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# Caspian pipeline seems to have defeated Nabucco

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The last few months of 2007 were good for Russia, which has been fighting this year to affirm its leadership in the hydrocarbons market.

On December 20, Russia agreed with Kazakhstan and Turkmenistan to build the Caspian gas pipeline across Russia. The agreement was signed following the Kremlin talks between President Vladimir Putin and Kazakhstan's leader, Nursultan Nazarbayev.

During the Moscow visit by the Greek prime minister some time before that, Russia and Greece signed an agreement to set up a company to draft technical plans for the Burgas-Alexandroupolis oil pipeline.

The Caspian pipeline agreement provides for modernizing the old Central Asia-Center pipeline, running from Begdash in Turkmenistan to Beineu in Kazakhstan, with an annual projected capacity of 10 billion cubic meters of gas in 2009-2010.

During the second stage in 2010-2017, the partners will prolong the pipeline to Aleksandrov Gai on the Russian-Kazakh border, with a capacity of 20 billion cubic meters, which will increase the total capacity of the pipeline to 30 billion.

Russian Industry and Energy Minister Viktor Khristenko said that the Caspian pipeline would be built by 2010, with each side making investments independently of others.

"The basic provision is that each partner shall build the part of the pipeline assigned to it. Turkmenistan will build 300 km (186 miles) of the pipeline and Kazakhstan, 1,500 km (932 miles). Russia's part will be the shortest, only a few dozen kilometers, but it should include a junction," Khristenko said.

The estimated cost of the project is about \$1 billion. The agreement will be effective until 2028, but will automatically be prolonged for 12 months unless one of the parties notifies the others of its decision to withdraw.

Although the new pipeline has been planned to have a capacity of 30 billion cubic meters a year, it will transport only 20 billion a year. Also, the agreement does not include guarantees of obligatory gas supplies to the pipeline. Turkmenistan and Kazakhstan have pledged to provide up to 10 billion cubic meters of gas each.

Experts say there are political and economic reasons for the decision. Turkmenistan may want to diversify its gas transportation routes, or at least maintain the ability to continue talks on the Western-backed trans-Caspian pipeline bypassing Russia.

So far, Uzbekistan limited the transport of Turkmen gas to be able to export more of its own gas through the Central Asia-Center pipeline.

This is probably why Turkmenistan's President Gurbanguly Berdymukhammedov said ahead of the December 20 signing ceremony that his country would initiate a UN resolution to ensure the safety of international energy routes. He also called the Uzbek leader, Islam Karimov, to discuss the uninterrupted transit of hydrocarbons.

This can only be interpreted as Ashgabat's signal to Moscow that the progress of the Caspian pipeline project depends on guarantees that the expanded Central Asia-Center pipeline will carry the additional volumes of Turkmen, not Uzbek, gas. If Moscow makes the decision in favor of Uzbekistan, the relevant UN resolution would encourage the construction of the trans-Caspian pipeline.

Ashgabat knows that the expansion of the Central Asia-Center pipeline is the most probable way to increase the export of Turkmen gas to Russia. On the other hand, the Turkmen authorities also want to have a westward pipeline that would not depend on Uzbekistan, which means that it may eventually join the trans-Caspian project.

A more practical reason is that Turkmenistan and Kazakhstan cannot produce enough gas for the new pipeline. The companies expected to supply gas for it - Gazprom, KasMunaiGaz and TurkmenGaz - have not yet signed additional agreements on adjusting their gas production to the development of the Caspian pipeline.

"We expect the pipeline to be commissioned no later than the end of 2010," Khristenko said. In other words, this is one more project with unrealistic deadlines.

The most likely suppliers of gas on the part of Turkmenistan are Malaysian Petronas, British Burren Energy and Dragon Oil headquartered in Dubai. Taken together, they can provide 5-6 billion cubic meters of gas in 2010 for the Central Asia-Center pipeline, 8-9 billion in 2011, and 2-3 billion cubic meters more than the pipeline's capacity beginning in 2012. This surplus gas is not a sufficient reason for building a new Caspian pipeline, especially since the three companies are expected to reduce production by 2017.

A new gas pipeline with a capacity of 30 billion cubic meters can be built only if Turkmenistan and Kazakhstan develop new gas fields in the Caspian region. Talks on the involvement of Russian companies, mainly LUKoil and Gazprom, in gas exploration and production there are underway, but it is still unrealistic to expect industrial gas production there to start in 2010.

The joint development of the large Kurmangazy deposit in Kazakhstan under a relevant agreement can begin only after 2010.

Moscow has strengthened its stance as a major gas supplier to Europe, and therefore the Caspian project is interesting to it only as part of a global strategy. It must ensure that gas from Central Asia passes across Russia, and not through the alternative trans-Caspian pipeline from Turkmenistan to Azerbaijan, which can be linked to the Nabucco pipeline running through Turkey, Bulgaria, Romania, Hungary and Austria.

Without that gas, Nabucco will be a stillborn child, as Andre Mernier, Secretary General of the EU's Energy Charter Secretariat, has said.

On the other hand, Russia has won this battle in the "gas pipeline war" with Europe only by making concessions to Kazakhstan and Turkmenistan. Turkmenistan has agreed to join the Caspian pipeline project only if Russia raises the purchase price for Turkmen gas from \$100 in 2007 to \$130 in the first half of 2008 and \$150 in July-December.

Uzbekistan made public its increased price ambitions soon after Gazprom signed the deal. However, it has been denied the price increase because it is playing only a tiny part in the Caspian project so far.

Kazakhstan currently sells its gas at a higher price than Turkmenistan, \$165 per 1,000 cubic meters, but the purchase price and transit tariffs for Kazakh gas might be increased.

It was said during the Kremlin meeting on December 20 that the tariff for the transit of Turkmen and Uzbek gas across Kazakhstan should be raised from \$1.1 to \$1.5-\$1.85 per 1,000 cubic meters per 100 km (62 miles), and the purchase price for Kazakh gas should be increased to \$190 in 2008.

It is not clear whether the Kazakh delegation got what it wanted, but a price increase is almost inevitable because Russia needs the Caspian pipeline. Besides, it earns enough from Gazprom's gas deliveries to Europe and therefore can afford to pay more for the non-critical amounts of Kazakh gas.

So far, Astana wants Moscow to pay more for oil transit. Kazakhstan has agreed with Russia that it would supply oil for the Burgas-Alexandroupolis pipeline. Nazarbayev also suggested that the quota for the export of Kazakh oil through the Atyrau-Samara oil pipeline should be increased from 10 million to 20 million metric tons annually. Kazakhstan proposed expanding the capacity of the Caspian Pipeline Consortium (CPC) to 67 million metric tons of oil, saying that it would supply the required additional 17 million tons. The proposal was accepted.

However, the signing of the agreement on the Caspian project and its implementation do not mean that the "big Eurasian oil and gas war" is over. A sharp rise in hydrocarbon prices is drawing the world's attention to the oil and gas reserves of the Central Asian states. The regional countries will definitely use this chance to play on contradictions among potential consumers.

Moscow has made the concession to its Central Asian partners also because the Caspian pipeline project will strengthen economic interaction between Russia and regional countries. At the same time, the agreement to expand the capacity of the CPC was not a concession, but a way to intertwine the interests of Russia and Kazakhstan. Alternative fuel routes will again be used as a bargaining chip, but they are becoming less of a threat to Russia's transportation interests.

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