The Game is afoot, or another look East of the Caspian.

Posted by Heading Out on April 6, 2006 - 11:43pm
Topic: Supply/Production

The story in today's Washington Post was largely related to the problems that Gazprom, the company that, as noted earlier in the week, now produces 25% of the world's gas, are having. The article sees "a looming decline in gas production" from Russia's current fields, while the Russian public still sees natural gas as an abundant cheap resort where less than 10% of residential and industrial gas consumers have gas meters. This is obviously going to be a problem for Western Europe, and perhaps the U.S. since both are planning on getting help with supply from Russia, and if their domestic demand is rising while supplies are falling, the export supply is going to decline quite rapidly.

However, it is a small paragraph in the story that caught my eye.

> In recent years Russia has boosted gas supplies by squeezing Turkmenistan to sell gas to Russia at a deep discount. But Turkmen gas production is poised to decline, and Turkmenistan's gas industry is barely functional because the country's political environment is scary for long-term investors. Other Central Asian suppliers, notably Kazakhstan, are unlikely to be able to bridge the gap.

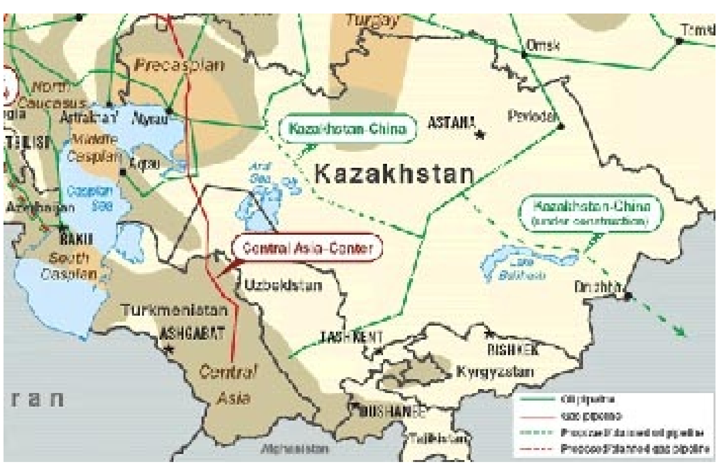
And this seemed odd to me, since Tuesday's post was all about Turkmenistan agreeing to sell China some gas. So I thought I'd, as they say, take a closer look.
UPDATED to include some Gazprom info.

The first thing to do is to find the country, and for those who aren't sure where it is, it lies North of Iran on the Eastern side of the Caspian Sea.

It is ranked as having either the fourth or fifth largest reserves of natural gas, with reserves of 2 tcm (trillion cubic meters) (the CIA), 5.5 tcm the Jamestown Foundation, or 8.1 - 8.7 tcm Library of Congress. It exports around 38.6 bcm per year, and uses around 15.5 bcm itself (CIA), for a total production of around 55 bcm.

Historically the natural gas has been sold to Russia, and the Ukraine, but very much under the thumb of the Russian purchasers. As the EIA notes

> Prior to 1997, the only option for exporting Caspian region natural gas was via the Russian natural gas pipeline system. Although over 2 trillion cubic feet (Tcf) of Caspian Sea region natural gas was piped via the Central Asia Center gas pipeline in 1990, exports fell to 0.3 Tcf in 1997 when Russia's Gazprom, which is a competitor with Turkmen natural gas and owns the Russian pipelines through which Turkmenistan exports, denied Turkmenistan access to the system over a payment dispute.



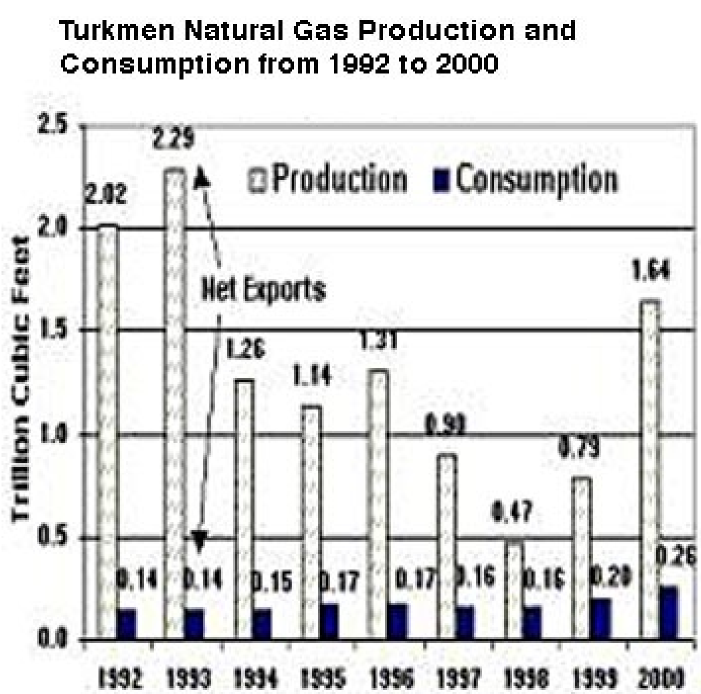
(Source EAI)

(For those like me who have problems with conversions, 1 Tcf is roughly 30 bcm). The story from the Research Divn of the Library of Congress is slightly different.

> In 1992 gas production accounted for about 60 percent of GDP. As a result of a dispute with Ukraine over payments for gas deliveries, in 1992 gas production fell by 20 billion cubic meters to around 60 billion cubic meters. In the first eight months of 1994, transportation restrictions forced Turkmenistan to cut gas production to 26.6 billion cubic meters, only 57 percent of the production for the same period in 1993. An additional factor in this reduction was the failure of CIS partners, to whom Russia distributes Turkmenistan's gas, to pay their bills.

With limited ways of selling its gas Turkmenistan was stuck with selling it through Russia, with 918 bcf staying in Russia while 117 bcf went on to Ukraine during 2000. Exports continued to rise by about 25% a year. The UNECE continues the story.

> In a bid to secure a market for its natural gas, on May 14, 2001, Turkmenistan agreed with Ukraine on a major natural gas export deal. Under terms of the deal, Turkmenistan will provide Ukraine with 8.83 Tcf of natural gas between 2002 and 2006. Turkmenistan will sell Ukraine 1.41 Tcf of natural gas in 2002 and 1.77 Tcf in 2003, with remaining deliveries to be agreed later. Turkmen officials signed the deal on the condition that Ukraine makes timely payments for supplies. Ukrainian officials agreed to pay for the Turkmen natural gas 60% in cash, with the remainder paid for through participation in 20 construction and industrial projects in Turkmenistan worth a total of $412 million.



Source EIA via UNECE

Unfortunately disagreements over payments have continued. First in the winter of 2004

> In December 2004, Turkmenistan halted gas supplies to Russia and reportedly

> demanded $60 per 1,000 cubic meters (35,300 cubic feet). Turkmenistan presumably expected that the perceived inability of Gazprom to meet its export and domestic commitments without Turkmen gas volumes would force the Russian giant to offer better terms. However, Turkmenistan failed to force Russia to pay more for Turkmen gas, as Gazprom passed through the 2005 winter season of peak demand for natural gas without Turkmen supplies. Subsequently, in April 2005 Russia and Turkmenistan agreed that Gazprom would make all payments in cash instead of the earlier barter arrangements, yet the price remained the same: $44 per 1,000 cubic meters.

The situation deteriorated further with the clash between Ukraine and Russia gaining the attention, among others of The Energy Bulletin as the debate over price escalated. Unfortunately for Turkmenistan, the solution allowed Russia to sell at world price, while using the cheaper Turkmen gas to keep the average price at $95 per 1,000 cu.m.. That debate is not over. The price itself was not actually fixed

> The next day, on Feb. 2, RosUkrEnergo agreed to stipulate in a contract that it will supply gas to Ukraine at $95 per 1,000 cubic meters during the next five years. However, RosUkrEnergo reserved the right to boost the prices if Turkmenistan, the main gas source for the company, moves to hike the prices.
>
> The issue is sensitive for Ukraine, whose chemical and steel companies would become unprofitable if gas prices exceed $95, analysts said.

And so the debate continues. Novosti had two stories on this in the past two weeks.

> Under a bilateral treaty, Turkmenistan is to ship 40 billion cubic meters of gas at $50 per 1000 cu m in the first half of the year and at $60 per 1000 cu m in the second. Turkmenistan's foreign ministry earlier said that Ukraine was delaying payment for natural gas shipments and threatened to cut off supplies unless the Ukrainian side cleared the outstanding debt. If that were to happen, it would be the second time a supplier had turned off the taps to Ukraine, as Russian energy giant Gazprom cut supplies on January 1 amid a bitter dispute over prices for natural gas supplies. . . . . . According to Turkmenistan, Ukraine's debt stands at $158.9 million and the country's foreign ministry said a failure to settle the debt could place energy cooperation in doubt.

This was followed by

> Ukraine's prime minister said Wednesday his country's debt to Turkmenistan for natural-gas supplies stood at $68 million, and that it would be paid off by supplies of industrial goods.
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> "As of this moment, Ukraine's debt to Turkmenistan stands at $68 million," Yuriy Yekhanurov told a Cabinet session, adding that Kiev had already ironed out all its problems concerning natural gas supply obligations with Ashgabat.
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> Turkmenistan says Ukraine's debt currently stands at $158.9 million, and President Saparmurat Niyazov has urged Ukraine to pay up.

Unfortunately the attitude of the Ukrainians to such debt is not reassuring to Turkmen

> (On) or the issue of 7,8 billions of cubic meters of Russian natural gas, that had allegedly disappeared while being transferred through the Ukrainian territory.
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> That of course is incorrect. However, the specifics of the gas transit system does not allow refuting this fact easily. Should Ukrainians have dealt with the issue in a more professional manner, the myth would be damaging to Gazprom itself.
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> First of all, if the gas was stolen -- that should have happened before 2005, when other people were governing Ukraine. And let us remind the reader, that Gazprom was supporting these people.
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> Therefore, the question shall be posed to the great friends of Russia like Kuchma, Yanukhovich and Boiko (former chief of Naftohaz). And there are all reasons to suspect, that like any other transaction in the sphere of fuel and energy the `steeling' of the Russian gas resulted into the personal benefit of the top Russian and Ukrainian government officials.

It is no wonder that Turkmenistan is becoming frustrated with customers to the North and West, and so it is again trying a harder line. From Radio Free Europe

> That aim was demonstrated again on 10 February, when Niyazov announced on national television that Turkmenistan intends this autumn to raise the export price of its natural gas from $65 to $100 per 1,000 cubic meters. This gambit comes at a time when Turkmen gas is increasingly tied into a complex international equation, as a deal recently brokered between Ukraine and Russia depends on cheap Turkmen gas. Under the deal, Ukraine would pay an average price of $95 per 1,000 cubic meters in 2006.
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> Such a price hike would pinch Ukraine's economy painfully. Ukraine is slated to import 17 billion cubic meters of Russian gas and 39 billion cubic meters of Turkmen gas in 2006, according to the news website gazeta.ru. A 53 percent increase in the price of Turkmen gas would raise the average price Ukraine pays for its total imports from Russia and Turkmenistan by 20-25 percent, from $95 to $114-119 per 1,000 cubic meters. Other estimates run higher. An unidentified source in Gazprom, the state-run Russian company that handles gas exports, told the Russian business newspaper "Vedomosti" that if Turkmenistan charges $100, Ukraine would have to pay $130 for imports.

However when the Turkmen tried this before Russia called their bluff, so this time they have a different answer. Two new pipelines are in the works.

> The Turkmenistan-Afghanistan-Pakistan Natural Gas Pipeline Project (the Project) is a gas pipeline of about 1,600 kilometers that will transport up to 30 billion cubic meters of natural gas annually from the Dauletabad fields in South East Turkmenistan to consumers in Afghanistan, Pakistan and possibly India. The final cost of the Project is estimated at between $2.0 to $2.5 billion. The Project will take about three years to be implemented after all key decisions are taken by the cooperating countries.

Construction is supposed to start this summer, and it will carry 20 bcm per year. And for the other, there are the Chinese

> Since the mid-1990s, experts from the China Petroleum Engineering Construction Corporation have been reviving oil wells in western Turkmenistan with a total output of 2.3 million tons a year. Meanwhile, the China Petrochemical Corporation has been upgrading gas wells in the Shatlyk field with a total annual capacity of 3 billion cubic meters. . . . . . During talks between Kazakh President Nursultan Nazarbayev and his Chinese counterpart Hu Jintao in Astana in early July 2005, Nazarbayev said that constructing a Turkmenistan-China pipeline through Kazakh territory would be beneficial for all three countries.

. The agreement for the pipeline is now in place

> Chinese President Hu Jintao signed agreements Monday with the visiting president of Turkmenistan for the Central Asian nation to sell China natural gas to fuel its energy-hungry economy and to build a pipeline to deliver it.

Thus the gas that Ukraine is relying on to keep it out of trouble is going to start heading East instead of North, and, given past practice, that can only bode badly for the reliability of supply to such places as Italy and the United Kingdom.

In the meanwhile, Gazprom continues its heavy hand, this time in a play to control the gas flow from Iran through Armenia.

> Armenia will pay $110 per 1,000 cubic meters of gas, or about half the European average, but twice what the country pays now, Gazprom, the Russian monopoly, said in a statement.
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> Gazprom, in turn, will buy a 24-mile section of pipe connecting Armenia to Iran -- the tiny and energy-poor country's only plausible alternative to Russian energy supplies. Also under the agreement Gazprom, through a joint venture, was granted a concession to build a second larger pipeline along this route.

There is indeed a new Great Game afoot, it's just that, at present, the cast is different this time around. Pity there isn't a Buchan, or a Kipling to keep us up to date in a more dramatic fashion. UPDATE Thanks to Jack Greene for direction to a couple of Radio Free Europe features. The first expands on Gazprom’s supply problems, and it’s anticipated answer.

> Domestic shipments at regulated, reduced prices totaled 258 bcm in 2004 and 325 bcm in 2005, when they generated losses of nearly $1 billion, Prime-TASS reported on 29 November. Exports to the West, which account for the bulk of Gazprom's profits, are planned at 151 bcm in 2006 and set to rise to 163 bcm by 2008, Prime-TASS reported on 23 November. . . . . . . Gazprom plans to buy 9 bcm from Uzbekistan and 30 bcm from Turkmenistan in 2006, ferghana.ru reported on 23 January. Purchases from

> Turkmenistan are slated to go to 70-80 bcm a year by 2007-08, Prime-TASS reported on 30 November. With these boosts looming on the horizon, Gazprom hopes to expand the capacity of the Central Asia-Center pipeline, which links Turkmenistan and Russia through Uzbekistan and Kazakhstan, from current levels of 42 bcm/year to 55 bcm/year, and is considering another project linking Central Asia and Russia with throughput capacity of 30 bcm/year, Prime-TASS reported.

while the second suggests that Gazprom has reached a peak production at 550 bcm.