



NATURAL GAS PIPELINE INFRASTRUCTURE IN CENTRAL ASIA

Central Asian region possesses huge amount of gas reserves: Turkmenistan – 17.5 trillion m³, Uzbekistan – 1.6 trillion m³, Kazakhstan – 1.9 trillion m³. However, in the land-locked Central Asian context, it is not the amount of resources beneath the ground that determines gas market interactions, but the pipeline politics. Moreover, in an environment of increasing interest for the region's resources, new and old gas pipelines appear to be competing, rather than complementary in nature. As a result, current energy diversification strategies of the Central Asian exporters basically imply shifting energy markets from old into new customers.

Russia used to be almost a monopolist customer of the regional gas, which was transported via the five lines of the Russia-controlled Central Asia Center (CAC) gas pipeline network. CAC was constructed in the 1960s–1980s and the initial capacity of these lines was 90 billion m³. However, lack of investment in the maintenance reduced the capacity of the network down to 45 billion m³. And Central Asia – Russia gas export/import relationship is a good example of the competing nature between old and newly constructed gas pipeline infrastructures. Having envisioned the expansion of the gas trade up to 80 billion m³, Russia proposed the construction of the Pre-Caspian gas pipeline, with the capacity of 30 billion m³. Because Russia needed Central Asian gas to fulfill its obligations to the European customers, as a result of gas crises between Russia and Ukraine, a transit country for the Russian gas to Europe, the volume of gas trade had been gradually dropping starting from 2007. The largest exporter – Turkmenistan – announced a complete cut off of gas supplies to Russia in January 2016. Previously, the export volume dropped from 42 billion m³ in 2007 down to 10 billion m³ in 2009. Gas export from the second largest supplier – Uzbekistan – also declined from around 15 billion m³ in 2009 down to 1 billion m³ 2015. Almost the entire gas, which meant to be imported by Russia, is now heading towards China.

The stability of gas supplies within the other two relatively large gas pipelines has also been compromised. Bukhara – Ural gas pipeline, which is capable of transporting up to 8 billion m³ of gas (from Uzbekistan through Kazakhstan to Russia), is now operating in reverse direction. Gas delivery within the Bukhara – Tashkent – Bishkek –

Almaty pipeline with the initially designed capacity of over 20 billion m³ of gas, which has significantly been decreased due to lack of maintenance, is also far from stable as Uzbekistan often experiences the scarcity of gas to supply it to its Central Asian neighbors. In fact, newly opened Chinese gas market is consuming all available gas in the region.

Turkmenistan has planned to increase its gas supply to Iran from 6–8 billion m³ via Korpedzhe – Kurt – Kai pipeline built in 1997 to 20 billion m³ per year by fully operating new Dauletabad – Sarakhs – Khangiran pipeline constructed in 2010. While Turkmenistan is capable of transporting 20 billion m³ to Iran the volume of transported gas never reached its full capacity. The Iranian direction was the first successful attempt to diversify Turkmenistan's complete dependence on Russia. Turkmenistan exported gas to Iran when the Russian demand was decreasing. And, now by limiting the volume of gas export to Iran, Turkmen authorities are able to increase gas export capacity to China. In 2014 Turkmenistan exported only 6.5 billion m³ to Iran and the current gas sector development initiatives inside Iran indicated that it might no longer need Turkmen gas. While there is a potential to sign swap-based gas supply deals for Turkmenistan and Iran, to meet its export obligations to China, Turkmen authorities can hardly engage in such trading interactions.

Talks between Chinese and Turkmen leaders on the possibility to move Turkmen gas to China started in 2006 and already in 2009 resulted in the construction of the first line of the Central Asia – China gas pipeline. Turkmenistan was initially obliged to export annually 30 billion m³ of gas to China according to the agreement signed in 2006. However, the new agreement that was signed two years later increased the volume to 40 billion m³ per year by 2015. During the Shanghai Cooperation Organization's summit in Beijing in June 2012, the countries' presidents, Hu Jintao and Gurbanguly Berdimukhamedov, agreed to increase the amount of gas exports even further, to 65 billion m³ per year. China will be receiving 10 billion m³ per year from Uzbekistan according to the agreement signed in 2010. Kazakhstan will be supplying additional 5 billion m³ of gas to the Central Asia – China gas pipeline via the newly built Beineu – Bozoy – Shymkent pipeline. Turkmenistan has

already delivered 125 billion m³ to China from 2009 to August 2015. Uzbekistan is soon planning to reach a 10 billion m³ gas export benchmark.

Newly emerged prospects for the implementation of two major alternative gas pipeline projects that have been on the agenda for more than two decades raise even more concerns in regards to the prospects for reviving interest in the old pipeline networks.

EU Energy Commissioner, has visited Turkmenistan in May 2015 trying to give new impetus to the negotiations over the Trans-Caspian gas pipeline. The Trans-Caspian pipeline is only a 300 km long and can physically be constructed quite fast. Construction of the 30 billion m³ East-West gas pipeline inside Turkmenistan to deliver gas from its major gas fields to the western borders would only imply that Turkmenistan's intention to reach European markets avoiding Russian territories is serious.

Construction of the Turkmen section of the Turkmenistan – Afghanistan – Pakistan – India pipeline started in December 13, 2015. It is not yet clear whether parties will be able to secure \$7.6–10 billion to complete the project and solve the overall insecurity issue along the route. Current, production level does not allow Turkmenistan to supply gas in the southern direction. Turkmen authorities are only counting yet to be developed the 3rd stage of the Galkynysh gas field (the second largest in the world) to meet the South Asian demand for gas.

For a landlocked region such as Central Asia, cross-border pipelines are the only cost-efficient way to export gas. The construction of such pipelines requires significant investments from both the producer and customer sides. Because new international gas pipelines need to operate for at least fifteen to twenty years before investments can be recouped, natural gas is often traded within the framework of long-term supply contracts. These characteristics of the gas trade and the fact that the region is surrounded by major powers that often compete for energy resources establish a particular type of gas supply relations in which Central Asian producers will be keeping up with the demand in the new markets and using old pipeline infrastructure only to increase the bargaining power vis-à-vis new customers.

Politics, Foreign Affairs and Security

- The President of Kazakhstan, Nursultan Nazarbayev, instructed the Government to create the Ministry of Information and Communications and a unified 24-hour government call center aimed at explaining all new rules and laws approved by the Parliament.
- During her official visit to Astana, the Chairwoman of the Federation Council of Russia, Valentina Matvienko, held a meeting with the Speaker of the Lower House of Parliament (Majilis) of Kazakhstan, Baktikoja Izmuhambetov. The parties discussed strengthening cooperation between the parliaments of Kazakhstan and Russia and the issues related to deepening economic relations between the Eurasian Economic Union's members and the third countries.
- During his official visit to Minsk, the President of Turkmenistan, Gurbanguly Berdimuhamedov, and the President of Belarus, Alexander Lukashenko, discussed prospects to enhance effective trade and economic cooperation, as well as collaboration in such spheres as energy, transportation, communication and education. On the sidelines of the visit, the parties signed a package of documents aimed at creating a reliable legal framework and the most favorable conditions for further strengthening bilateral ties.
- During his official visit to Moscow on the occasion of the celebration the 71st anniversary of the Victory in the Great Patriotic War, the President of Kazakhstan, Nursultan Nazarbayev and the President of Russia, Vladimir Putin, discussed a number of topical issues of the regional and international agenda including forthcoming meetings of the Supreme Eurasian Economic Council and the Summit of the Shanghai Cooperation Organization.
- During his official visit to Dushanbe, the President of Afghanistan, Ashraf Ghani, and his Tajik counterpart, Emomali Rahmon, held talks on the issue of strengthening the bilateral cooperation in the fight against terrorism, extremism, drug smuggling, transnational organized crime, as well as other threats and challenges to regional security.
- During his official visit to Tehran, the Minister of Foreign Affairs of Turkmenistan, Rashid Meredov, and the President of Iran, Hassan Rouhani, discussed the issues related to the development of cooperation in the Caspian Sea, improving coopera-

tion in the fight against drug trafficking, establishment of security and stability in the region.

Economy, Finance and Energy

- The Ministry of Energy of Kazakhstan stated that according to the country's social and economic development forecast the oil production would be reduced to 74 million tons in 2016. According to the forecast, the country's oil output is expected at the level of 75 million tons and 76 million tons in 2017 and 2018 respectively. Kazakhstan's oil and condensate output totaled 79.46 million tons in 2015, which is 1.7% less than in 2014.
- The Ministry of Economic Development of Russia reported that the Russian natural gas export to non-CIS countries would decline by 0.8% to 184 billion cubic meters in 2016. In addition, the Ministry expects that the Russian gas deliveries to Ukraine would not exceed 11 billion cubic meters in 2016.
- The State Oil Company of Azerbaijan, SOCAR, announced its plans to propose a deal to the Russian gas holding Gazprom on the issue of purchasing of 3 to 5 billion cubic meters of gas annually.
- The Ministry of Energy of Turkmenistan reported that the industrial flow of natural gas was obtained at the first exploration well drilled by the Turkmengeology State Corporation on Giurgiu gas field. According to the test results, the daily flow rate at the well is more than 600,000 cubic meters of natural gas.
- The Ministry of Energy of Turkmenistan announced that the country produced 7.6 billion kilowatt/hours of electricity in January-April 2015, which is 1.6% more than in the same period in 2015. The volume of electricity generation in Turkmenistan stood at 22.5 billion kilowatt/hours as of 2015, while its export totaled 3.2 billion kilowatt/hours.
- Kazakhstan Stock Exchange (KASE) reported that the volume of foreign currency trading, including currency swap operations, decreased by 49.9% and amounted to \$40.99 billion in January-April 2016, as compared to the same period of 2015. In total, trading volume on KASE amounted to \$94.44 billion in January-April 2016, which is 12.8% less than in the same period of 2015.
- The World Bank (WB) announced that it had lowered the forecast for Uzbekistan's GDP growth from 7.5% to 7.3% in 2016. According to the report of the WB, the lower prices for basic export commodities are the

main reason for the slower economic growth of Uzbekistan.

- According to the Kazakh state-owned railway company, Kazakhstan Temir Zholy, the volume of transit container shipping on China – Europe – China route through Kazakhstan increased by 205% in January-April 2016, compared to the same period in 2015. The net profit of Kazakhstan Temir Zholy stood at \$99 million in the first four months of 2016.
- The Information Support Department of the Cabinet's Executive Office of Kyrgyzstan reported that the public debt of the country reached \$3.6 billion or 255.3 billion soms. The public debt has reached 60.3% of GDP formed in 2015. It was also noted that in 2016 foreign creditors have written off \$43.5 million of Kyrgyzstan's debt preventing a sharp growth in the public debt for the Kyrgyz economy and ensuring its sustainable level.
- According to the National Bank of Kazakhstan, the country reduced export of goods up to \$8.4 billion in the first quarter of 2016, which is 30.5% less than in the same period of 2015. The export of oil and gas condensate decreased by 41.1% in value terms. The exports of other goods declined by 12.8%. The import of goods also decreased by 27.8% and amounted to \$5.7 billion in the first quarter of 2016 compared to the same period of 2015.

Society and Culture

- The countries of the former Soviet Union celebrated the 71st anniversary of the Victory in the Great Patriotic War by holding the military and immortal regiment parades.
- The President of Kazakhstan, Nursultan Nazarbayev, has signed a decree on 1-year moratorium on the latest amendments to the Land Code. According to the President, the mechanisms and norms of the new Law were not properly discussed with the public. During the moratorium period, new amendments would be reviewed, analyzed and clarified to the people.
- The U.S. Embassy in Uzbekistan announced the arrival of a humanitarian shipment of medicines to Uzbekistan. The shipment of medicines, donated by the pharmaceutical companies GlaxoSmithKline and Merck Sharp & Dohme is worth \$2.25 million.
- The Ministry of Labor and Social Development of Kyrgyzstan reported that until the end of 2016 the National Program of worthy old age would be written in the country.