

Turkmenistan: Multiple Pipelines Still Possible

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Russia has scored a major coup by getting its preferred gas pipeline deal signed first, but analysts say other routes to Europe and China are still possible.

The agreement reached by the presidents of Russia, Turkmenistan and Kazakhstan to build a gas pipeline from the Caspian shore to Russia has been hailed by the international media as a Russian victory over the West.

The excitement generated by the trilateral deal, which presidents Vladimir Putin of Russia, Kazakstan's Nazarbev and Gurbanguly Berdymuhammedov signed at a May 12 summit in the Caspian port of Turkmenbashi, stems from the belief that this agreement puts paid to a projected alternative route, the Trans-Caspian Gas Pipeline, TCGP.

The European Union has been lobbying for the TCGP, which would be laid under the Caspian Sea to Azerbaijan and would not go through Russian territory.

"Russia registers victory in Caspian basin energy game", declared EurasiaNet, while the Washington Times referred to the deal reached in the city of Turkmenbashi as "a victory for Moscow over US and European plans for the region".

Reacting to the deal on May 14, United States energy secretary Samuel Bodman said the deal was "not good" for Europe, which needs to diversify its sources of energy.

But analysts interviewed by IWPR are downplaying the importance of the pipeline deal. They say it does not necessarily rule out the TCGP, or indeed any of the other pipelines that might be built to bypass Russia.

Currently, all Central Asian gas shipped to Europe comes through Russia. Gazprom, the country's giant gas producer, owns and operates the Soviet-era Central Asia-Centre, CAC, pipeline which carries the gas. Gazprom has a deal in place that commits Turkmenistan to increase exports to reach 90 billion cu m by 2028. At the moment, Russia takes 50 billion cu m of Turkmenistan's annual production of 65 billion cu m.

The May 12 agreement will provide greater capacity for getting the extra gas out. It will initially entail the reconstruction of an existing western branch of the CAC running along the shore of the Caspian Sea, taking Turkmen gas via Kazakstan to Russia. President Putin said this would carry 10 billion cu m a year, and a parallel, new pipeline would be laid alongside it to boost overall capacity. Putin said a full agreement would be signed by July.

For Europe, the importance of alternatives to Russian energy supplies was underlined in January 2006, when deliveries of Russian gas to large parts of western Europe were disrupted due to a pricing conflict between Moscow and Ukraine – a development which created some concern in Europe about Russia's reliability.

Planning for the TCGP, which would go west rather than north, began back in 1998 when the US funded a feasibility study for the project, but last year's supply worries have reinvigorated the plan. If constructed, the pipeline would take Turkmen and possibly Kazak gas across the Caspian to feed into existing transit

routes to Turkey.

In addition to the TCGP, however, there are a number of other projects on the drawing board for pipelines that would get Turkmen gas to market without involving Russia.

One reason why the late Turkmen president Saparmurat Niazov and his successor Berdymuhammedov might harbour an interest in alternative routes is gas pricing. Last year, Ashgabat succeeded in getting Gazprom to agree to a price hike to 100 US dollars per 1,000 cu m – but the Russian firm still sells the gas on at a markup of around 100 per cent, and there is little the Turkmen can do about it.

In April 2006, Niazov signed an agreement to construct a pipeline to China that carried an obligation to sell 30 billion cu m annually once it is up and running.

Other proposals exist – one for a pipeline going through Afghanistan to Pakistan and on to India, and another that would circumvent Afghan territory by running through Iran to Pakistan. The former is an unlikely prospect as long as Afghanistan remains unstable, while US opposition is likely to block the Iranian option for the foreseeable option.

Oksana Antonenko of the London-based International Institute for Strategic Studies says that for Europe, weaning itself off its reliance on Russian oil and gas remains a priority.

“Europe is concerned that Russia may use its energy resources for political purposes [against Europe],” she said.

But the TCGP project itself faces a number of hurdles, says Annette Bohr, an expert on Turkmenistan and an associate fellow of the Royal Institute of International Affairs, also in London. These include strong opposition from Russia, uncertainty about the size of the gas reserves and the production capacity needed to make the pipeline viable, and the environmental concerns associated with undersea construction.

Bohr points out that the new deal has not yet been backed by a contract containing the fine details, and so it is a long way from implementation.

John Roberts, an energy security specialist with Platts Energy Services, agrees with this view, saying that while the Russian-Kazak-Turkmen agreement is an important development, it does not signal the end of other proposed pipelines.

He explains that the gas that will be transported via this pipeline is unlikely to come from the mainstream Turkmen reserves that all the big players are fighting for. He said that the gas will not come from the major fields in southeast Turkmenistan or indeed other parts of the country. Instead, the gas for this pipeline will be produced from fields operated by foreign companies like Dragon Oil, Petronas Carigali and Burren Energy. Roberts says these companies have a prior arrangement with the Turkmen government to send their gas to Russia.

The initial capacity of the reconstructed line will only be 10 billion cu m a year, not much compared with the 50 billion cu m the Turkmen now sell to Russia and the 30 billion cu m promised to China.

Jonathan Stern, director of gas research at the Oxford Institute for Energy Studies, agrees that the TCGP's prospects are not seriously affected by this deal, but he argues that there are other obstacles standing in its way.

"The TCGP is not more or less realistic than it was prior to this announcement," he said. "What it needs are gas supplies, gas buyers and finance – it is not clear that the project currently has any of these."

While the new agreement means only that Turkmenistan will be more able to meet its obligations to Moscow, the analysts interviewed by IWPR recognise that it is of considerable symbolic importance, as a demonstration that Russia is still the closest ally of the energy-rich Central Asian states.

But the Turkmen authorities – who presumably would wish to reduce the Russian stranglehold on gas exports and pricing – have indicated that the construction of alternative routes remains feasible.

A week before the trilateral agreement on the pipeline was made, the head of the state-owned Turkmen gas company, Yashygeldy Kakaev, said the country was interested in diversifying its export routes, and cited the TCGP as one possible option.

At a press conference held after the trilateral summit in Turkmenbashi, President Berdymuhammedov also said the TCGP was still on the agenda. "Diversification of gas distribution is taking place throughout the entire world, so this matter could still be examined," he said.

Stern said that the proposed pipeline to China in particular is "highly realistic", provided the Chinese cover the costs of building it and producing the gas to feed it. This, he said, "they seem inclined to do".

Stern added that while the project would not come cheap, China's growing economy is devouring energy at such a rate that it is keen to get access to Turkmen gas, whatever the cost.

"Under international economic viability criteria, this project is not realistic, but the Chinese do not view projects in these terms," he said.

In order to implement all these projects, Turkmenistan must increase its gas production, which it has indicated it will do.

Gas concern chief Kakaev said that Turkmenistan will increase annual output to 79 billion cu m this year, and then strive to reach 120 billion cu m in 2010 and 250 billion cu m in 2030. These ambitions have been spurred by the recent discovery of vast reserves at the South Yolotan field, which the government says contains seven trillion cu m.

If the promised production increases are realised, and export routes are diversified to reach new markets, Turkmenistan is likely to see a sustained rise in export revenues. But as Erika Dailey, director of the Open Society Institute's Turkmenistan Project, pointed out, it remains doubtful that the money will trickle down to the average citizen.

“Corrupt governments force their citizens into silence, so that the country’s natural wealth can be siphoned into the off-budget accounts of the elites rather than into social programmes,” she said.

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