

**ENERGY POLICY****CENTRAL ASIAN GAS  
IN THE CHANGING  
GEOPOLITICAL CONTEXT****Igor TOMBERG**

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***Introduction***

**T**he 21st century has confronted mankind with hitherto unknown dangers: the planet's natural resources, particularly energy supplies, have been depleting at a fast pace, which has stirred up fierce and mounting rivalry over hydrocarbons and other raw materials. In 2011, the growing instability in North Africa and the Middle East added fuel to the smoldering fire, increased the volatility of the energy markets, and

cast doubts on continued and consistent fuel supplies from these and adjacent regions. Central Asia, in turn, is potentially threatened by the unwelcome developments around Afghanistan and Iran; ambitious investment projects (particularly in the energy sphere) are being jeopardized since investors are justifiably worried that a conflict with Iran might spread, in one form or another, to its Caspian neighbors.

**Hydrocarbon Future for the Caspian**

The threat of conflicts in the Middle East is raising the energy-related value of the Central Asian and Caspian states (Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan). Although they are not

as rich in energy resources as the Middle Eastern countries, their transportation capabilities make them a welcome alternative.

Western companies assess the Caspian's geological oil and gas reserves at 26 to 40 billion tonnes of standard fuel.<sup>1</sup> These figures look quite credible, although they could be slightly overestimated. Russian experts cite 15 billion tonnes (about 2% of the world's total) of proven oil reserves in the Caspian countries (Kazakhstan, Azerbaijan, Turkmenistan, and Uzbekistan).<sup>2</sup> Given the present level of oil production in the region, the reserves will last for the next 65 years, while by 2015 the annual oil export of these countries could potentially reach 140-160 million tonnes.<sup>3</sup>

The region's post-Soviet states figure prominently in the gas sphere; so far they remain a single regional market of natural gas despite the disintegration of the Soviet Union and the common economic space. The transportation system inherited from the Soviet Union makes it technically possible to move gas from country to country and keeps the market together.

These countries used their rich energy resources to join the international division of labor system as suppliers of energy. On the other hand, their energy sector still retains certain typically Soviet features: nothing has been done in the last 20 years to modernize either the pipelines, transportation, and transport infrastructure, or the housing sector. This means that production and consumption remain energy-intensive.

Their energy capabilities divide the five Central Asian states and Azerbaijan into two groups: Kazakhstan, Turkmenistan, and Azerbaijan with oil and gas reserves of world importance, on the one hand, and Kyrgyzstan and Tajikistan with no more or less significant hydrocarbon reserves in their territories, on the other. Uzbekistan with its fairly large resources of natural gas and uranium remains outside both groups mainly because it does not have enough gas for selling outside the country. The bulk of the gas it produces is used inside the country.<sup>4</sup>

Kazakhstan ranks 11th in the world in terms of oil reserves, while Azerbaijan ranks 19th (see Table 1). Current oil production has earned Kazakhstan a place among the top twenty, while Azerbaijan is among the top thirty largest oil producers. Turkmenistan ranks fifth in the world in terms of gas reserves, coming immediately after Russia, Iran, Qatar, and Saudi Arabia. There is a well-substantiated opinion that its gas reserves are even larger, at least according to international assessments. In 2008, Gaffney, Cline & Associates, a British consulting company, assessed the gas reserves of the more or less recently discovered giant gas field of Yuzhny Yolotan-Osman at 4 to 14 trillion cu m. In November 2010, additional drilling and a 3-D seismic survey of the Yolotan-Osman group of gas fields allowed the Turkmengeologia State Company to raise the assessment to 21 trillion cu m.<sup>5</sup> Gas reserves in the Turkmen sector of the Caspian might be as large as 6 trillion cu m.

In 1990, the Soviet successor-states accounted for 63% of the world's gas export.<sup>6</sup> In the last twenty years, however, the post-Soviet gas producers have lost their dominant positions as gas exporters, while gaining firmer ground as gas producers. In 2010, the post-Soviet republics accounted for 24.5% of world gas trade.<sup>7</sup> Russia, which accounts for 21% of world gas exports, remains the world's leaders. In 2009, the Central Asian trio (Kazakhstan, Turkmenistan, and Uzbekistan) produced 133 billion cu m of natural gas (4.5% of the total world production).

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<sup>1</sup> See: *Neft i kapital*, 4 May, 2011.

<sup>2</sup> [<http://www.opec.ru/1365619.html>].

<sup>3</sup> See: *Ibidem*.

<sup>4</sup> See: S. Zhukov, "Uzbekistan: A Domestically Oriented Gas Producer," in: *Russian and CIS Gas Markets and Their Impact on Europe*, ed. by S. Pirani, Oxford Institute of Energy Studies, Oxford University Press, Oxford, 2009.

<sup>5</sup> See: "Obzor rynkov Rossii i SNG," *Platts*, Issue 7, November, 2010.

<sup>6</sup> See: *Globalizatsiia rynka prirodnogo gaza: vozmozhnosti i vyzovy dlia Rossii*, IMEMO RAS, Moscow, 2010, p. 93.

<sup>7</sup> See: *2010 Natural Gas Year in Review*, CEDIGAZ, Paris, 2011, p. 3.

Table 1

**Ranking of the Central Asian Countries and Azerbaijan  
in World Production and  
Reserves of Oil and Natural Gas**

	Production in 2009				Reserves as of 1 January, 2011			
	oil		natural gas		oil		natural gas	
	%	score	%	score	%	score	%	score
<b>Kazakhstan</b>	<b>2.0</b>	<b>16</b>	<b>1.1</b>	<b>24</b>	<b>2.0</b>	<b>11</b>	<b>1.3</b>	<b>15</b>
<b>Kyrgyzstan</b>	—		—		—		—	
<b>Tajikistan</b>	—		—		—		—	
<b>Turkmenistan</b>	<b>0.3</b>	<b>40</b>	<b>1.2</b>	<b>23</b>	<b>0.04</b>	<b>46-48</b>	<b>4.0</b>	<b>5</b>
<b>Uzbekistan</b>	<b>0.1</b>	<b>46</b>	<b>2.2</b>	<b>11</b>	<b>0.04</b>	<b>49</b>	<b>1.0</b>	<b>19</b>
<b>CA-5</b>	<b>2.4</b>		<b>4.5</b>		<b>2.1</b>		<b>6.3</b>	
<b>Azerbaijan</b>	<b>1.3</b>	<b>21</b>	<b>0.5</b>	<b>32</b>	<b>0.5</b>	<b>19</b>	<b>0.45</b>	<b>26</b>
<b>Caspian-4</b>	<b>3.7</b>		<b>5.0</b>		<b>2.6</b>		<b>6.75</b>	

*Source:* Oil & Gas Journal.

Located in the center of Eurasia, the Central Asian gas producers are separated from the world gas consumption centers, while their far from simple geopolitical context complicates gas export. The region and its energy sector need modernization, an extremely expensive task well beyond the local countries' financial capacities. Serious foreign investments are the right answer, which means that any of the external actors wishing to control Central Asia's energy resources has to pour money into the countries' development.

According to certain sources, independent access of Central Asian oil and gas to Europe (and in the case of oil and LNG, to the Atlantic) will cost from \$30 to \$35 billion in the next 5 years<sup>8</sup> in the form of direct investments in construction and installation, drilling, equipment and geological exploration. There are no organizational and engineering structures in Central Asia able to attract adequate finances; the Central Asian countries will have to work with investors, contractors, and specialists from Europe, the United States, and Russia. Azerbaijan, on the other hand, has ample specialists, while the transnational oil companies operating in the post-Soviet space know how to attract them.

So far no one knows whether Caspian oil can significantly affect the situation in the world markets; it is equally unclear in what way the real supply-demand situation will affect prices. It should be borne in mind that it is economically feasible to develop the Caspian resources only when prices are relatively high. Central Asia and the Caucasus are situated at the crossroads of longitudinal and latitudinal supply routes with good opportunities to become an international long-distance haulage and trade hub.

<sup>8</sup> [<http://www.opec.ru/1365619.html>].

Central Asia's recent export paradigm, which boiled down to transporting gas to the West through Russia, is rapidly becoming obsolete. The years 2010 and 2011 convinced analysts that the quality of the gas market has changed to a great extent; today, export hydrocarbon flows have shifted: Central Asian gas producers (from Turkmenistan in particular) are reaching new markets.

Map 1

Gas Transportation Routes from Central Asia



Today China and India, the two Asian giants, are the main consumers of energy resources; this means that the expanding contacts with China in the hydrocarbon sphere are especially important for the Central Asian countries.

## The Chinese Alternative for the Central Asian Hydrocarbons

China and the Central Asian states can complement each other in the energy sphere. China has a land border with Kazakhstan; Turkmenistan, the largest Central Asian gas exporter, can reach the

Xinjiang-Uighur Autonomous Region (XUAR) of China across the territories of Uzbekistan and Kazakhstan. China, on its side of the border, can use the ramified oil processing and pipeline infrastructure of its autonomous region to import Central Asian energy resources.

The Turkmenistan-Uzbekistan-Kazakhstan-China (TUKC) gas pipeline has already been commissioned; by 2013 it will bring over 40 billion cu m to China every year. Late in August 2011, *Zhongguo shiyou bao* published by the CNPC, China's oil and gas corporation, informed its readers that by 2015 China intended to increase the volumes of imported natural gas via TUKC five-fold. Under the 2011 Turkmen-Chinese interstate agreements, China planned to increase its annual import of Turkmen gas to 65 billion cu m by 2014.<sup>9</sup>

According to the Xinhua News Agency, between 16 December, 2009 and 7 January, 2012 China received over 20 billion cu m of gas via the Central Asia-China pipeline. Today, the pipeline is used for Turkmen gas. Uzbekistan, in turn, announced that it planned to start moving its natural gas to China on 1 April, 2012 under the "fixed" contracts signed in the fourth quarter of 2011 on the delivery of up to 10 billion cu m a year.<sup>10</sup>

There are doubts whether Turkmenistan and Uzbekistan have enough gas to ensure uninterrupted gas exports to China in the specified volumes.

In the post-Soviet republics, the natural gas production, consumption and export statistics are not entirely transparent and even fairly muddled. Gas production and export forecasts are normally overstated mainly because they proceed from the figures of aggregate production rather than from the tank gas figures. According to Russian experts, Central Asia and Azerbaijan will be able to export 95 billion of cu m of gas in 2020 and 115 billion cu m of gas in 2030; half of the amount will come from Turkmenistan.<sup>11</sup>

According to Uzbek specialists, the planned export of about 10 billion cu m of gas to China will leave the republic's underground storage facilities half empty by next winter; this will create problems for the local industry and population because of the steadily declining production of natural gas in Uzbekistan: according to independent sources, today the republic produces some 10 to 15 billion cu m less than in 2000. The government has already suggested that the regions should switch to alternative fuels; in the winter of 2011/12, the administration of the Tashkent Region intended to cut centralized gas supplies to over 500 enterprises and organizations; they were invited to use coal, timber, or kiziak (dry manure) instead. Other regions did the same. Uzbekistan has cut its so far traditional natural gas supplies to Southern Kazakhstan, its immediate neighbor. Late in 2011, its export dropped four-fold.<sup>12</sup> Early in 2012, Uzbekistan stopped gas supplies to Tajikistan without preliminary warning.

Turkmenistan, likewise, cannot boast of consistently rising gas production; very much like its Central Asian neighbors it depends on the external markets rather than on the country's domestic developments. In 2010, Gazprom bought only 10 billion cu m of gas from Turkmenistan. This caused a two-fold reduction in its gas production to 36.4 billion cu m, having reached a post-Soviet high of 70.5 billion cu m in 2008.<sup>13</sup>

Extremely low energy efficiency is one of the gravest ailments of the Central Asian economy. The region's countries, particularly Turkmenistan and Uzbekistan, have the highest energy consumption per GDP unit; this means that they use a lot of gas.

In 2010 Uzbekistan consumed 45.5 billion cu m of gas, 4.6% more than in 2009.<sup>14</sup> This means that with a total gas production of 60 billion cu m (in 2010) and fairly high export obligations (Russia

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<sup>9</sup> See: RIA Novosti, 28 February, 2012.

<sup>10</sup> See: *Neft Rossii*, 16 January, 2012.

<sup>11</sup> See: *Aziatskie energeticheskie stsennarii 2030*, Moscow, 2012, p. 259.

<sup>12</sup> [<http://www.fergananews.com/news.php?id=17629&mode=snews>].

<sup>13</sup> [<http://www.uaenergy.com.ua/c225758200614cc9/0/6d513bb1971b31cfc225790a004f9ce7>].

<sup>14</sup> [<http://munaigaz.kz/newsgaz/item/190>].

alone buys up to 10 billion cu m), export to China will infringe on domestic use and undermine the country's economic growth, the economy of which relies on gas (up to 80% of primary energy sources).

The same applies to Turkmenistan: its domestic consumption amounts to 22.6 billion cu m; it also has considerable export obligations to China, Russia (10 billion cu m), and Iran (10-20 billion cu m).

According to Russian analysts, by 2020 Central Asia will sell China 40-50 billion cu m of gas a year, the bulk of it coming from Turkmenistan (see Table 2). By 2030, the figures will reach 55-75 billion cu m, most of which will still be supplied by Turkmenistan.

Table 2

**Export Forecasts for Central Asian Gas to China up to 2030**  
(billion cu m)

	2010	2020 (forecast)	2030 (forecast)
<b>Turkmenistan</b>	4	30-40	40-60
<b>Kazakhstan</b>	—	3	5
<b>Uzbekistan</b>	—	5	10
<b>Total</b>	4	38-48	55-75

*S o u r c e: Aziatskie energeticheskie stsenarii, 2030.*

Gas exports to China and wider (in the case of Turkmenistan) possible export to Iran have made it possible for the Central Asian gas producers to withdraw from the vicious circle of export isolation. At the same time, increased amounts of exported gas might potentially undermine the energy security of the exporters by depriving their industries of sufficient amounts of resources needed for their sustainable development.

## Multivectoral Gas Pipeline Policy

The gas pipeline to China and the second branch of the Turkmenistan-Iran pipeline were examples of successful diversification of fuel exports which the region's gas producers badly needed.

The pipeline used to bring gas from Turkmenistan to Iran has been upgraded even if the planned annual capacity of up to 20 billion cu m remains unattained; it normally moved no more than 8 to 8.5 billion cu m (see Map 2).

Since the early 1990s, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline has been actively discussed. Turkmenistan agreed to sell its gas on the Turkmen-Afghan border at the prices no lower than those paid by China. In December 2010, India officially joined the project; the four countries signed a framework agreement under which Turkmenistan pledged to export 90 million cu m a day for the next 30 years. In the first two years, Afghanistan will buy 5 million cu m a day; later, the amount will increase to 14 million cu m; India and Pakistan will divide the rest among themselves in equal proportions.<sup>15</sup>

A gas pipeline (1,650 km long, estimated cost \$7.6 billion) will cross Afghanistan and Pakistan to reach Fazilka on the Pakistani-Indian border; the project is to be implemented in 2012-2015. Under

<sup>15</sup> See: "India Signs Up for Turkmenistan Gas, International Gas Report, Issue 663-664," *Platts*, 20 December, 2010.

Pars and TAPI Gas Pipelines



Source: [[http://www.trubagaz.ru/im/turkmenistan\\_afghanistan\\_pakistan\\_india.jpg?578:324](http://www.trubagaz.ru/im/turkmenistan_afghanistan_pakistan_india.jpg?578:324)].



this agreement, Turkmenistan will sell its gas on the Afghan border; the international consortium will take the risk of further transportation.

The safety of the Afghan stretch causes doubts; the government of Afghanistan is prepared to set up a pipeline security service with a staff of 5 to 7 thousand employees; influential field commander Gulbuddin Hekmatyar, leader of Hizb-e-Islami and paramilitary group, which operates in Herat on the Pakistani border, publicly supported the project. The situation is still unclear in the Taliban-controlled provinces of Kandahar and Helmand.

The United States, which is interested in political and economic stabilization in Afghanistan, treats the project as one of its top priorities. By 2014, its official mission in Afghanistan should end; TAPI supplies NATO and the U.S. with a pretext to remain in the country. Washington, busy enveloping Iran with economic sanctions, has no use for an alternative Iran-India gas pipeline.

In fact, if implemented, TAPI would strengthen economic ties between India and Pakistan and promote their dialog on many other bilateral issues.

Russia's statement on Gazprom's possible involvement can be seen as its indirect support of the project; it will bring gas from Turkmenistan to the port of Gwadar in Pakistan where an LNG plant will be built, which means that it does not infringe on the interests of China either.

So far no one can say whether the project, which is expected to cross far from stable Afghanistan and slightly more stable Pakistan, is implementable. Washington, in turn, is sparing no effort to promote the project, at least in the information expanse.

Meanwhile, two projects became a target of bitter price-related rivalry.

It turned out that prices proposed by Turkmenistan for its gas to be transported via TAPI were much lower than those Iran was prepared to receive for the gas it planned to move to Pakistan along the Iran-Pakistan gas pipeline; India withdrew from the project.

Iran offered to deliver to Pakistan natural gas at a price equal to 78% of the oil parity price (about \$400 per thousand cu m).

Late in 2011 in Islamabad, the Turkmen delegation headed by Minister of Power Ya. Orazgulyev cited its price: 74% of the oil parity price (about \$380 per thousand cu m).<sup>16</sup> Pakistan responded with its own price—60-68% of the oil parity price (\$310-350 per thousand cu m), including the cost of Afghan transit.<sup>17</sup>

There is information that Ashgabad is more or less prepared to accept 69% of the oil parity price (about \$356 per thousand cu m), including transit fees.<sup>18</sup> The Turkmen delegation asked for a break to be able to consult the country's leaders; no final decision has been reached. Earlier it was expected that contracts indicating the procurement prices would be signed before 31 July, 2011.

## Mounting Rivalry

The region's communication capabilities are unique and therefore tempting; those who finally manage to establish control over the North-South and West-East communication hub will not only grow rich on the proceedings and move to the frontline of the global communication scene, they will acquire political instruments as well. Washington and Brussels have pooled forces in the Caspian to ensure uninterrupted fuel supplies bypassing Russia; today they are thinking about merging all the hypothetical southern pipelines into a single project tentatively known as the Southern Gas (Energy) Corridor (see Map 3).

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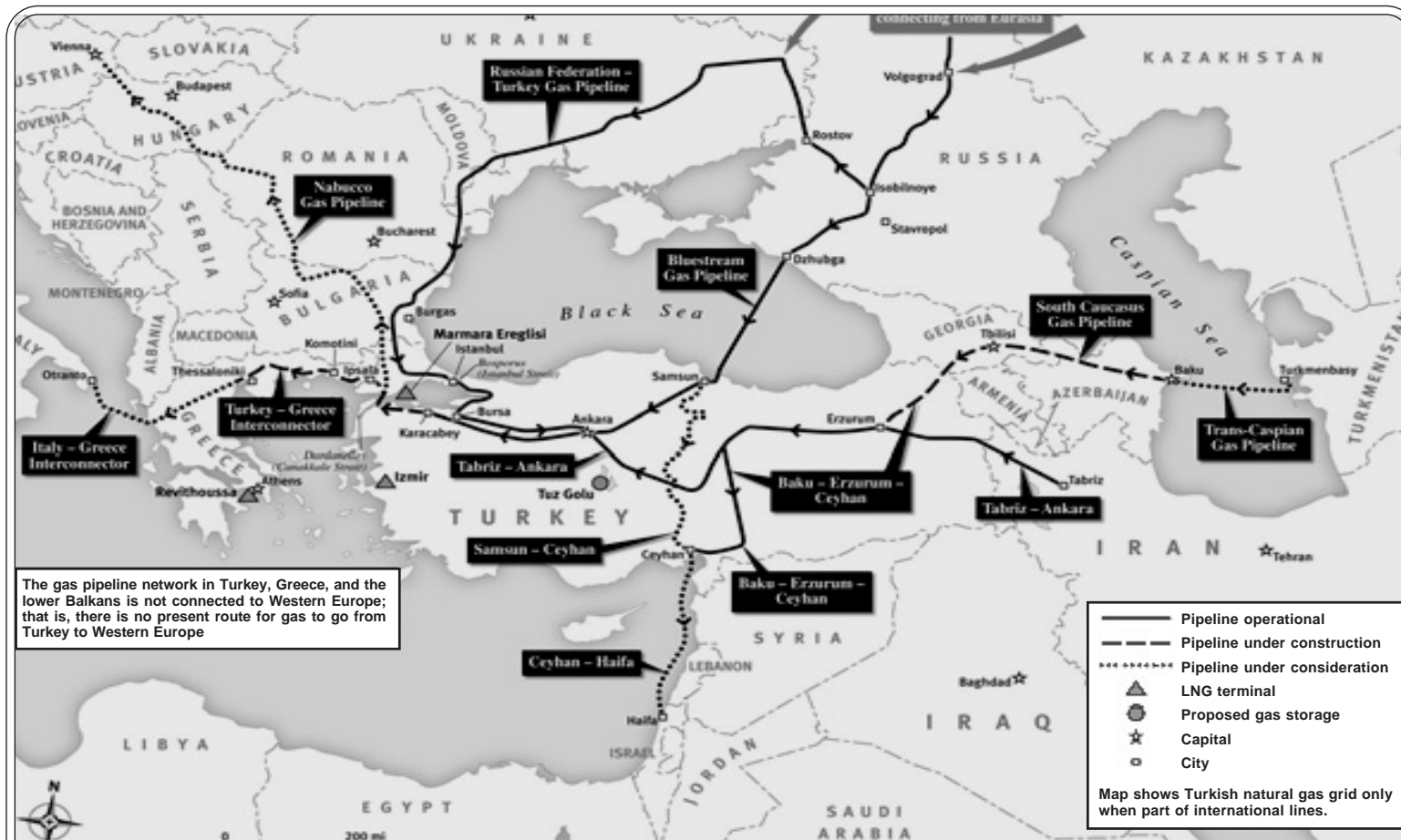
<sup>16</sup> Production cost in Turkmenistan is about \$2 per thousand cu m.

<sup>17</sup> See: Dawn.com, 13 November, 2011.

<sup>18</sup> [<http://www.trubagaz.ru/issue-of-the-day/tapi-diskussija-o-tsenakh/>].



The Southern Corridor



The gas pipeline network in Turkey, Greece, and the lower Balkans is not connected to Western Europe; that is, there is no present route for gas to go from Turkey to Western Europe

Source: The Washington Institute for Near East Policy.

The European Union regards the Southern Corridor as one of its energy-related priorities designed to diversify the routes and sources of energy deliveries in order to tighten its energy security.

In fact, Europe has long considered Turkmenistan to be one of the main gas suppliers of the planned pan-European Nabucco pipeline; these plans were never realized. In Europe, the project stalled for want of customers prepared to shoulder the considerable investments and political risks. Turkmenistan, which has learned the grim lessons of the gas conflicts and wars of the 1990s, is sticking to the simple scheme: it sells its gas on the border; all transportation risks outside its territory should be shouldered by other participants. This principle is applied to its dealings with Russia and China.

In the spring of 2008, Turkmenistan announced that starting in 2009 it intended to reserve 10 billion cu m every year for European customers. The other Caspian states stalled the project by objecting to the planned subsea Trans-Caspian Turkmenistan-Azerbaijan gas pipeline.

In December 2010, America's IHS CERA, which had been retained as a consultant for the Caspian Development Corporation (CDC) in May 2009 by the World Bank, the European Commission, and the European Investment Bank to create the institutional design and commercial framework for the proposed CDC, laid its report on the table. The Corporation was an institutional and commercial design set up to buy and transport considerable volumes of natural gas from Turkmenistan to the European and, possibly, other markets. It was expected that the CDC and Turkmenistan would sign a 20-year-long Gas Purchase Agreement (GPA) and ensure its transportation to the European markets via a main pipeline across Azerbaijan. It was planned to start purchases in 2014 and bring the amounts up to 10 billion cu m by 2017 and up to 20 billion cu m by 2019. Starting in 2020, the CDC expected to buy up to 30 billion cu m every year. "The model assumed that Turkmen gas would be purchased at a netback price determined by a weighted average of the sale prices for CDC gas in various European markets, less transportation costs and costs for CDC operations and capital employed."<sup>19</sup>

To connect Turkmenistan and Azerbaijan, the CDC will need a gas pipeline laid on the Caspian seabed. It is thought that several Caspian states are trying to slow down the progress in this direction; early in 2011 the EU Commission for Energy announced that the trans-Caspian pipeline will be implemented under the EU aegis; it did not exclude the possibility that the CDC would be the only investor and owner of the future pipeline, which frees Turkmenistan and Azerbaijan from political and investment risks.

The procurement price of Turkmen gas remained the weakest link; so far the sides have not formulated their positions. In view of the highly volatile oil prices and the oil parity prices for natural gas imported by Europe, Turkmenistan should insist on long-term export contracts based on take-or-pay terms (Gazprom's export contracts are based on this principle). The European Commission, however, which is dedicated to liberalizing the European gas sector, cannot accept the take-or-pay terms.

It seems that the project stands little chance of being implemented any time soon, even though it is expected to supply the bulk of gas to the Southern Corridor. Ashghabad, which seeks stiff competition for its gas, is quite right: it needs freedom for political and diplomatic maneuvering to deal with gas consumers, as well as diversified foreign investments in its oil and gas sector and maximally high export prices for its gas. It is playing its "European card" in the form of repeated declarations in support of the trans-Caspian pipeline as the first step toward Nabucco. The project might remain on paper: it is forbiddingly expensive (about €7.9 billion according to conservative assessments); while the status of the Caspian is still unresolved and the situation in the Southern Caucasus remains vulnerable.

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<sup>19</sup> *Caspian Development Corporation. Final Implementation Report*, IHS CERA, December 2010.

None of the sides involved are sparing any political, diplomatic, or even contract efforts to channel Central Asian (Turkmen, in particular) gas toward Europe; Azerbaijan, Turkmenistan, and the European Union are busy drafting two relevant documents. Late in February 2012, Minister of Industry and Power of Azerbaijan Natiq Aliiev said as much at a meeting with the Caspian-European Integration Business Club (CEIBC) members. He informed his audience that Azerbaijan, Turkmenistan, and the EU were working on a political document designed to support the Southern Gas Corridor, as well as on an intergovernmental agreement on the trans-Caspian pipeline.

It is expected that the documents will be ready by the end of the year.<sup>20</sup> The European Union intends to discuss with Azerbaijan and Turkmenistan legally binding bilateral agreements the two countries need to build and use the Trans-Caspian pipeline; it also intends to discuss with Turkmenistan the legal framework to be applied to filling the pipeline with Turkmen gas as well as legal recognition of commercial agreements.

## Is Russia Losing Its Position?

Russia's attitude to the shifts in the formerly strictly controlled Central Asian gas market is highly important and extremely interesting. It seems that excessive dramatization of these processes, of which certain analysts are guilty, is hardly justified. Gazprom's transit monopoly could not last forever; recently, it became a burden rather than competitive advantage.

The TUKC pipeline makes the involvement of Central Asian gas exports to the European markets less probable and the rivalry less acute. And it seems that this could not have been done without multilateral political agreements. The new situation will bring sustainable repercussions: Western analysts believe that Russia and China will maintain a practically absolute balance in Central Asia, that is, jointly realized control.<sup>21</sup>

Beijing could be suspected of putting pressure on Gazprom on the eve of new price talks for the Russian gas supplied to China. On the other hand, the Central Asian gas producers (including Russia's LUKoil, which operates in Uzbekistan) are willing to sell more gas to China; China's CNPC will produce 30 billion cu m of gas in Turkmenistan. Collectively they have enough gas to meet their export obligations which, however, might undermine power supplies at home and the exporters' economic sustainability.

Russia's loyalty to TUKC is explained by the fact that it will avert Turkmen gas from Europe. It can be described as market sharing of sorts: Ashghabad is free to reach the Asian markets (whether Chinese, Iranian, or South Asian) in exchange for not selling its gas to Europe. It looks as if the Central Asian gas producers are being used (probably temporarily) as substitutes for Gazprom while the Chinese gas market is taking shape.

We should never forget that there is another potential rivalry in the Caspian region. I have in mind Iran (for more detail, see below). Moscow seems to be somewhat carried away by the struggle over the European gas market to the detriment of its position in central and eastern Eurasia. The Kremlin's determination to build the North and South Streams, balancing on the brink of depriving Ukraine of its transit fees and of worsening relations with it, as well as to double the carrying capacity of the still underloaded Blue Stream, is rather baffling. It seems that it would have been wiser to study cheaper

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<sup>20</sup> See: *Trend*, 29 February, 2012.

<sup>21</sup> [<http://www.opec.ru/1147353.html>].

and more adequate alternatives of gas export to Southern Europe. The reality of the world energy market could upset the seemingly well-justified political constructs.

“The idea of including the Russian Federation in Nabucco is not an exception. Moreover, Gazprom has been invited to participate in that project as a supplier more than once. On signing the agreement, the Prime-Minister of Turkey, Recep Tayyip Erdoğan, expressed his hope for the participation of Russia, as well as Iran, in the implementation of Nabucco: ‘We support Iran’s participation in the project, should circumstances so allow, and we also hope for Russia’s inclusion.’ Furthermore, Richard Morningstar made an eloquent confession: ‘We want Russia to participate in the project as a partner, and we can submit a proposal to supply gas within the Nabucco project.’

“The prospect of filling Nabucco with Russian gas has always provided opportunities for delicate political games, interesting moves and exchanges and, possibly, commercial benefits.

“Analyzing the expansion of the *Blue Stream 2* pipeline, one must pay attention to its intersection with Nabucco near Ankara. Opportunities become apparent for the continuation of the Blue Stream southwards, to Syria and Israel, for instance. Intersection with the European pipeline could become a weighty argument in Gazprom’s favor when competing for export volumes of Azerbaijani gas. It could also be possible to rely on European support in delicate negotiations with Turkey on conditions of transit (not resale) of Russian gas.

“In this option there is also an opportunity to cut Iran out of European market by substituting Iranian gas with Russian gas (or Central Asian). To direct the fuel of potential competitor to the East has always been an important geopolitical goal of Gazprom. It is no chance that Moscow has always supported not only the project *Peace*—the pipeline Iran-Pakistan-Iran, but was also ready to participate in such an exotic initiative, such as the Turkmenistan-Afghanistan-Pakistan-India pipeline which would also direct Turkmen gas towards the east.”<sup>22</sup>

*Despite these problems, the prospects of the Eurasian gas market have become obvious. The commissioned TUKC and implemented TAPI will transform the Caspian into a powerful energy hub from which energy resources are sent to the East and the South. The future regional pipeline system will be closed and absolutely autonomous, something which Moscow knows well. Gazprom can join the two projects not only as a co-investor or a general contractor (even though built according to Russian technical rules and specifications the powerful infrastructural facilities will remain attached to the country’s economy for a long time to come), it will also have the opportunity to send the gas it produces in Turkmenistan to India. In any case, Russia’s involvement in these projects is of strategic importance.*

## The Iranian Factor

The developments around Iran have created new (and considerable) risks for the fuel and energy complexes of its Central Asian neighbors. Beijing has already voiced its concern about possible destabilization in Turkmenistan if the United States attacks Iran. Indeed, the strategic gas pipeline built by the Chinese for bringing Turkmen gas to China, as well as China’s loan of over \$8 billion to Turkmenistan allow Beijing to regard this country as a sphere of its interests. According to the *Moskovskie novosti* newspaper, Ashghabad proved unable to guarantee the Chinese investments on its own and is preparing for consultations with Moscow.<sup>23</sup>

<sup>22</sup> *The Prospects of Cooperation between South East Europe and Russia in Ensuring the Long-term Energy Security of the Continent*, available at [<http://www.isac-fund.org/download/06e-Dr.%20Igor%20Tomber%20-%20The%20prospect%20of%20Cooperation.pdf>].

<sup>23</sup> [[http://www.mn.ru/world\\_ussr/20120130/310629497.html](http://www.mn.ru/world_ussr/20120130/310629497.html)].

In January 2012, Chen Zhili, Vice Chairman of the standing committee of the All-Chinese Assembly of People's Representatives, visited Ashgabad, ostensibly to mark the 20th anniversary of diplomatic relations between the two countries. The guest and President Berdymukhammedov concentrated on the situation around Iran.

China sees America's plans to use force against Iran to compel it to discontinue its nuclear program as a threat to the large-scale gas production and transportation infrastructure in Turkmenistan, which will supply it in the future with up to 65 billion cu m of gas every year. So far, Beijing is not entirely convinced that gas supply will be consistent. It is also concerned about the safety of its workers and specialists (from 3 to 5 thousand depending on the season) engaged in all sorts of construction projects in Turkmenistan.

To a certain extent the conflict between the West and Iran will echo in all the other Central Asian countries and will negatively affect the fuel and energy infrastructure.

Today, confrontation with the West over its nuclear file will hardly allow Tehran to tap its gas resources to the full to redivide the export markets. In the future, however, when the American-Iranian conflict is settled, Iran might join the world energy projects.

Today, Iran can be described as a potential and so far underestimated threat to Russia's gas interests in the European and, in the future, Chinese vectors. With the world's second largest gas reserves (with 29.6 trillion cu m it comes second after Russia with its 44.8 trillion cu m),<sup>24</sup> the country has not yet developed into a serious player in the international markets for certain structural, technical, and political reasons. In the future, as its gas sector develops, Tehran will not miss the chance of using it to acquire its share of international influence.

The Iranian leaders have repeatedly offered their gas to help fill Nabucco, which Washington and Brussels see as the main instrument of diversified gas supplies to the EU. Indian analyst M.K. Bhadrakumar summed up the situation: "Nabucco will be Iran's passport to integration with Europe."<sup>25</sup> If and when Iran arrives in the European gas market, it will upset the balance of interests, which arouses great doubts among European consumers anyway.

With Iranian gas in the external markets, the Central Asian countries will have to step up their competition for a niche in the far from conquered markets of India, Pakistan, other South Asian countries, or (God forbid) Europe. So far the supply and demand market is perfectly balanced even though consumers are working hard to revive the 2008 "consumer market" to impose their conditions on the suppliers. Iranian gas might bring the prices down. This happened in 2009 when Europe was flooded with LNG designated for the United States together with the mounting amounts of LNG from Qatar.

There is information that Beijing is looking for ways to link Iranian gas to the Central Asian system of gas pipelines. This will allow it to revise the prices China pays for the increasing volumes of gas from Turkmenistan. In fact, today it loses about \$0.1 per cu m of Turkmen gas.<sup>26</sup> Iranian gas might shift the burden to the exporter.

*In these conditions all the gas-producing Soviet successor-states should pool their efforts to ensure the interests of the gas suppliers. They have set up the Gas Exporting Countries Forum (known as Gas OPEC). In fact, if 5 or 6 countries (Russia, Iran, Turkmenistan, Kazakhstan, Qatar, Algeria, and Azerbaijan with aggregate natural gas reserves close to the world's 60%) coordinated their price, marketing, and logistical policies, they could achieve a much clearer and much more balanced market. Real coordination within the Forum could lead to coordinated decisions and, most important, not allow the world gas consumers to exploit the contradictions among suppliers.*

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<sup>24</sup> See: *BP Statistical Review of World Energy*, June 2011, p. 20.

<sup>25</sup> See: M.K. Bhadrakumar, "U.S. Moves towards Engaging Iran," *Asiatimes*, 27 March, 2008.

<sup>26</sup> See: *Shiji jingji baodao*, 29 November, 2011.

### *Conclusion*

The situation is far from simple; it can be called fairly contradictory inside the region and around it; competition over access to resources is stiff; all key players in the Central Asian and Caspian energy sector want to join the global energy market as quickly as possible. If the Central Asian context in the next several decades remains favorable or even neutral, the energy resources of post-Soviet Central Asia and the Caspian will join the global economic turnover at an accelerated pace. The region is a large and growing producer of oil and gas outside OPEC, which makes it doubly important for global energy security. Today Europe and China (Russia will join them later) regard hydrocarbons from Kazakhstan, Azerbaijan, and Turkmenistan as an important element of import diversification.

On the other hand, the political instability in the adjacent regions (Middle East and Iran) negatively affects the investment climate in Central Asia and creates new serious external risks. The domestic situation is not risk-free either: the countries determined to sell hydrocarbons “no matter what” might undermine their own economies by depriving them of energy: a paradoxical situation for resource-rich countries.

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