

Central Asian Gas Hike May Hit European Consumers

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All three Central Asian gas-rich states – Turkmenistan, Uzbekistan and Kazakhstan – have announced gas price hikes for their main customer, the Russian gas monopoly Gazprom, in a move which may have severe knock-on effects for Europe.

Energy experts say that as Central Asian gas coming via Russia becomes more expensive, European countries could start pushing harder for long-discussed projects to create alternative routes, such as pipelines under the Caspian Sea.

On December 5, Daniyar Berlibayev, vice-president of the Kazak national oil and gas company KazMunaiGaz, said his country planned to raise export prices for gas to 190 US dollars per 1,000 cubic metres. This is 50 dollars more than the current maximum price.

The company is also negotiating with Gazprom – the main purchaser of Central Asian gas – to secure higher transit fees for gas transported through Kazak territory coming from Turkmenistan and Uzbekistan

“Global trends are such that gas is going up in price. Accordingly, we too are considering this possibility,” Interfax news agency quoted a KazMunaiGaz official as saying.

Turkmenistan, which has the largest gas reserves in the region and exports mainly to Russia, has already announced a phased price rise. In late November, it said prices would rise by 30 per cent for the first half of 2008 and by 50 per cent for the rest of 2008. This means Gazprom will have to pay 130 and then 150 dollars per cu m in 2008 from the current 100 dollars per 1,000 cu m.

The late Turkmen leader, Saparmurat Niyazov, who died in December 2006, promised not to change the terms of gas agreements with Gazprom – including the 100 dollar price-tag – until 2009.

Uzbekistan, another major gas producer, also plans to charge more for its exports, and is now negotiating the precise percentage of the rise.

Last year, Uzbekistan sold nine billion of the more than 60 billion cubic metres of gas it produced Gazprom. It also supplies Kyrgyzstan and Tajikistan. Unlike Turkmenistan, it keeps much of its gas for domestic consumption as its 28-million population is more than five times that of the neighbouring state.

Energy analysts say the almost simultaneous rise in gas prices across the region cannot have come as a complete surprise to Gazprom. The Russian company makes a healthy profit from Central Asian gas by selling it to Europe at an average of 260 dollars per 1,000 cu m.

Yaroslav Razumov, an energy expert in Kazakhstan, believes preliminary negotiations on pricing were conducted unofficially far in advance of any announcement. Last year, several Gazprom officials said the company expected energy costs to fluctuate.

"I am sure it was not unexpected for Russia; it wasn't like an ice cube dropped inside Gazprom's collar. That would have been a very unfriendly political act against Moscow," said Razumov.

"So I don't see any deliberate political move behind it."

Razumov added that although this round of price hikes had probably been carefully managed by all sides, it was indicative of things to come.

"As energy gets more and more expensive throughout the world, it will definitely influence Russia's business relationships with Central Asian states," he said.

Analysts say the next time Turkmenistan and Uzbekistan want to change the terms of contractual agreements, they will have to show they really are in a position to dictate market terms, in other words prove they have the gas reserves to do so. Neither country has allowed independent surveys of their actual and possible reserves, so their claims of immense reserves remain unverified.

Razumov added that while the price rise will not harm Gazprom much, it will hit the company's consumers in Europe.

The impact will be especially severe in Belarus and Ukraine, whose economies are heavily dependent on imported gas but are not wealthy enough to soak up higher fuel costs. They could face a severe energy crisis if prices continue soaring.

Experts suggest that European countries may now start pushing harder for alternative gas projects bypassing Russia, such as the Transcaspian Gas Pipeline, which would run under the Caspian taking gas from Kazakhstan and Turkmenistan to Europe via Azerbaijan and Turkey.

"Europe will now be searching actively for alternative sources and transit energy routes.... So it's very likely that Europe will lobby more actively for direct imports of Central Asian gas, although many obstacles lie on the way of such projects," Razumov added.

Among the many problems surrounding the Transcaspian project are the technical difficulty and high cost of laying a pipeline on the seabed. Moreover, the sea's legal status is still unresolved, and a pipeline would face fierce opposition from Russia and Iran.

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