
Iran-Armenia Gas Pipeline : Far More than Meets the Eye.

By Vladimir Socor

Eurasia Daily Monitor, DC

21/3/2007

On March 19 Presidents Mahmoud Ahmadinejad of Iran and Robert Kocharian of Armenia inaugurated the operations of the Iran-Armenia gas pipeline (Armenpress, IRNA, March 19, 20). Although the project's scope is modest in terms of volume and market potential, its commissioning reflects two incipient trends of Eurasia-wide and potentially global impact, in some ways as their harbinger: First, Gazprom's looming deficit of gas; and, second, Russia-Iran relations in the context of the proposed "cartel for gas."

It is unprecedented for Russia to yield a part of the gas market in a former Soviet country to a supplier from outside Gazprom's sphere of influence. This policy choice to de-monopolize is almost certainly not a willing choice. It seems to reflect calculations that Gazprom may soon be unable to meet all of its supply commitments to internal and external markets from the stagnant production in Russia.

Thus, it may make sense for Gazprom to plan a partial retrenchment from some of its markets, if three prerequisites exist: non-lucrative supply contracts (low-priced gas in a small market), strong Russian influence in that country irrespective of gas dependency, and an alternative supplier that cannot impinge on Russian interests in that country or farther afield.

All those prerequisites exist in Armenia. In such a situation, Russia could share that country's market with a third country, such as Iran, whose gas export policies it hopes -- with some justification -- to be able to control in the short and medium term.

In a generally little-noted though momentous event (see EDM, March 6), Gazprom declined to present its overdue prognosis for gas output beyond 2010 during the Russian cabinet of ministers' March 2 session.

Prime Minister Mikhail Fradkov had to urge in front of television cameras, "The situation should not be over-dramatized." That same day, Russia's Chamber of Accounts criticized Gazprom for under-investing in exploration, field development, and infrastructure maintenance in Russia while over-investing in acquisitions unrelated to production. This public turn of events seems indirectly to confirm the forecasts made last year by Vladimir Milov, Alan Riley, and David Clark that Gazprom faces a gap between its production and its supply commitments post-2010.

Iran's entry in Armenia as a gas supplier courtesy of Russia seems also to be a harbinger of that trend. It also sheds light on Moscow's view of possible coordination of gas export policies with those of Iran. The government in Tehran has not abandoned its hopes to achieve a transit route for its gas into the South Caucasus and farther into European Union territory, with Armenia as the first way station on that possible route. Moscow, however, strongly opposes such a prospect.

Thus, Gazprom took major precautionary measures against an expansion of Iran's role and indeed against any independent Iranian gas-export policy in Armenia or beyond. It imposed from the outset on Yerevan -- against Tehran's will -- to reduce the Iran-Armenia pipeline's diameter from the originally designed 1,420 millimeters (the size of

major gas export pipelines) to 700 millimeters. This measure precludes any transit of Iranian gas to third countries through this pipeline, confining Iran to the Armenian market.

Moreover, Kocharian agreed with Russian President Vladimir Putin last year to hand the new pipeline's section on Armenian territory over to Gazprom via the ArmRosGaz company, in which Gazprom and its offshoot Itera hold a combined 68% interest. Controlling the pipeline and distribution network within the country, Moscow can exercise all but discretionary control over the access of gas from a third-country supplier -- a situation that Moscow seeks to achieve in certain European countries as well.

By blocking the access of Iranian gas to Europe, the Kremlin demonstrates its unwillingness to share European markets with Iran through a "gas cartel" or in any other form. However, Moscow is signaling almost as clearly that it seeks joint-venture cooperation to develop Iran's vast, untapped gas fields and direct their output toward Asian markets, away from Europe where Gazprom seeks to cement its own preserve. This strategy can only succeed if Russia retains its present monopoly on the transit and marketing of Turkmen, Kazakh, and Uzbek gas.

Almost certainly, "Iranian" gas to be supplied to Armenia will actually originate in Turkmenistan for the time being. Iran imports small volumes of Turkmen gas to supply the northern part of the country, which is distant from Iran's main fields. The Iran-Armenia pipeline runs for 101 kilometers in Iran from Tabriz to the Armenian border and for another 41 kilometers in Armenia from the border town of Meghri to Kajaran. The next planned section, to be built by 2008-2009, should run for another 100 kilometers toward central Armenia, there to link up with the existing distribution network, controlled by Gazprom as well (Mediamax, Noyan Tapan, IRNA, March 19-21; see EDM, November 3, 7, 2006)

Armenia consumes approximately 1.5 billion cubic meters of gas annually. Iran is to supply some 400 million cubic meters annually in the first stage of the project and up to 2.3 billion cubic meters in the second stage, at which time Armenia's consumption may well have increased, even as Gazprom's ability to meet customer requirements is likely to have declined.
