm in 2015[14]. Wood Mackenzie`s estimates China`s natural gas demand likely to increase by 2030 to 600 bcm from current 150 bcm[15]. Europe`s natural gas demand, including with 35 countries, was estimated around 540 bcm per year and likely to increase slightly over 600 bcm per year in 2030[16]. Upon this backdrop, it is obvious that India is the most lucrative market for Turkmen and Iranian natural gas after the EU and the Chinese market that they vie for. For Turkmenistan Chinese

market reached it is the apex, so in case of complete removal of sanctions on Iran would provide propitious milieu to balance China with India.

Even though now China is not importing natural gas from Iran, it will consider it in future in LNG form from Iran once LNG plants have been constructed and become operational. China imported 9 per cent of it is oil imports from Iran in 2014[17]. It is not beyond the pale to think Iran would use its oil tanker route to export LNG to China. On the other hand, it is risky for states that importing oil from Iran like India and China to be totally dependent on Iran in terms of natural gas also putting all the eggs in the same basket. Indian energy security posits that natural gas from numerous sources is pooled to supply consumers[18].

Access to energy is one of India's priority areas in energy policymaking, as nearly one-fourth of the population lacks access to power and electricity. Even though India`s per capita energy consumption very low comparing developed countries energy consumption but when it comes to energy consumption in aggregate, India became a third-largest energy-consuming country in the world just after U.S. and China[19]. The low per-capita energy consumption means India's energy demand still has a long way to reach an apex. With a growing GDP 7, 5-8 per cent annually and with a 1.24 billion population aspiring for a better quality of life, India's energy demand growth seems to inevitable. In 2009, India's largest primary energy supply source was coal, with a share of 42 per cent. The second-largest source was biomass at 25 per cent, which decreased from 42 per cent in 1990. In 2009, oil made 24 per cent and natural gas 7 per cent. The two largest consumers of domestic natural gas in India account for almost 80 per cent of total consumption: the power sector with a share of 53 per cent, followed by the fertilizer industry with 26 per cent. Captive use and LPG represent the third-largest consumer industry with a share of about 9 per cent. India's gas consumption was 65 bcm in 2011[20]. Basing on the data, India`s natural gas consumption is likely to increase in future. India`s Oil and Natural Gas Minister Dharmendra Pradhan said "we want to increase gas consumption" and he wants to make India natural gas-based economy[21]. It is also an environmentally friendly means of energy supply.

India`s saturation in energy demand and it is future assumptions has implications for Turkmenistan and Iran. One it will be able to accommodate both countries export aspirations in tandem. There will be enough room for both countries. Secondly, as it has been planning to go for as much as diversification in energy supply will eliminate any possible zero-sum game between them in the Indian market.

3. CONCLUSION:

Is there competition between Turkmenistan and Iran in exporting their energy commodities? There has been covert competition between them, especially in the realization of Turkmenistan`s TAPI project versus Iran`s IPI project. After removal of sanctions on Iran, for a short period, Turkmenistan has hastened the process to start up construction of the TAPI pipeline project to get ahead Iran in the rat race. Turkmenistan has grasped the nettle take overall risks involved in the realization of pipeline changing it is precautious position, which has shown that there is, in fact, undeniable ostentatious competition between the two actors. However, against the mantra that has been envisaged by international media, the nature of competition cannot be regarded as a zero-sum game. Due to, besides rising domestic gas consumption in Iran and especially growing energy demand in Asian Markets: India, Pakistan, and China and diversification in energy supply policies of those potential markets that undermine stiff competition between the two actors. According to *Pricewaterhousecoopers* predictions, China`s GDP at PPP will be 61,079 trillion USD and India`s 42,205 trillion USD in 2050[22], so they will have enough capacity to accommodate all exports of energy from Turkmenistan, Iran, and even Russia for the Chinese market, thus it would truncate fierce competition for energy exports to those countries.

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