



Turkmenistan Natural Gas

Posted by [Heading Out](#) on September 19, 2009 - 10:43am

Topic: [Supply/Production](#)

Tags: [natural gas](#), [pipelines](#), [turkmenistan](#) [[list all tags](#)]

Turkmenistan holds significantly large quantities of natural gas (they hold the world's fourth largest reserves) and these have, over the years, proved attractive to Russia, China and the West. Until fairly recently, despite some bad relationships from time to time, the natural gas that the country produced made its way towards the West through Russia. With only Russian pipes as the conduit, Turkmen gas was under the real control of [those who chose whether to pump the gas](#), or not.



*Map of Central Asia, including Turkmenistan. Map provided by [Relief Web](#).
Click for larger image.*

However, when times were flush for the industry (can this be just over a year ago) and in order to ensure supplies for its customers in the West, Russia agreed to a much more beneficial pricing for the Turkmen gas, and was buying some 50 bcm a year. This was all arranged after the Russian Presidency changed hands, and was one of the first items on the new President's agenda.

Since then things have not really gone well for the relationship as a whole. Turkmenistan has agreed to send natural gas to China, providing it with a second customer, while the price of natural gas has fallen with the recession in demand, around the world. That pipeline is now expected to be in place [by the end of next year](#), and I saw pipelines being laid in China on my recent visit, as they extend the network. The pipeline is expected to carry some 40 bcm (more than Russia will buy this year).

Turkmenistan has also agreed [to supply Iran](#) with 14 bcm of natural gas with a new pipeline to carry gas down into Iran being planned for the near future.

Gazprom profits, meanwhile [have dropped 62%](#), as the demand from Europe has dropped dramatically – with Gazprom market share [falling to 16%](#). There was an “[accident](#)” to a pipeline between Russia and Turkmenistan, and since then no gas has flowed through the pipelines.

So, in this day of solar car racing (I hear that the route for the new competition has [now been agreed](#)), it is perhaps appropriate that the Russians and Turkmen are hoping to improve their relations with an off-road race that has Gazprom and Turkmengas as the [main sponsors](#), of what is known as the [Silk Way Rally](#). President Medvedev will stop by again on Sept 13th intending to renew the deals.

The need for Gazprom to sweeten relationships with Turkmenistan has much to do with the face of the gas pipelines planned to flow into Southern Europe from further East. There are two competing options, the Nabucco pipeline that the Western nations favor, and the South Stream that is being pushed by [Gazprom and friends](#).

Gazprom, working with Italy's ENI , has so far received backing from Bulgaria, Serbia, Italy, Greece and Hungary for the pipeline that would carry gas from Central Asia under the Black Sea to Europe by 2015. Austria and Slovenia are close to signing up to the deal, Gazprom said.

Among those happy to purchase from Gazprom is the UK, that now gets some 16% of what it needs from Russia.

To provide some of these gas needs for Europe (which collectively has been getting about 25% of its gas from Gazprom) Gazprom is building a collector pipeline known as the Caspian Gas pipeline that will carry gas from Turkmenistan and Kazakhstan to the tune of some 20 bcm a year. There was a meeting of officials from Azerbaijan, Kazakhstan, Russia, and Turkmenistan in Aktau, Kazakhstan' today to discuss the project. Iran was somewhat upset about [not being invited](#).

Gazprom has also opened a new pipeline into Lithuania and beyond to Kaliningrad. It will be known as Red Junction, and carry 2.5 bcm per year. First shipments are due in December. Thus it has the customers, and can profit well from the transport of gas through its pipelines.

But with Gazprom happy to promise new and existing customers a secure supply, there have to be some concerns over how much can come [from Turkmenistan](#):

Turkmenistan has two options. It can refuse to agree to lower gas prices to Russia. How long can it hold out without gas revenue from Russia? It may use part of the Chinese credits to tide itself over until gas flows to China in 2010. The other option is to agree to lower gas prices to Russia for a short period. At present Russia does not need Turkmen gas to supply the European market. However if EU economies recover in 2010 or 2011 it will need Turkmen gas. Europe faces the risk that Gazprom will not be able to deliver the necessary gas. That would mean high prices for the available gas. Hence the Chinese deal is good news for Turkmenistan. It is bad news for Russia but also the EU.

More thoughts--two days later

A couple of days ago I was writing of the promise inherent in a meeting between the Turkmen President, Gerbanguly Berdymukhamedov and President Medvedev of Russia. Well the meeting has now taken place, and there was a story in the Moscow Times that the meeting had not gone well. However, before writing this post I went to dinner, and now it seems that story has quietly disappeared. Instead there is now a story in [The Daily Star](#) that reports that the meeting went well, and that the two leaders “clinked champagne glasses.”

As I mentioned in the first part of this post, the meeting included the end of the Silk Way Race, which is [now over](#). The dispute may not be, since, although stories talked of the dispute [being resolved](#):

There were also signs that the sides had reached a breakthrough on the export row that would allow stalled talks to go forward. Berdymukhamedov said all technical problems relating to the blast had been fixed, and a top Kremlin aide said that Turkmenistan and Gazprom would hold a meeting within days to discuss “further cooperation in the gas sphere,” Russia’s Interfax news agency reported.

It appears that the agreement is only to continue talks, and not to resume gas shipments.

Now at the moment Turkmenistan is extracting gas and storing it, since the Russians aren’t accepting it into their pipelines, but that may be a bit of a dangerous game for Gazprom, given that the Chinese pipeline may be ready to receive shipments before the end of the year. At the continuation of discussions, but now in Kenderly, Kazakhstan, the [Turkmen President mentioned](#) all the commitments, but the one to Russia.

Berdymukhamedov noted his country would begin operating a gas pipeline to China by the end of 2009 with the capacity to pump some 1.6 trillion cubic feet of gas per year. Meanwhile, he emphasized the importance of the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) while a rival project from Iran moves forward in the region.

On Nabucco, the natural gas project for Europe, Berdimukhamedov said his country was ready to make pledges in support of the \$10.3 billion pipeline.

Now of these the Nabucco continues on life support since there is not yet enough gas committed to be supplied to justify construction, despite an agreed market for sales into Western Europe. There is already a crude oil pipeline in place, the Baku-Tbilisi-Ceyhan pipeline, and the West would like a similar [natural gas equivalent](#), but it keeps running into obstacles. Azerbaijan has [doubled its commitment](#) to the line, with supplies proposed from the Shah Deniz field.

Production at Azerbaijan’s giant Shah Deniz natural gas field has risen to 24 million cubic meters (847 million cu ft) daily, Azerbaijani and Russian news sources reported May 4. In 2008, the daily output averaged 22 million cubic meters (777 million cu ft).

Field operator BP said that production increased despite ongoing drilling, the Regnum news agency reported. BP is preparing for a second production phase when annual output is expected to reach 12 billion cubic meters (423 billion cu ft) and, later, 20 billion cubic meters (706 billion cu ft).

Yet this is still not enough to make the pipeline work – it needs the gas from Turkmenistan.

The TAPI pipeline on the other hand would feed natural gas into downstream economies that are desperate for natural gas supplies. Afghanistan is the first of these, and energy shortages are rarely discussed as one of the problems of their economy, but with only 10 - 12% of the populace having [access to electricity](#) and with only limited natural gas resources (perhaps enough for a 100 megawatt power station), the country needs to import natural gas in large volumes. The question is, as always, from where? Turkmenistan is a logical place.



Proposed pipeline from Turkmenistan to India

But the route of the pipeline, while agreed, does not end up delivering gas without a pipeline being installed, and though the project has been nearly ready to start [since 2003](#), with a projected construction time of 3-years, there has yet to be a significant physical start.

Pakistan, while getting help for construction of [hydro-electrical projects](#) is still desperate for help with natural gas and other energy fuels. But so far there is no pipeline to help.

Looking at it from Turkmenistan's point of view the pipeline to China will soon open and revenues can come from thus new customer. The price will be at [double the price](#) China has been paying for its own gas.

Chinese wellhead prices at \$3.5 to \$4 per million British thermal units (mmBtu) are now comparable with US onshore gas prices and spot LNG cargoes, but still half of term LNG supplies signed last year for delivery beyond 2012, estimated at \$8-\$10.

While the cheapness of gas has made it a favoured choice for power plants compared to fuel oil, it has done little to encourage import deals or drilling during a near four-fold rise in demand in the last decade. By raising prices, Beijing will provide an incentive to

increase supplies while gradually getting industries used to paying the market rate for raw materials, part of Beijing's drive for a greener economy and prominent role in global climate talks.

. Turkmenistan gas will be priced at 2 yuan per cubic metre (\$8 per kcf) at the border point in Khorgos, sharply above the average 0.79 yuan for local gas flowing in China's flagship West-East pipeline, China's leading financial magazine Caijing reported in March.

Chinese demand is anticipated to grow from a current 7.3 bcf/day to 18 bcf/day by 2020, with 2.9 bcf coming from the new pipeline by 2011.

While this may be an expensive price for China to pay, it will certainly relieve Turkmenistan of the old option that was to either provide natural gas to Russia, or starve, and will give it more income until other options (such as TAPI or selling natural gas to Iran) become a reality.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).