



And some (natural gas) answers are expensive

Posted by [Heading Out](#) on July 8, 2008 - 10:00am

Topic: [Supply/Production](#)

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When problems start to arise, it is common, and often wise, to focus attention on the issues that the problem starts to generate, and to reduce attention on less obvious other problems. So it is at present, when the rising price of oil, and its consequent impact on gas, and thence more general prices, is showing the vulnerability of the economy to the supply of this critical fuel.

But there is another fuel with an almost equally critical role in some aspects of our daily lives and that is natural gas. And with a growing reliance on Russian supplies and the Russian gas pipelines that also carry gas from places such as Turkmenistan, I think that more attention should be given to a statement made by Alexei Miller, [CEO of Gazprom](#), last Thursday.

Gazprom forecasts that Russian gas prices will reach 500 U.S. dollars per 1,000 cubic meters by the end of 2008. "If oil prices exceed in the future 250 dollars a barrel, then gas prices will grow to 1,000 dollars per 1,000 cubic meters," Miller said.

The CEO was accompanying the new Russian President on a visit to Azerbaijan, where Gazprom are lining up the purchase of Azerbaijani natural gas, and intends to purchase the maximum amount possible "at market prices." This comes at a time when [Russia's Finance Minister](#) is recognizing that Russian crude output has peaked.

The reduction of crude output and the unstable pension system will create serious problems in the Russian economy, the minister said.

I discuss my concerns about the coming global decline rates in my next post, and certainly, having just read [Petrostate – Putin, Power and the New Russia](#) by Marshall Goldman I am not filled with confidence that Russian output will do anything to correct the global decline that is coming. But in the shorter term, winter is coming to Europe, and with it will come an increasing Western dependence on gas that flows out through Russian pipelines.

Please note that I did not say that the dependence would be completely on Russian gas, since the coming purchase of Azerbaijani natural gas, and that from Turkmenistan is likely to be a portion of that which makes its way West. However, while in the past Russia has been able to dictate the price that it paid for Turkmen gas, this is no longer the case, as [starting next year](#) Turkmen gas will also start to flow to China. And this will have an impact on the price that Russia must pay for

The Turkmen gas supply to the Chinese will in no way affect the volumes of supply to Europe and to Ukraine, as the gas would be brought from different fields, but it could implicitly influence the price growth, Alexander Narbut, a Ukrainian expert in energy issues said in comment to a Regnum correspondent in Kiev.

Besides, the expert noted that the influence on the price of supply is expected in the future only, as far as, according to existing arrangements, the gas prices for the Chinese do exceed the prices of the Turkmen gas supplied to Russia.

(As an aside Ukraine is anticipating a [bumper harvest](#) to help it pay it's gas bill.)

The importance of gas supplies from these regions has not been lost on Russia, particularly given the Russian President's background, and he was, this past week, in Turkmenistan, and Azerbaijan before ending up in [Kazakhstan](#). In all three places the topic was Russian purchase of natural gas.

Medvedev and Nazarbayev on Sunday discussed the construction of a pipeline for Caspian Sea gas through Turkmenistan and Kazakhstan and increasing the capacity of an existing line, according to a statement on the Kremlin web site. They also discussed cooperation in "nuclear energy, peaceful projects in space, and matters of CIS integration," the statement said. . . . The talks followed a similar course to those held Friday in the Turkmen capital of Ashgabat. Speaking after talks with Turkmen President Gurbanguly Berdymukhammedov, Medvedev underlined the need to quickly build the pipeline, which would consolidate Moscow's hold on energy transit from the region.

Russia has sought to undercut the Western push for the region's rich energy resources by buying most of its natural gas and selling it on to Europe.

Medvedev and Berdymukhammedov also issued a joint statement underlining the importance of the new pipeline along the Caspian. An agreement, Medvedev said, would be implemented "in the near future" after Russia, Kazakhstan and Turkmenistan complete the necessary formalities.

It may be remembered that the West has been pushing the alternative [Nabucco](#) pipeline from Turkey. Turkmenistan gas would be supplied to that pipeline through the [Trans-Caspian Gas Pipeline](#). That alternative routing is still debated, but not, as yet implemented, and the recent Russian actions underline their [opposition](#) to it. Their willingness to buy up all available supplies (and sell them on to the West) is illustrative of this intent.

However, as the quote at the top makes clear, along the way, if the Russians are going to have to pay a much higher price for the gas at the source, then once it has worked its way through several countries, with their transit charges, the price in the West may have gone up a fair bit, and Russia [still makes a profit](#).

"After gradual transition to world prices, which are inevitable, the issue of orienting these [gas] flows to other countries will be taken off the agenda. If Turkmenistan raises the price, the profitability of gas supplies to Russia or through Russia increases," Sergei Prikhodko told a briefing on the eve of Russian President Dmitry Medvedev's visit to the energy-rich Central Asian state.

That profit has been significant in the past, since only last November, recognizing the possibilities of competition, Russia increased the price it was paying for Turkmen gas.

The state-run Gazprom, which supplies 25% of Europe's gas, currently buys Turkmen gas for \$100 (£48) per 1,000 cubic metres. The price will rise in 2008 to \$130, then rise again in the second half of the year to \$150, Gazprom said.

The year before they had increased the price [40%](#).

At a September 5 (2006) meeting in Ashgabat, Gazprom CEO Alexei Miller caved in to the pricing demands of Turkmenistan's fickle dictator, Saparmurat Niyazov. The Russian company agreed to a roughly 40 percent price increase for Turkmenistan's natural gas -- \$100 per 1,000 cubic meters (tcm). The deal covers purchases through 2009.

For months Gazprom had resisted Niyazov's sudden effort to jack up the gas price from \$65/tcm to \$100/tcm, prompting the Turkmen government in July to lambaste Moscow's energy policies. At one point, Ashgabat characterized Russian officials as "dogs and agitated monkeys."

It has been [suggested](#) that part of the reason for the purchase is that it will replace Russian supplies that may otherwise fall short, due to poor investment – in either way it looks like a good deal for Central Asia, and an expensive one for Western Europe, and ultimately for us all.

Update Leanan has two stories on this today, both aimed at warning Ukraine that it will have to pay more this winter, the first is from [Reuters](#) and repeats Miller's warning.

Miller has repeated his view that Gazprom's export prices in Europe will reach \$500 per 1,000 cubic metres compared with \$400 now as they follow record high oil prices with a lag of six to nine months. That story notes that Ukraine is currently paying \$179.50 for natural gas, that Russia is buying from Turkmenistan for \$150 (the price went up from \$130 last week).

The other story, also [from Reuters](#) is an interview with the author of [Natural Gas in Asia](#), Jonathan Stern, who while drawing some of the same conclusions I have given above, also notes that, since 80% of the natural gas that flows from Russia to Europe goes through Ukraine, this poses a threat of a contentious January not just for them, but also for Western Europe. (Particularly since the other 20% he notes goes through Belarus, and we just haven't heard that row yet). With Continental Europe more willing to look after itself first, this may make it even colder for those folk on the end of the pipeline.



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