The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Turkmenistan learns a lesson

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There has been the occasional story popping up in Drumbeat over this past week or so about the severe winter and gas shortages in Iran, and their resulting cut in supplies to Turkey. The Iranian domestic shortage was supposed to be made up from Turkmenistan. Unfortunately the shortfall from Iran to Turkey was supposed to be made up by increased supplies from Russia, but those also are falling short. About a year ago we saw some of the same discussion about supplies from Turkmenistan, through Russia, to Europe, with shortfalls and price increases – particularly relating to the gas supplies to Ukraine, through which the pipelines flow. At the end of that discussion the Turkmen got an increase in the price of their gas. It is therefore not surprising to see that Turkmenistan is seeking to double the price it gets from Iran.

All of this does not leave a warm and fuzzy feeling about future gas supplies that rely on Russian and Turkmen sources. The concern gets a little deeper when one notes that Kazakhstan wants to raise transit prices and that Uzbekistan also wants a raise, perhaps similar to the 30% increase that the Turkmen just got from Gazprom.

This is all happening as the Chinese get ready to invest another $2.2 billion in a pipeline from Turkmenistan to China. The line will carry 30 billion cubic meters per year, and start flowing next year.

Time was, when suppliers got a little uppity that armies would march – Persians, Turks, Russians, Chinese – even the odd gunboat has been known to show up. That is unlikely to happen in this particular case, changes are likely to occur more behind closed doors. But that will not change the impact of the consequences. And I think back on a conversation that I had at ASPO in Cork, where one of the Irish politicians at the conference commented on their vulnerability at the end of the long, and leaky supply line that starts in either Russia or Turkmenistan.

Fuel supplies become most necessary when the weather is bad. But when the weather is bad, then increased demand occurs all along the supply pipeline. Supply itself can be restricted, as we saw with well-head problems in Colorado last year. But even when it is not, producing nations, such as Russia, will satisfy their own needs first. Westexas has accurately foreseen the problems that arise as domestic demand rises in the face of stagnant supply. It is a condition that argues for nations to have a significant capacity to store gas for such a "rainy day." Yet, as the Guardian notes

> The UK, for instance, has limited facilities to store gas. While Germany and France can

> store 20 per cent of the gas they consume, Britain can set aside just 5 per cent. One wonders how much Ireland can store?

Russia has considered increasing the amount of coal used for power, in order to free up gas exports.

> Roughly one-quarter of Russia's electricity is produced in coal-fired power stations. Total coal reserves are estimated at three trillion tons, the second-largest coal reserves in the world, with some four-fifths of coal deposits located in Siberia.
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> Russia's total coal production has increased from 240 million tons in 1998 up to more than 300 million tons of coal last year. In 2006 Russia exported 91.4 million tons of coal, up 15% over 2005, according to the Russian Federal Customs Service. In January-March, Russia exported 24 million tons of coal, an increase of about 21%, out of its total quarterly production of 80 million tons.
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> Russia exports its coal to 45 countries. Some 37% of coal exports went to Western Europe, 10% to Eastern Europe, 12% to former Soviet republics, 24% to the Middle East, and 17% to the Asia-Pacific.
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> The Russian government has repeatedly pledged to reduce natural gas consumption in power generation and increase coal use, in order to maximize gas exports. Earlier this year, Russian President Vladimir Putin also suggested that coal be given a greater role. But this goal would require large-scale construction of coal-fired power generation facilities, totaling some 40 gigawatts by 2020.
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> Current plans see coal-fired power stations producing some 40% of Russia's electricity between now and 2020. Russia's domestic coal demand in the power generation sector is expected to rise from the current 121 million tons a year to 300 million tons by 2020 (RBK Daily, May 22).

It is a reminder that the crisis that we all talk about is a real one, with consequences, rather than just an academic exercise. Nevertheless it is no wonder that Gazprom is the favored stock in Russia at this time. That favored position, however, requires that it retain the capacity to meet both domestic needs and also foreign supplies (since that supplies the cash that helps with popularity).

We are, I suspect, entering a time of sobering reality, where transient breaks in gas supplies will transition from the odd week without for remote villages in Iran, to larger outages in more visible parts of the world. Turkey's current scramble to find alternate supplies will, in time, be matched by others across Europe. Needs for natural gas can only be expected to increase.

Which is why, in part, I suspect, that while the number of rigs drilling for oil in Saudi Arabia in recent times has stabilized at around 50, the number drilling for natural gas has been increasing.

But meeting American natural gas needs will not be solvable with just running pipelines. So, all in all, I am glad I just got my tile stove repaired. (Too many years of burning at too high a temperature had cracked the back wall - which we replaced, and put in a new control knob.)