

Difficulties of Gazprom.

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During a recent trip to Turkey, Gazprom head Alexei Miller discussed not only the transit of Russian gas to southern Europe but also gas supplies to Lebanon and Israel via Turkey. Miller offered Ankara the opportunity to become a partner in building a gas pipeline from the Black Sea port of Samsun, where the recently opened underwater Blue Stream ends, to Ceyhan on the Mediterranean coast.

Russian gas supplies to Turkey have been growing every year. In 2004, they were 14.5 billion cubic meters and in 2005 it reached 18 billion cubic meters. Five billion cubic meters were delivered through the Blue Stream, and the figure for 2006 is expected to be 25-30 percent higher. The rest goes by the Balkan route (via Ukraine, Moldova and Greece).

However, the current capacity of the Blue Stream (16 billion cubic meters) is not sufficient, as it stands now reliable exports to the Middle East and Europe can be ensured only at Turkey's expense.

Russia needs one more pipeline under the Black Sea. Gazprom is ready to lay one more branch in order to double the amount of gas supplies to Turkey by 2015, both for transit and domestic consumption.

For all the obvious gains of Gazprom's new project for Turkey, it is too early to say for certain that Ankara will accept it, although experts from the two sides have already started consultations. Expert appraisal is expected by April 15, when Alexei Miller will meet Hilmi Guler, the Turkish minister of energy and natural resources. What factors may intervene with Gazprom's Middle Eastern project?

First, the very idea of Siberian gas deliveries to Israel seemed inconceivable only recently. The United States has been going all-out to prevent a Moscow-Tel Aviv partnership in strategic spheres. It is likely to put up strong resistance to the project. Secondly, the U.S.'s main partner in the South Caucasus -- Azerbaijan -- is completing the construction of its gas pipeline, which will also end in Ceyhan. It will carry up to 30 billion cubic meters of gas a year from Kazakhstan and Turkmenistan.

Finally, there is one more project, the TransCaspian, which also involves Turkey. Asian gas from Kazakhstan and Turkmenistan will go to Turkey for further transit to Europe and the Middle East.

One should not ignore Iran with its strategic plans to expand gas exports. It is already reaching out into Armenia, which has traditionally bought gas from Gazprom. But this is a sheer trifle compared with the plan to sell its own gas and resell Turkmen gas to Europe through Turkey.

At the same time the Iranian project is fully viable, first of all because of cheap prices. Turkmen leader Saparmurat Niyazov and Iranian Foreign Minister Manouchehr Mottaki recently discussed future prices and volumes of Turkmen gas supplies to Iran. Unofficial sources report that Ashgabat is planning to sell Tehran 8 billion cubic meters of gas at \$44 per 1,000 cubic meters (cu m).

In January, Gazprom press secretary Sergei Kupriyanov announced

Gazprom's intention to increase the average price of gas for European consumers up to \$250 per 1,000 cu m. This is another argument against the new project. Turkey and some European countries have opposed a change in the current prices.

Europeans are quite happy about this rivalry between gas suppliers.

The EU has repeatedly declared its intention to reduce Gazprom's role as Europe's gas supplier. New deliveries from Asia are one way of doing this. The pipe with Iranian gas will pass through Turkey, Bulgaria, Romania, Hungary and reach Austria. Its declared capacity is also 30 billion cubic meters a year. The Iranian project named Nabukko may be commissioned as early as 2011. Its difference from Gazprom is that, for political reasons, Iranian gas will never go to the Middle East.

Now everything depends on Turkey. It will decide which country should have the priority right to build a transit gas pipeline.

Ankara is bound to know that Gazprom is not only the world's largest state-run producer and seller of gas, but also a reliable partner that always keeps its word.

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