A Gentle Disagreement on Turkmen gas

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Were we living a couple or three thousand years ago or so, perhaps now might have been the time to go purchase an animal and then get some learned scientist of the time to peer at its entrails. The thought struck me, after reading a comment by Jerome a Paris following my recent post on natural gas supplies, and how Turkmenistan might start favoring gas shipments east rather than west . His credentials in this are much better than mine. However, as you will see, I am not totally convinced.

Jerome pointed out that, with 25% or so of the world's natural gas under it's control, Gazprom is now pretty much calling the shots, and that a lot of the stories hitting the news should be read with that understanding in mind. That if they don't want a pipeline to be built, then it won't be.

He pointed to a 2002 piece that contained the following

> In that context, it is very likely that Gazprom itself has invented the tale that it does not have enough money to maintain gas production : this is a strong argument to deliver less gas inside Russia and pay less taxes. Anectodal evidence suggests that Gazprom voluntarily limits its production and could produce more if it wanted - and if it found markets to sell it profitably to. (This shows that Gazprom does not behave only as a old-style Soviet dinosaur and does take into account the profitability of its production if there are incentives, however distorted, to do so...).

Although I preferred:

> This control by Gazprom's management over Gazprom's hard currency receipts has been used, for the most part, rationally, in the sense that any misappropriation was done after the vital task of producing and transporting the gas was fulfilled (i.e. after a reasonable level of legitimate expenses were incurred).

I thought about this, and the point that Gazprom has enough gas that talk of shortages are just PR, as I noted that there appears to be no urgency about getting the Shtokman field on line, and that the Kovykta gas field will not now start production until 2015.

> Russian natural gas monopoly OAO Gazprom's (GSPBEX.RS) Deputy Chief Executive Alexander Ananenkov said Friday large scale production at East Siberia's massive Kovykta gas field won't begin until 2015.

The field is quoted as currently being able to generate about 35 bcf/year, which, along with future growth, is slated for China and Korea. This is not good news for China

> In 1996 the PRC's gas-producing capacities exceeded 20 billion m3 and continued to grow steadily. In 2005 they reached the level of 50 billion m3. According to the PRC Department of Statistics, the proportion of the country's consumption of natural gas and crude oil is 0.24:1. However, the need of the industry and the population in gas continues to grow. At present, Russian and Chinese experts are studying the alternative ways of bringing natural gas from Russia to China. This concerns the Kovytkin gas project in the first place.
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> This project envisages the construction of a 5,000-km export gas pipeline from the Kovytkin condensed gas field (in the Irkutsk region) to China. Currently, the reserves of the field are estimated at 2,130 billion m3. The project also envisages annual deliveries of at least 20 billion m3 of natural gas over a period of 30 years, with 10 billion m3 going to the PRC and the rest - to the Republic of Korea and to Japan.

And this sort of strengthens my case that despite Gazprom's power, China has a strong interest in Turkmenistan. And in regard to the Turkmenistan pipeline, folks are still interested in investing

> According to a press release issued on Friday, he said that the government was actively pursuing trans-border gas pipeline projects of Iran, Turkmenistan and Qatar as well as the import of LNG fuel.

However the machinations of Gazprom, in regard to the access of Turkmen gas to the west continue. A pipeline known as the Blue Stream has been built between Russia and Turkey, and is currently carrying less gas, due to lower demand, than it was designed for. As a result it will likely be extended to Italy (where, you may remember, there were shortages earlier this year).

> If the agreements are successfully implemented, Gazprom will be able to supply Russian gas directly to Italy, as well as to Spain, Greece and even Israel, while Turkey will acquire the importance of a transit center in the system of energy resources flow in Eurasia.
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> The Blue Stream has actually reduced to naught the plans for building the Transcaspian pipeline and organizing the export of Turkmenian gas by passing Russia. As a result, in the first place, Russia has got protected itself from a strong competitor on the European market and, in the second, it acquired the opportunity to buy large amounts of Turkmenian gas at an acceptable price. Already in effect is a contract signed by Gazexport and Turkmenneftegaz under which the deliveries of gas from Turkmenistan to Russia are to reach 70-80 billion m3 a year.

And as Jerome pointed out the pipeline also allowed Gazprom to circumvent Ukraine in supplying gas to its Southern regions.

The point, I believe, wherein he and I differ, relates to the influence of the Chinese. Since, as I noted earlier, they are already in Turkmenistan, and do have a need for the gas, they are motivated toward the pipeline. And as you may have noticed from this post and the last, it would appear that the Turkmen have yet to get a decent deal from Gazprom, which would motivate them also to find a better, and more lucrative customer. So I think, in this case, I will stick with my original prediction that the pipeline to China will go forward.

In regard to the Indian one, all one can note at this time, is that China has been winning most of the competitions against India that they have entered into recently. And given that India also now increasingly needs foreign supplies of gas, perhaps the time for that pipeline is approaching, despite Jerome's fairly strong arguments against it.

Unfortunately this still brings up to conclusion that this does not bode so well for Western Europe, although the presence of the Blue Stream, and its possible extension, may help Italy, and the new Baltic pipeline might, in time help the UK.

And just to keep you posted on what is happening with the Barnett shale developments, the dry weather had caused a ban on welding that has now been lifted.

> The counties adopted the welding bans and other fire-control measures in response to a regional drought and lifted them after recent rains. The bans delayed pipeline construction.
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> Devon said it had 24 wells awaiting pipeline completion on Mar. 31, 2006. The company said the bans reduced its first quarter 2006 Barnett shale production by an estimated 3 bcf.