

GAZPROM OF RUSSIA IN THE CENTRAL ASIAN COUNTRIES

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Is Central Asia Russia's “Gas Caliphate”?

Gas excess is what attracts Gazprom of Russia to Central Asia: it buys gas from the local countries to export it to Western Europe. Turkmenistan and Uzbekistan have already signed long-term agreements on selling nearly entire gas excess to Russia; Kazakhstan will probably sign a similar document in the near future. Kyrgyzstan and Tajikistan have concluded with Russia long-term agreements on cooperation in the gas sphere, under which they farmed out to Gazprom their (negligible) gas sectors. Gazprom acquired the right to use their territories for gas transit.

Against the background of Gazprom's hectic activity in the CIS countries (with political support of the RF government) the Central Asian countries have already become the most integrated part of the “gas-unified U.S.S.R.” For the countries that use Central Asian gas today or will use it in the future (Ukraine, in the first place) Russia's monopoly is fraught with high prices and, more important still, political pressure. Having captured the Central Asian gas market Russia will turn its attention to the countries, across which gas reaches Europe (Ukraine, Belarus, Moldova). If joint ventures on Russian conditions are set up on the basis of Beltransgaz and the gas transportation consortium of Ukraine, Moscow will impose its gas prices on the EU. The European Union's growing requirements and Russia's monopoly on gas deliveries from the CIS countries to Europe will, finally, send the gas prices up on the Eurasian market.

Our reasoning is based on an analysis of Russia's expansion to the gas sector of the Central Asian countries. Their highly autocratic regimes, poverty, demographic problems, as well as the efforts to Islamize the local countries are fraught with military, ethnic, and religious conflicts.

The proven gas reserves in Central Asia are about 5 trillion cubic meters (tcm); this allows the local countries to step up gas production. The republics are rich in other strategic raw materials, oil in the first place (up to 7 percent of world's resources). Today the republics produce up to 2 percent of the world's total and are stepping up oil production.

Domestic instability and mineral riches attract the leading countries, the United States and Russia being the main actors on the local scene. The latter has established its control over the region's larger part mainly because of its geographic proximity and its expansion to the gas sector.

On 1 March, 2002, the presidents of Russia, Kazakhstan, Turkmenistan, and Uzbekistan signed a joint statement on cooperation in the energy sphere and on protecting the interests of the countries that produce natural gas. This document stated in particular that large-scale cooperation in gas production and transportation was objectively caused by not only the four countries' traditional cooperation in the fuel and energy sphere but also by accelerated globalization and internationalization of the world economy.

Russia's impressive gas breakthrough in the southern direction achieved in 2002 and 2003 was made possible thanks to the long-term agreements it signed with the largest gas producers in Central Asia (Turkmenistan and Uzbekistan). Kazakhstan, in turn, set up a joint venture with Gazprom engaged in gas export; in the near future it will sign an agreement on gas production. It should be said that recently the Central Asian countries tried to reach the West European markets independently with modest results; they had to act through intermediaries. Gazprom promised to let the Central Asian countries sell their gas to Western Europe; it sells small amounts of gas from Kazakhstan, yet it is contrary to its interests to start importing gas to the West in large amounts. This will not happen: this Russian company controls practically the entire amount of gas sold by these countries. Over time, Gazprom expects to buy from them over 100 billion cubic meters (bcm) every year. (In 2003, it bought up to 7.4 bcm of gas; in 2004, it concluded contracts for buying nearly 17 bcm for the price of \$40-45 per 1,000 c m.)

Alexei Miller who heads Gazprom said in the European Parliament: "The West has no alternative to Russian gas." This is not a declaration: this is part of the aggressive policy pursued by the Russian monopolist that works hard to eliminate any possibility of Central Asian competition. The long-term agreements have partially achieved this. By the same token Moscow strengthened its positions in Europe as the key supplier of gas to the EU countries and improved its positions at the WTO talks.

Russia Says to Ukraine: No More Waiting in Line for Turkmenian Gas

For some time Turkmenistan was successfully realizing its gas politics by meandering between Russia and Ukraine, its two main customers. It even improved its relations with Gazprom's new leadership. Ashghabad exploits the rivalry between Moscow and Kiev to raise prices for all customers: while in the past Gazprom refused to pay \$38 per 1,000 c m, today it pays \$44 for the same amount.

Today, Ukraine relies on Turkmenistan for gas supplies. To pay for the construction projects and equipment supplied by Ukraine and according to the bilateral reference agreement Turkmenistan will supply 36 bcm of gas to Ukraine every year until 2007. Moscow annually supplies 24 bcm of gas to pay for the transit of Russian gas across the Ukrainian territory.

Having signed a medium-term agreement for the period of five years with Turkmenistan, Ukraine seemed to ensure uninterrupted gas supplies. On 10 April, 2003, Moscow having signed a long-term agreement for 25 years with Ashghabad not only won the many-year race for the Turkmenian gas but also created a lot of problems for Kiev where gas deliveries are concerned.

Later, and somewhat unexpectedly, Turkmenistan signed a four-year agreement with the International Group of Companies Itera on annual deliveries of 10 bcm, which aggravated the problem. Along with the old 25-year-long contract with Iran (that expires in 2018) and the country's obligation to send

30 bcm of gas every year to the Trans-Afghan gas pipeline to Pakistan (the pipeline is to be commissioned in 2010) these numerous contracts pose a question: Will Ashghabad be able to fulfill all obligations under all contracts?

Kiev will hardly extend its gas contracts for another 25 years to continue getting the same amounts of gas: the visit of the president of Ukraine to Turkmenistan scheduled to sign this agreement was postponed for the fourth time. Even though Ashghabad did not give Moscow the monopoly on buying its gas (which Moscow had expected), thus giving hopes to other consumers, it was highly doubtful that the country was able to fulfill the already signed contracts.

On 11 April, 2003, the presidents of Ukraine and Turkmenistan met in Turkmenbashi to discuss an important question: How will the ever-growing volumes of Turkmenian gas be transported? The functioning pipelines Central Asia-Center (CAC) are loaded to the maximum, while their technical state is appalling. The pipelines need modernization and extension; we also need a Caspian pipeline to move gas from Turkmenistan to Kazakhstan and Russia.¹

This raises at least three questions. First, will Ukraine and Turkmenistan sign an agreement (even if partial)? Second: Will Ashghabad be able to fulfill it? Third: Will it be possible to transport gas through the CAC if the agreement is signed and Turkmenistan increases gas production accordingly? Today, Turkmenistan fails to fulfill its contracts with the Itera because Gazprom, the deliveries operator, refuses to transport the gas because of shortage of transporting capacities of the CAC.

By 2007 Ukraine may become completely dependent on gas deliveries from Russia. This should not be taken to mean that the country will be left without fuel: there is enough gas in other CIS countries. The conditions of gas deliveries may arouse doubts. Gazprom of Russia has concentrated nearly entire gas export potential of the Central Asian countries. Will monopoly on gas and gas pipelines become an instrument of pressure on Ukraine when and if a gas transportation consortium is set up in it?

Possible long-term agreements on strategic cooperation in the gas sphere among Kiev, Ashghabad, Astana, and Tashkent supported by the involvement of the National Joint-Stock Company Neftegaz Ukrainy in prospecting, production and transportation of gas from Central Asia would allow Ukraine to ensure gas deliveries for a long-term perspective. This is an absolute priority for our national company.

Ukraine still has to create a complex strategy of cooperation with the Central Asian countries, which means its involvement in prospecting and production, modernization and extension of the CAC and laying a new gas pipeline (the Caspian pipeline). Kiev should take part in building infrastructure and offering service support; it should supply equipment and build facilities not directly connected with the gas sector but paid for with gas, etc.

In 2004 it is necessary to sign long-term agreements on gas supplies with Turkmenistan, Kazakhstan and Uzbekistan—on the volumes left after the Gazprom contract. The gas transportation problems should be settled with Russia.

If the Central Asian republics want to produce and sell to Europe more gas they should coordinate their extraction efforts, add more capacity to the CAC, and build the Caspian pipeline with the help of Ukraine and Russia, two gas importers.

The Gas Sector of Turkmenistan

Turkmenistan is the second, after Gazprom, producer and exporter of natural gas in the CIS. There are 127 gas fields in the republic and in its part of the Caspian shelf with the total initial reserves of 22.5 tcm; the proven reserves are 2.86 tcm. Dauletabad with 1.3 tcm and Iashlar with 0.76 bcm are the

¹ This main pipeline will move 30 bcm of gas; it will be 1,050 km long; preliminary cost is \$1 billion. Turkmenistan is prepared to pay for the stretch on its territory; Ukraine is prepared to pay for 780 km. It is expected that the pipeline will be commissioned in 2007; Ukraine has already been working on feasibility studies.

largest gas fields. According to experts, the Turkmenian shelf contains 5.5 tcm of gas.² The gas reserves should be carefully assessed to acquire true information about them. It is expected that in 2004 an American and a British company will start working in the southeast of the republic.³ It should be added that contracts for gas deliveries and construction of new pipelines should be based on the figures of proven, rather than hypothetical reserves.

The state company Turkmengaz is responsible for 85 percent of gas production. The republic plans to greatly increase production and export of gas. Unfortunately, life often corrects ambitious plans.⁴

There are two systems of export gas pipelines in the republic. One of them brings gas from the eastern fields by the CAC (across Uzbekistan and Kazakhstan) to Russia and further on to Ukraine. Its total length within Turkmenistan is 3,940 km with five compressor stations (Dar'ialyk, Il'ialy, Karakumy, Pustynnaia, and Shatlyk). The second line moves gas from the west of the country to Iran.

Table 1 offers Turkmenistan's assessed hypothetical gas balance correlated with certain assumptions.⁵

An analysis of the figures shown above suggests several important conclusions. First, the country's plans are not supported by its proven reserves. Under the signed and planned contracts the republic should have about 3.6 tcm, which is much more than its officially declared proven reserves (2.86 tcm). Complete auditing will probably move the official figures closer to the BP assessment (2.1 tcm).

Second, starting in 2007 Ashghabad will be unable to deliver the old amounts of gas to Ukraine (irrespective of whether the contract is signed or not). Ukraine will have to stop exporting 5-6 bcm it exports now and start looking for other sources of gas. It is wise to start buying gas in Kazakhstan and Uzbekistan on the basis of long-term agreements.

Resources of Uzbekistan

The country is the 16th in the world where its proven gas reserves are concerned (BP assessment); the 10th among the world's gas producers and the 3rd among the CIS countries.⁶

In July 2001 LUKoil-Overseas and Itera signed a preliminary contract with Uzbekneftegaz on developing the gas fields of the Bukhara-Khiva oil and gas region with the total hypothetical reserves of up to 250 bcm and on prospecting in the Kungrad block of the Ustiurt Region (the two companies will receive 45 percent each, the remaining 10 percent will belong to the Uzbek firm). Under this project, known as so-called Kandym project⁷ (realized within a production sharing agreement) the companies will produce up to 9 bcm of gas every year (at the first stage production will be limited to 2-2.5 bcm).⁸

² According to *BP Statistical Review of World Energy*, June 2003, as of late 2002 the proven gas reserves were 2.01 tcm; Turkmenistan's own assessments are 2.86 tcm.

³ Auditing (that costs \$1.1 million) may reveal that the gas reserves were overstated. Auditing ordered to assess the possibility of laying the Trans-Afghan gas pipeline will make it possible to estimate the total gas reserves on the basis of the exact figures.

⁴ In 2002, the republic produced 53.5 bcm of gas (an increase of 3.9 percent as against the previous year); in 2003, 59.09 bcm (11 percent more than in 2002); the country exported 43.4 bcm, or 10 percent more than in 2002. In 2004, it is planned to produce 74 bcm; to export 58 bcm. By 2010 it is planned to produce 120 bcm.

⁵ After 2010 the republic should increase gas production every year by 5 bcm (the 2010 level corresponds to the republican plans). Domestic consumption will not considerably increase. Ukraine will extend the present contract for 25 years more with the same delivery volumes. Russia will get the minimum possible contracted amounts. The Trans-Afghan pipeline will be commissioned in 2015 (instead of 2010 as was planned).

⁶ The figures by the end of 2002 are the following: proven natural gas reserves—1.87 tcm; industrial reserves, over 1 tcm. The country has a wide network of main gas pipelines of the total length of over 13,000 km with the stretches of export pipelines (CAC and Bukhara-Urals). In 2002 the Uzbekneftegaz produced 57.672 bcm of gas (1.8 percent more than in 2001). In 2003, the country produced 57.481 bcm of gas (0.3 percent less than in 2002). By 2010 Uzbekistan plans to export 20 bcm of gas.

⁷ The project is named according to the largest gas field with the reserves of up to 100 bcm.

⁸ The project also includes construction of a gas chemical plant with the capacity of 6 bcm, two compressor stations; 200 km of a main pipeline and other infrastructure facilities. The Russian companies are expected to invest \$760m out of the total \$960m. The share of Itera that had withdrawn from the project was redistributed among the other participants. It is expected that Gazprom may join the project, too.

Table 1

Hypothetical Gas Balance of Turkmenistan

Years	Forecast,* bcm			Export, bcm/y				Balance deficit/surplus, bcm
	Gas production	Domestic consumption	Gas export, total/via Russia	Ukraine	Gazprom	IGC Itera/starting in 2015, Pakistan	Iran	
2003	59.1	15.7	43.4/36.4	34.4	—	2.0	7	0
2004	74.0	16	58/51.0	36	5	10	7	0
2005	78	16	62/55	36	6-7	10	7	+3
2006	80	16	64/57	36	10	10	7	+1
2007	90	17	73/66	36 (?)	60-70	10	7	-40
2008	100	17	83/76	36 (?)	63-73	(?)	7	-23
2009	110	17	93/86	36 (?)	70-80	(?)	7	-20
2010	120	18	102/95	36 (?)	70-80	(?)	7	-11
2011	125	18	107/98	36 (?)	70-80	(?)	9	-8
2012	130	18	112/100	36 (?)	70-80	(?)	12	-6
2013	135	19	116/104	36 (?)	70-80	(?)	12	-2
2014	140	19	121/109	36 (?)	70-80	(?)	12	+3
2015	145	19	126/109	36 (?)	70-80	5 (?)	12	+3
2016	150	20	130/105	36 (?)	70-80	12 (?)	12	0

*2003 — actual figures.

Table 1 (continued)

Years	Forecast,* bcm			Export, bcm/y				Balance deficit/surplus, bcm
	Gas production	Domestic consumption	Gas export, total/via Russia	Ukraine	Gazprom	IGC Itera/starting in 2015, Pakistan	Iran	
2017	155	20	135/103	36 (?)	70-80	17 (?)	12	0
2018	160	20	140/103	36 (?)	70-80	22 (?)	12	0
2019	165	21	144/102	36 (?)	70-80	26 (?)	12(?)	0
2020	170	21	149/107	36 (?)	70-80	30 (?)	12 (?)	+1
2021	175	21	154/112	36 (?)	70-80	30 (?)	12 (?)	+6
2022	180	22	158/116	36 (?)	70-80	30 (?)	12 (?)	+10
2023	185	22	163/121	36 (?)	70-80	30 (?)	12 (?)	+15
2024	190	22	168/126	36 (?)	70-80	30 (?)	12 (?)	+20
2025	195	23	172/130	36 (?)	70-80	30(?)	12 (?)	+25
2026	200	23	177/135	36 (?)	70-80	30 (?)	12 (?)	+30
2027	205	23	182/140	36 (?)	70-80	30 (?)	12 (?)	+35
2028	210	24	186/144	36 (?)	70-80	30 (?)	12 (?)	+40
Total in all directions, bcm	3.667	0.492	—	0.900 (from 2004 to 2028)	1.544 (from 2004 to 2028)	0.392 (from 2004 to 2028)	0,262 (from 2004 to 2028)	

Note: Question mark (?) means that the contracts for gas deliveries have not yet been signed.

In December 2002 Gazprom and Uzbekneftegaz signed an agreement on strategic partnership that envisaged deliveries of Uzbek gas to Russia between 2003 and 2012 (about 87 bcm in all). The companies also agreed on cooperation in gas production within a production sharing agreement (in the Shakhpa-khty gas field, which may yield up to 10 bcm of gas every year). Today, Gazprom has already squeezed Itera, which plans to close its office in the republic, out of Uzbekistan.

In 2003, the republic exported nearly 7.5 bcm of gas, mainly to Russia. Until 2007 export will increase at the expense of the already functioning gas fields; starting in 2010, at the expense of newly developed gas fields of the Ustiurt Region. Tashkent has ambitious plans for its gas industry and transportation network, yet it changes the rules of the game too often and pursues a rather contradictory policy in the field of foreign investments. There is no agreement inside the country about liberalization and privatization of its gas sector.

Uzbekistan needs investors for its prospecting and production projects and extending its transit capacities. This cannot be done for several reasons: the republic's relations with the neighbors (especially with Turkmenistan) are far from simple. Meanwhile, its ambitious plans of increasing its gas exports by 2020 by more than 275 percent as compared with 2003 requires effective diplomatic efforts, mutually advantageous cooperation with the neighbors and investors.

There is no doubt that Gazprom will control all processes in the gas sector and will be directly involved in them. It should be said that despite the negative attitude to it of certain countries and traders the company (supported by Russia's leadership) will be able to cope with Uzbekistan's problems in the gas sphere created by regional contradictions and conflicts. It is for Tashkent to try to get maximum profits offered by this cooperation.

Kazakhstan's Prospects

The mineral and raw material riches of the republic are unique. This is what its economic potential is based on. It has, in particular, over 200 oil and gas fields, mainly in its western part. Kazakhstan is the world's 17th country where the proven natural gas reserves are concerned.⁹ Its proven gas reserves on the continent are 3 tcm; they are mainly oil and gas condensate fields. Unfortunately, in the absence of a system of gas utilization nearly one-third of gas is lost in the process of oil production.

Kazakhstan is the fifth largest gas producer in the CIS, coming immediately after Ukraine, which is the fourth. (In 2004 Kazakhstan plans to produce 16 bcm of gas.¹⁰) By 2010 the republic plans to produce 70 bcm mainly from three world's richest fields: Karachaganak, a gas condensate field; Kashagan and Tengiz, two oil fields. Fifteen or twenty years later when Astana, according to its plans, produces over 100m tonnes of oil it will produce between 60 and 70 bcm of associated gas. Its complete utilization will increase the country's export potential.

On 7 June, 2002, Gazprom and the KazMunaiGaz National Company set up a JV KazRosGaz on the parity basis and registered it in Kazakhstan. The new company is involved in studying the markets of natural gas and its products; ensuring continued functioning of gas processing plants; creating condition for gas transportation; selling gas on the domestic and foreign markets; commissioning new transportation capacities and infrastructure. Gazprom has not yet acquired exclusive rights to buy the surplus of Kazakh gas but the new joint venture allows it to realize such right to a considerable extent.

For many years the republic has been receiving gas from Tiumen; it is bought by the Kostanay and South Kazakhstan regions unconnected with the main gas fields inside the republic. Recently, gas supplies from Russia reached 1.2 to 1.5 bcm. Russia, in turn, buys gas from Karachaganak and Tengiz.

⁹ As of late 2002 the proven reserves of natural gas were 1.84 tcm; hypothetical reserves on the continent and the Caspian shelf have been estimated at 8.3 tcm. The republic uses a system of transit main pipelines (over 9,000 m long) to move its gas to European Russia, Ukraine, the U.K. and the Southern Caucasus.

¹⁰ In 2003 the republic produced 14 bcm.

In the past, Gazprom and other Russian companies exploited Russia's monopoly on export pipelines to buy gas for the extremely low price of \$8-12 per 1,000 c m, and sold it for over \$50 per 1,000 c m. Starting in 2003 the prices are becoming more balanced. In 2003, the JV KazRosGaz planned to buy up to 7 bcm of gas, that is, the entire amount produced by Karachaganak; 1.3 bcm of this amount was to return to Kazakhstan. This operation is technologically impossible, therefore Kazakh gas is replaced with Russian gas on the mutual exchange basis.

In the middle-term perspective it is planned to move gas from Kazakhstan to the CIS and European markets across Russia. At the same time, other alternatives are also discussed: across the Caspian via Turkmenistan, Azerbaijan and Georgia to Turkey, and to China and India. This can be realized in the distant future.

Kazakhstan is the only large gas producer in Central Asia that has not yet signed a long-term agreement with Gazprom, therefore Moscow invites Astana to sign a corresponding document for 20 years in 2004. Gazprom offered the following conditions: it wants up to 15 bcm of gas from Karachaganak for processing and selling and a share in selling gas from Tengiz and Kashagan.

Today, Astana profits from cooperation with Moscow since with the help of Russia the republic has already reached the West European gas markets and is gaining the larger share of the South Caucasian market. Kazakhstan, like Uzbekistan, is still trying to independently emerge on the European market. So far, this market is represented by Ukraine: in 2003 Neftegaz Ukrainy brought from Kazakhstan and Uzbekistan over 1 bcm of gas.

At present, the rates of Central Asian gas production and gas exports outstrip the rates of modernization and development of the transportation systems. The main pipeline system that connects the region with Russia, the CAC, is overloaded. This is true of the pipelines used by the three main gas exporters: Turkmenistan, Uzbekistan, and Kazakhstan.

The Problems of Reconstruction of Main Pipelines

Today, gas from Turkmenistan, Uzbekistan and Kazakhstan is exported to Russia and Europe by the CAC¹¹ stretches belonging to the corresponding states. The system can no longer cope with the load (in the past it was used only for Turkmenian gas). The pipeline is old and is approaching its exploitation limit of 33 years. Today, its maximum annual capacity is less than 50 bcm. Starting in 2003, under the corresponding agreements with Uzbektransgaz and Intergaz-Central Asia, Gazprom has been acting as an operator; it is its task to deliver Central Asian gas to all European consumers (except Ukraine).

In April 2003 a special Gazprom commission studied the Turkmen part of the CAC and decided that its loading capacities had lowered to 44-47.5 bcm of gas a year. In the first decade of April 2004 experts of Gazprom and Turkmengaz, in an effort to increase gas export, met in Ashghabad for consultations about the reconstruction of the main pipelines. Joint actions of the two countries are envisaged by an agreement on cooperation signed by the presidents in April 2003.

Kazakhstan has no ramified network of pipelines that prevents it from fully using produced gas. The larger part of the existing pipelines is too old to be loaded to capacity; they need reconstruction that, in turn, requires investments.

The total throughput capacity of the republic's pipelines is over 50 bcm, 42 bcm of which are moved by the main pipelines.¹² In 2001-2002, KazTransGaz reconstructed the key stretches at the cost of over \$230m; in fact all pipelines, which have been in operation for over 20 years, need similar treatment.

¹¹ The first line was built in 1966 to be used for moving gas from the southeastern gas fields of Turkmenistan.

¹² About 3,939 km of the CAC run across the territory of Kazakhstan.

Astana decided to pay for the modernization of the Kazakh stretch of CAC in order to in 2005 to move up to 50 bcm of Turkmenian gas annually, up to 3 bcm of Uzbek gas, and up to 7 bcm of its own gas by it.

According to the Kazakh team, if everything that should be done is done the throughput capacity of the stretch will increase to 60 bcm of gas. Experts are convinced that modernization of the CAC and its extension will increase its maximum annual throughput capacity to 70 bcm of gas.

The Uzbek stretch of the main export pipeline can carry no less than 46 bcm a year; since it is used for both Uzbek and Turkmenian gas its annual throughput capacity should be increased to at least 50 bcm. So far, the republic is unable to pay for the necessary construction projects. According to the Uzbektransgaz experts, a new branch of the export pipeline will cost \$0.7 billion. Privatization is one of the answers (it was back in 2001 when it was planned to auction 44 percent of shares of the transportation system). Gazprom is one of the most eager buyers.

Table 1 suggests several conclusions about the current throughput capacity of the CAC (that is not more than 45 bcm) and the expected exported volumes of Turkmenian gas alone (51 bcm).

First, in 2004 the system will not cope with moving Turkmenian gas; the weakest link (less than 46 bcm) is found in Uzbekistan.¹³ Second, even if all republics manage to repair and reconstruct their stretches to the minimum extent they will merely postpone the need to address the problem in earnest. Third, to transport Turkmenian, Kazakh, and Uzbek gas to Russia and Europe (the total volume of which may exceed 75 bcm in 2005) it is necessary to increase the annual loading capacity of the CAC to 100 bcm in the next twelve or eighteen months. This project (that costs about \$3 billion) should be realized in 2006-2007. Fourth, time has come to complete two lines of the Caspian pipeline: the first line (30 bcm) should be completed in 2005-2006; the second, with the same throughput capacity, in 2008-2009.

The Gas Sectors of the Central Asian Users of Gas

Tajikistan, Kyrgyzstan, and Afghanistan (so far its economy remains completely ruined) are users of local (mainly Uzbek) gas. Moscow looks with a great deal of interest at Dushanbe and Bishkek because of their neighbors (Afghanistan, China, and Pakistan) and because they can be included in its political orbit. In the energy sphere Russia wants to control the fuel flows among countries.

The proven reserves of Tajikistan are negligible; annual production is 24 mcm; the produced gas is used in the south of the republic. On the whole, the country imports Uzbek gas to be used in the north (in 2002, 485 mcm were imported). The hypothetical reserves are over 1 tcm.

On 15 May, 2003, the government of Tajikistan and Gazprom signed an agreement on strategic cooperation in the gas sphere for 25 years; its priority spheres are: gas exploration and prospecting; development of gas fields, construction, reconstruction and exploitation of gas pipelines; gas processing, transportation and selling, etc. On the whole, the republic is of little interest for Gazprom, yet it has been made part of the general plan of "restoration of the gas-bound U.S.S.R."

Kyrgyzstan has much more gas: its proven reserves are estimated at 5.7 bcm; they are hard to extract, however, because of difficult geological conditions and undeveloped infrastructure. Today, the republic produces nearly 30 mcm every year and uses 0.7 bcm of gas. The total length of its pipeline system, including the distribution networks, is 600 km. In 2003, the republic used gas delivered from Uzbekistan (its total gas-related debt to this republic is \$11m). Bishkek believes that it is much more profitable to use Russian gas delivered by the main pipelines of Uzbekistan and Turkmenistan.

On 16 May, 2003, the head of Gazprom and the prime minister of Kyrgyzstan signed a long-term agreement on cooperation in the gas sphere, its main priorities being: gas exploration and prospecting;

¹³ On 25 November, 2003 head of Itera I. Makarov asked Gazprom to ensure transportation of 7 bcm of gas from Turkmenistan via Uzbekistan for his company. Gazprom refused for want of "idle capacities."

development of gas fields, construction, reconstruction and exploitation of main gas pipelines and other infrastructure facilities; transportation of gas and gas supplies to join projects, import of Russian gas to Kyrgyzstan.

In January 2004 the sides agreed on the plan of priority measures: the volumes and dates of the planned facilities; the forms of cooperation in reconstruction, construction and exploitation of facilities; the direction of gas exploration and development of gas fields, as well as the list of supporting services.

On 9 April, 2004, the heads of Gazprom and Kyrgyzneftegaz discussed the question related to the transfer of the state block of stocks (85.16 percent) of Kyrgyzneftegaz to the Russian side for trust management. This project allows Gazprom (that is, Russia) to establish its full control over the republic's gas sector and to use its territory to move the Uzbek gas to Kazakhstan.¹⁴

Bishkek insists that Kiev has failed to pay its debt of about \$25m dated from the late 1980s and early 1990s when the U.S.S.R. Central Bank introduced clearing payments. Today, this may interfere with the Ukrainian plans of joining the WTO. Kyrgyzstan wants the debt repaid in any form, while Ukraine wants to first check the figure and repay with fuel and energy equipment and construction services in the fuel and energy sphere.

The hypothetical gas reserves of Afghanistan assessed by Soviet specialists in the 1970s are about 150 bcm. Gas production in this country reached its peak (about 4 bcm a year) in the 1970s; 70 to 90 percent of the produced gas went to the Soviet Union via Uzbekistan. Today, the country's economy is completely ruined, restoration being hindered by continued armed clashes.

Today, Afghanistan is mentioned when it comes to discussing the project of gas transportation from Turkmenistan to Pakistan. In May 2002, Ashgabad, Islamabad, and Kabul adopted a decision on building a Trans-Afghan gas pipeline nearly 1,500 km long. It was expected to start at Dauletabad in Turkmenistan, reach Kandahar in Afghanistan to end at Multan in Pakistan. The line's preliminary cost was up to \$2.5 billion.

Recently, Pakistan has been exhibiting less interest in the project for several reasons: first, hostilities are still going on in Afghanistan; second, Turkmenistan overestimated its potential ability to load the pipeline; third, in the next 25 years Russia, that is not interested in the project, will remain in control of the gas sector of Turkmenistan and Central Asia. Fourth, Pakistan received much more real and economically advantageous offers of gas export from Iran. The talks started back in 1990; the corresponding project was elaborated with the help of the BHP of Australia. Its realization was postponed for several reasons. On 26 April, 2004 a group of experts from the Ministry of Oil and Natural Resources of Pakistan visited Iran to have a look at the Southern Pars gas fields and to discuss the project's technical aspects. The Iranian alternative of the pipeline that will cost \$2.5 billion is nearly ready. At the same time, the sides agreed that each of them would pay for its stretch. They have started discussing the final variant of the route.¹⁵

Gazprom likes the project for the simple fact that it will detract Iran from Europe, and Ukraine, in the first place.

Back to the U.S.S.R.—So Far Unified by Gas

Russia's expansion to the Central Asian gas sphere will lead to certain geopolitical consequences. Having realized that control over the gas markets of the CIS and EU enhances its influence, Mos-

¹⁴ On the other hand, KazTransGaz suggested that a Kyrgyz-Kazakh joint venture be set up to restore and use the Kyrgyz stretch of the Bukhara-Tashkent-Taraz-Bishkek-Almaty gas pipeline. It is expected that its authorized fund will be formed, on the parity basis, from Kazakhstan's investments in the restoration of the existing stretch of the pipeline and building a new pipeline, and from Kyrgyzstan's stretch of the pipeline. If Kyrgyzstan refuses to form the JV, Kazakhstan plans to build a by-pass that will cost it \$70m (the existing main pipeline between Uzbekistan and Kazakhstan crosses the Kyrgyz territory in three places).

¹⁵ Islamabad demanded that Tehran guarantee the volumes needed to load the new pipeline. "We want to see with our own eyes that there is enough gas in Southern Pars. We do not want a repetition of the Trans-Afghan project. We planned to import Turkmenian gas from the Dauletabad fields when we discovered that Russia had earlier claims to it," said a highly placed Pakistani official.

cow will use this factor to build up a “gas Union” that over time may transform into a new U.S.S.R. under its aegis.

While the United States was busy in the Caspian oil sector and Iraq, while the EU was very much concerned with its enlargement Russia has been completing a “liberal empire” in one individual branch of the CIS—gas industry. To complete the task Moscow needs Gazprom to deal with certain “intermediary” tasks: a 30-year-long concession on the Ukrainian gas transportation system; a Beltransgas-based Russian-Belorussian JV on Russian conditions; and 25-year-long agreement with Kazakhstan on strategic cooperation in the gas sphere.

Today, Russia is, in fact, completing monopolization of the gas sectors of the Central Asian republics (see Table 2). Having created the “gas caliphate” Moscow will start building in earnest “the gas-unified U.S.S.R.” out of Ukraine and Belarus. Today, these countries have nobody to rely on; to preserve stable gas supply they should preserve their control over the Russian gas transit across their territories.

Possible Consequences of the “Gas Caliphate”

1. If the Central Asian countries transfer their gas sectors to Russia they will damage their economies and will deprive themselves of independent political decision-making. The current situation in this sphere is a result of several factors. First, political instability in each of the countries and the region as a whole. Second, the privileges Russia extends in the economic, political, and military sphere. Third, the local states’ inability to independently develop their gas fields on a large scale, to maintain them in working condition and to build up transport capacities. Fourth, the current political risks are keeping foreign investors (with the exception of Russia) away. In addition, before reaching the world markets nearly the entire amount of Central Asian gas has to cross Russia. Fifth, the Central Asian countries may use gas to pay for armaments, equipment, consumer goods and foodstuffs and, on the whole, to preserve their undemocratic regimes.
2. If Gazprom captures the transportation systems, Russia will acquire complete control over the gas industry, gas exports, in the first place. This, in turn, is fraught with serious consequences. Russia will become the largest gas exporter and will use Central Asian gas for its domestic purposes and for re-export. It will probably move the gas to its territory to maintain its fuel and energy balance, in the first place. Possible incomes created by transit of small amounts of Central Asian gas to third countries will be of secondary importance. Moscow will do its best to minimize these amounts so as to exclude competition. Kiev has already felt this. Ukraine will suffer most from the absence of Central Asian gas in the market. Under Moscow’s pressure, and without another choice, Kiev might retreat in this (agree to a gas-transportation consortium) and other sectors, including the political sphere. The EU will also feel Moscow’s monopoly on the Central Asian gas: it will get it through Gazprom alone. In other words, Russia will be able to impose its gas prices on the CIS users and impose its conditions on the transit countries (Ukraine and Belarus), two large gas importers.
3. Control over the Central Asian gas sector will allow Moscow to influence local policies; the small American military contingent stationed in Uzbekistan and/or other republics will be unable to prevent such influence. As a result, the local countries will be gradually drawn into Russia’s foreign policy orbit.
4. Russia’s economic and political influence in Central Asia, its active cooperation with Iran (one of the Central Asian neighbors), and its possible attempts at extending its influence on Afghan-

Table 2

Cooperation between the Central Asian Republics and Gazprom

Country	Nature of the agreement or contract (term of action)	Directions of Gazprom's work in the region's countries	JVs (share of Gazprom, in %)	Volume of gas deliveries for Gazprom, bcm
Kazakhstan	Expected that a long-term agreement (for 25 years) will be signed in 2004	Gas processing, transit, sale and purchase	KazRosGaz (50 percent)	2003—6; starting in 2004, up to 15
Kyrgyzstan	Long-term agreement (for 25 years, starting in 2004) on strategic partnership	Prospecting, development and exploitation of gas fields; reconstruction, construction and exploitation of main pipelines and other facilities of the same complex; transportation and supplies of gas	It is planned to transfer the state block of stocks (85.16 percent) of Kyrgyzneftegaz to Gazprom for trust management	—
Tajikistan	Long-term agreement (for 25 years, starting in 2004) on strategic partnership	Prospecting, development and production of gas; reconstruction, construction and exploitation of main gas pipelines and other facilities of the gas complex; gas transportation and supplies	—	—
Turkmenistan	Long-term agreement (for 25 years, starting in 2004) on strategic partnership	Purchase of gas; prospecting, development and production of gas (on the Caspian shelf under a production sharing agreement); processing, transportation and realization within joint projects; creating new transportation capacities	—	In 2004, 5-6; 2005, 6-7; 2006, 10; 2007, 63-73; 2008, 63-73; 2009-2028, 70-80; total—at least 1.5 tcm
Uzbekistan	Long-term agreement (for 10 years, starting in 2003) on strategic partnership	Gas purchase; development of the Shakhpakhty gas field under a production sharing agreement	Gazprom intends to buy 44 percent of shares of Uzbektransgaz	2003-2004, 5; 2005-2012, 10; Total—87

istan will force the United States and its NATO allies to perpetuate their military presence in Afghanistan and to set up a corresponding infrastructure there.

5. Russia's capture of the Central Asian gas sector will gradually squeeze out of the region other foreign companies (Ukrainian, in the first place) engaged in construction and services and equipment supplies.
6. Over time, Moscow will expand to the local oil sectors, which means that Russian firms will try to remove Western oil companies from the region (from Kazakhstan, in the first place).