

RUSSIA SURGING FARTHER AHEAD IN RACE FOR CENTRAL ASIAN GAS

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by Vladimir Socor

Presidents Vladimir Putin, Gurbanguly Berdimukhamedov, and Nursultan Nazarbayev signed on May 12 a declaration of intent to upgrade and expand gas transport pipelines from Turkmenistan and Kazakhstan, along the Caspian Sea coast, directly to Russia.

At their tripartite summit in Turkmenistan's city of Turkmenbashi, the presidents made public an additional declaration co-signed by Uzbek President Islam Karimov regarding modernization of the Uzbek section of the Turkmenistan-Uzbekistan-Kazakhstan-Russia gas pipeline. Karimov signed this quadripartite declaration on May 9 in Tashkent and did not attend the summit in Turkmenistan.

Both pipelines are components of the Soviet-era gas pipeline system known as Central Asia-Center, bound for Russia. The intent now is to overhaul that worn-out system; restore its annual capacity to the Soviet-era level of 90 billion cubic meters at the Russian border by 2010; and expand its capacity thereafter, in correlation with Russian-led development of Turkmen and Uzbek gas fields. As regards Kazakhstan, the Russian side apparently counts on Western companies in that country to channel their growing gas exports to Russia as well.

The two declarations amount to framework agreements with tight schedules of implementation. The Kremlin wants to follow up with the signing of intergovernmental agreements by September 1, 2007; corporate agreements by the year's end; formation of consortiums early next year, and the start construction work by mid-2008. The participant companies from the four countries and apportionment of stakes among them are yet to be determined. But it is already clear that Gazprom would control the all phases of the process: field development, gas acquisition, pipeline construction, and transit operation.

The project relies mainly on Turkmenistan's vast gas reserves. The two presidential declarations make reference to the Russia-Turkmenistan agreement of 2003 whereby Russia would buy up Turkmenistan's gas output almost entirely for a 25-year period, 2004 through 2028. Russian officials misleadingly portray that agreement as a contract (an interpretation accepted by many unsuspecting Westerners), although it is a merely a statement of nonbinding intent.

Under this project, the pipeline along the Caspian coast shall be restored to its Soviet-era capacity of 10 billion cubic meters annually by 2009-2010, to carry gas from Turkmenistan's existing onshore production to Russia. The capacity shall then be expanded by another 20 billion, for a total of 30 billion cubic meters annually by 2016 and thereafter, to carry gas from offshore fields that Russia plans to develop on Turkmenistan's seabed.

The coastal pipeline will include two parallel lines: the existing one due for upgrading (dedicated to onshore Turkmen gas) and a new one to be built after 2010 (for offshore

gas), both running via Kazakhstan to Russia. Russian officials expect construction work on both components of the coastal line to be fast and uncomplicated thanks to the already existing basic infrastructure and land corridor allocation.

Under bilateral understandings between Putin and Berdimukhamedov, the Russian companies Gazprom and Zarubezhneftegaz are to explore and develop offshore gas and oil deposits in Turkmenistan's Caspian sector. Lukoil and Gazprom already hold firm control on gas field development in Uzbekistan.

According to Russian officials, the Turkmen side has made available to them the existing basic documentation on its Caspian hydrocarbon reserves. Russian officials anticipate that the output from Turkmenistan's offshore gas deposits can be significantly supplemented by associated gas from oil deposits there.

During the summit, Putin underscored with satisfaction that Russian companies will receive production-sharing agreements (PSAs) in Turkmenistan. This seems ironic as the Kremlin is now refusing to sign PSAs with Western energy companies in Russia and is tearing up existing PSAs.

Russia already holds a near-monopoly on Turkmenistan's existing gas exports. Under a contract signed in September 2006, valid for 2007-2009, Russia is entitled to buy a volume of up to 50 billion cubic meters of Turkmen gas annually, at a price of \$100 per 1,000 cubic meters. The price and annual volumes are to be renegotiated by mid-2009 for the subsequent year(s). Gazprom bought an estimated 39 billion to 42 billion cubic meters of Turkmen gas in 2006.

Gazprom is also the transit operator for Turkmen gas via Uzbekistan and Kazakhstan to the Russian border. The old Caspian coastal pipeline via Kazakhstan to Russia was reopened earlier this year and operates at a rate of some 2 billion cubic meters annually. In addition to Turkmen gas, Russia also imported 9 billion cubic meters of gas from Uzbekistan and 7.5 billion cubic meters from Kazakhstan in 2006. Russia has contracted for an aggregate of 56 billion cubic meters of gas from the three countries for 2007. Thus the overall volume is stationary for now, but seems set to grow substantially as extractive projects come on stream in the three countries.

The plans just announced seem to exclude the Western-backed project for a trans-Caspian pipeline to the South Caucasus and Europe. While Central Asia's gas output will grow, the new production in Turkmenistan and Uzbekistan will be supplied by Russian companies and, just like the existing production, will be exported to Russia.

Responding to journalists' questions, Berdimukhamedov did not totally rule out the trans-Caspian project: "It is not off the table," he said, "it may still be taken into consideration." But he listed that option in last place among options that include expansion of the small-volume pipeline to Iran, a pipeline to China, and a trans-Afghan pipeline to Pakistan and India -- all of which are either stillborn or unfeasible options (Interfax, AP, Reuters, May 12).

Combined with Russian-led gas field development, these pipeline projects are designed to perpetuate Russia's monopoly on Central Asian gas, a strategic tool for Russian economic and political leverage on America's European allies.

(Interfax, RIA-Novosti, Kommersant, Turkmenistan.ru, Turkmen Television, May 11-15; see EDM, May 14)

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