



Turkmenistan, Nabucco, Azerbaijan, and Russian natural gas

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Robert Cutler has an interesting article in [Gundogar](#) recently in which he asks, concerning the recent articles questioning the size of Turkmenistan's gas reserves "Who stands to gain?" from the imbroglio. His conclusion is that it is likely the Russians, and certainly not the Turkmen.

The story, in brief, is that after a steadily rising projection of the size of the gas reserves in the country, the Turkmen President called in a Western auditing firm to look over the books and validate that the projections were real. The British firm, [Gaffney Cline & Associates](#), came, looked at two fields, South Yolaton and Yashlar and certified, [a year ago](#) that they held probably 6 and 0.7 Tcm each. To put this in context, it would make South Yolaton the fourth or fifth largest gas field in the world, and would mean that Turkmenistan might have reserves as large as 80% of those reserves in the entire Russian nation. Turkmenistan is currently getting its gas from the Dovletabad field and it is this that was supplying natural gas to Russia and points west prior to April this year.

Two stories one Russian and one German recently suggested that the information on which the audit was based [was bogus](#) – a claim that the auditing firm disputes. They pointed out

"There is a very considerable volume of data to be assessed on a project of this nature. This data [comes] in a wide range of types and from a range of sources," Gillet (Jim Gillet of Gaffney Cline - ed) explained. "Therefore, in practical terms, it would be impossible to falsify it all [in a way] such that it could still appear to be coherent and could mislead an expert team. This is why companies like [Gaffney Cline] are used by organizations, such as stock exchanges and banks, to provide independent and expert opinion on such issues." The current context is that Turkmenistan is moving away from the relatively expensive dependence on Russia to handle all its exports of natural gas. It is therefore seeking help in building [a gas pipeline](#) that would tie into Nabucco, the pipeline that would circumnavigate Russia and bring natural gas into Western Europe.

So far the Nabucco pipeline has not been able to generate enough natural gas supply to [justify its existence](#).

Nabucco aims to diversify gas supplies by bringing Caspian and Middle East gas to Austria via Turkey. The pipeline venture, led by Vienna-based OMV, is vying with Asian and Russian projects for access to Azeri, Turkmen, Iranian and Iraqi gas.

Nabucco, set to start operating in 2014, will get its first gas from Iraq and Azerbaijan,

Dolezal said. Reinhard Mitschek, the project's managing director, said earlier this month that 8 billion cubic meters of gas would come from Iraq in 2015, more than a quarter of the pipe's total volume, and that Shah Deniz would provide the same amount.

The link, which will send as much as 31 billion cubic meters of Caspian-region gas a year to Europe, has been delayed by a lack of commitments from customers, suppliers and transit nations. First deliveries were originally planned for 2013.

Russia badly wants to ensure that this regional natural gas continues to flow west through its gateway. Thus it has been bringing pressure to bear on both Turkmenistan and Azerbaijan to continue to direct all their deliveries to them. And so, to date, while the Turkmen has continued to speak favorably about Nabucco, for [over a year](#), through [July](#) and to date Turkmenistan has yet made no firm commitment, even while claiming that it has the [resource to supply Nabucco](#):

The Turkmen president pointed to the newly discovered gas fields, Yolatan and Othman, in the southern parts of his country, and said that huge gas reserves of the two fields have made it possible for Turkmenistan to join major international gas pipeline projects. Reminding that the Nabucco pipeline is at attention, he added that development of gas and oil fields, construction of new facilities for refining oil and gas, construction of gas terminals, employment of modern technologies in his country's oil and gas sectors are among Ashgabat's priorities.

Ashgabad (the Turkmen capital) [needs more Western support](#), and must convince investors that it has the long-term supplies to be able to do so.

Having made a [commitment to China](#) for up to 40 bcm per year, and having committed 20 bcm to Iran, and with commitments of up to 50 bcm to Russia, could Turkmenistan also be able to provide the gas for Nabucco? (As I noted [production for the Chinese](#) is coming from a different set of gas fields).

And here, as Robert Cutler points out, there is a benefit to Russia (or Gazprom) sowing some disinformation. If investors can be caused to doubt the credibility of the long-term supply to Nabucco, then it won't get built, and Turkmen gas will continue to flow West through Russia.

Gazprom also has a secondary claim in that it cites a prior agreement that Russia be able to buy all of the Turkmen supply.

In fact, it complements what Russian media and officials have now insisted for many months, to wit, that Moscow has already contracted all future gas from Turkmenistan. There is a contract in principle signed under Niyazov (the former Turkmen President - ed) to provide Russia with 50 billion cubic meters per year (bcm/y), but that is subject to continual negotiations and re-negotiations over price.

Russia is also trying the same approach to the natural gas that will come to Nabucco from the Azerbaijan production from [Shah Deniz](#) (a field with about 1 Tcf of reserves). Robert Cutler notes:

For example, ever since the signature of the contract for Azerbaijan to send 0.5 bcm of gas from Shah-Deniz Phase 2 to Russia in 2010, Russian media and officials have stated at every opportunity that they will have what amounts to «first refusal» on subsequent

Shah-Deniz Phase 2 production. However, no legal documents binding the Azeri side to such a bargain exist.

The Russian struggle to deny supplies to Nabucco sufficient to stall its construction, while more successful until now, appears to be fraying a bit at the edges. The very size of the natural gas deposits would indicate that Turkmenistan can meet all its current and anticipated commitments, and that the doubts raised about the reserves are meeting more questions than immediate acceptance. (Though firing the guys in charge didn't help bolster the credibility of the Turkmen argument).

In the meanwhile Turkey has been negotiating with Iran, and it appears that some of the natural gas in the South Pars field (one of the three larger – at 14 Tcm - than South Yolaton) may [come to Turkey](#) (around 35 bcm) with Turkey sending forward what it does not use into the Nabucco line.

In short in this continuing saga the current week looks to have been better for the Nabucco pipeline and the West, and not so good for Gazprom – but don't even think of counting them out yet!!



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