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# News on Turkmen Gas.

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## TURKMEN GAS PRICE HIKE: CHALLENGE TO RUSSIAN MONOPOLY, OPPORTUNITY FOR EUROPE

by Vladimir Socor

On June 21, the government of Turkmenistan announced that it proposes to steeply raise the price of gas it sells to Gazprom: from \$65 per 1,000 cubic meters at present to \$100 in the second half of 2006. The volume of deliveries would remain constant at 30 billion cubic meters. Turkmenistan is giving Russia six weeks to sign a sale-purchase contract for the remainder of 2006 at the Turkmen-proposed price. Failing that, "Turkmenistan will stop the supplies," according to Oil and Gas Industry and Mineral Resources Minister, Gurbanmyrat Atayev, quoted by the Turkmen Ministry of Foreign Affairs communiqué. Atayev confirmed the six-week deadline and stoppage threat in a meeting with a European Parliament delegation the same day in Ashgabat.

President Saparmurat Niyazov first proposed the \$100 price to the visiting Gazprom chairman Alexei Miller in Ashgabat on June 19. Miller countered by proposing to retain the existing price until the end of the year at least. His apparent refusal to bargain must have offended the Turkmen side, provoking its stark public warning to Gazprom. Meanwhile, Gazprom sells Russian gas in Europe -- including small but growing volumes of Turkmen gas billed as "Russian" -- at an average price of \$230 per 1,000 cubic meters.

The bilateral contract, signed last December, sets the \$65 price for January-June 2006 and allows renegotiation of the price as part of a new contract for the second half of the year. Meanwhile, Turkmen deliveries to Gazprom in January-June ran behind schedule and can only be completed by late August, according to the Turkmen side; or even stretch into October, according to Gazprom in its damage-limitation scramble. The delayed deliveries will carry the old price, while the new price would apply to deliveries under a July-December contract.

Within Russia, Gazprom is reassuring consumers that the Turkmen price hike will not affect them, inasmuch as that gas is mainly intended for re-export, with Ukraine the primary destination. While correct as far as they go, such reassurances pass over in silence the major role of Turkmen gas in Russia's external economic, geopolitical, and financial agendas in the years ahead. Those agendas presuppose continuing extortion of Turkmenistan by Russia, buying Turkmen gas at far less than international market prices.

Under a 25-year, non-binding framework agreement, Gazprom has sought a permanent monopoly on Turkmenistan's gas exports. Controlling the sole major export pipeline out of Turkmenistan, Moscow apparently expects to maintain its transit monopoly and price-scissors for decades to come. From 2008 on, Russia plans to import vast quantities of low-priced Turkmen gas, use it for Russia's internal needs, and release equivalent amounts of Russian gas for high-priced exports to the European Union. Thus, Moscow would amass windfall profits as well as using its control of Central Asian gas as a geopolitical tool in Europe. With market dominance in Europe, a monopsony in Turkmenistan, and ownership of the "single export channel" from Central Asia to Europe, Moscow would practically dictate prices at both ends, at the expense of both Europe and Turkmenistan.

However, Ashgabat's abrupt price hike and cutoff threat adds to recent indications of its discontent with dependence on Russia and interest in developing alternative export outlets. Moscow's strategic agendas will be in jeopardy if Turkmenistan persists with raising the price of its gas to Russia toward international market prices. If gas-consuming countries become involved in opening direct export routes for Turkmen gas to international markets, bypassing Russia, a major dimension of Europe's energy predicament could find its solution.

Whether the European Union and the most responsible energy corporations (with Germany as a counterexample) are capable of promptly seizing the opportunity now suddenly opening in Turkmenistan is a question of a different order. For its part, Washington can now take the lead in reactivating the trans-Caspian pipeline project for Turkmen gas, originally a U.S. initiative that needs adjustment to the new conditions and close coordination with the EU.

#### TURKMEN GAS PRICE HIKE CAN HELP EMANCIPATE UKRAINE FROM ROSUKRENERGO by Vladimir Socor

Turkmenistan's proposal to raise the price of gas it sells to Gazprom, from \$65 per 1,000 cubic meters at present to \$100 in the second half of 2006, holds potentially momentous implications for Ukraine. It can help emancipate Ukraine from the RosUkrEnergo gas deal that poses serious risks to Ukraine's sovereignty, future prosperity, and political system.

At present, Russia uses most of its intake of Turkmen gas to supply Ukraine through the Kremlin-brokered RosUkrEnergo scheme. This took effect in January-February 2006 and is supposed to last for five years. Mixing large volumes of Turkmen gas priced at \$65 with smaller volumes of Russian gas priced at \$230, RosUkrEnergo sells the mix to Ukraine at \$95 per 1,000 cubic meters. This is a deeply discounted price by any European standard, a heavy subsidy designed -- along with distribution arrangements in Ukraine -- to facilitate deep Russian inroads into Ukraine's industry and political system. In effect, Moscow maneuvered Turkmenistan into subsidizing Ukraine's economy, albeit in ways that advance Russia's own interest to pull Ukraine into a relationship of dependence.

The RosUkrEnergo scheme is only made possible by exploiting Turkmenistan. The deal buys economic and political leverage for Russia in Ukraine and enriches an obscure Gazprom-connected group in the process, all at Turkmenistan's expense. When Moscow got Kyiv to sign onto that scheme in January and February 2006, it brought at least 20 billion cubic meters of Turkmen gas to the negotiating table just for the first half of this year, at the rock-bottom price of \$65, as a decisive Russian "near abroad" asset, even as Russia sells its own gas in the "far abroad" at \$230. Again, Russia's near-monopoly on the export of Turkmen gas made this possible.

From January through April 2006 (data for May are not yet available), RosUkrEnergo sold to Ukraine 15.6 billion cubic meters of "Central Asian" gas (presumably all of it Turkmen), mixed with 4.7 billion cubic meters of Russian gas (Concorde Capital [Kyiv], June 6).

Few governments or analysts asked in January-February whether Turkmenistan had freely consented to the RosUkrEnergo deal, let alone to colonial exploitation of its resources by Gazprom in perpetuity. Ashgabat's June 19-21 move suggests that it would not freely consent.

The Turkmen price hike could scuttle the Ukraine-RosUkrEnergo deal

and, with it, a key instrument of Russia's policy in Ukraine. To be sure, Moscow has all along cautioned that it might raise the price of the gas mix it sells to Ukraine. It could either hike the price of Russian gas in that mix "in accordance with market conditions," or raise the price of the whole mix in the event that Turkmenistan hikes the price of its gas. But these cautionary notes are calculated to keep Ukraine's government and key economic interest groups uneasy. Moscow wants to reserve for itself the decisions on prices, volumes, and schedules of delivery, in line with its economic and political strategy in Ukraine. Instead of this, Turkmenistan's price hike would force Moscow to raise substantially the price on RosUkrEnergo's gas sold to Ukraine. Meanwhile, in Kyiv's view, Moscow has no right to do so as the January 2006 agreements with Gazprom and RosUkrEnergo set the \$95 price for five years. Kyiv officials insist that any early increase above that level could mean collapse of the national economy (Vedomosti [Moscow], June 22).

Thus, Ashgabat's decision could nullify the value of a painstakingly assembled Russian mechanism of influence over Ukraine. Meanwhile, Ukraine faces a quantitative deficit of 10 to 12 billion cubic meters in its gas balance for the second half of 2006. Kyiv seeks to activate the December 22, 2005, agreement of intent whereby Turkmen gas was to sell 40 billion cubic meters of gas to Naftohaz Ukrainy in 2006, at prices of \$50 per 1,000 cubic meters in the first half of the year and \$60 in the year's second half.

Turkmenistan never implemented that agreement for a number of reasons, including: Moscow's slightly better price offer at \$65 from January 1, 2006; Gazprom's unwillingness to provide transit for Turkmen gas to Ukraine (a service that Gazprom had provided until December 2005); Ukraine's persistent inability to settle arrears for past deliveries of Turkmen gas, raising questions about solvency; and general mishandling of the negotiations with Ashgabat by Fuel and Energy Minister Ivan Plachkov and Naftohaz chairman Oleksiy Ivchenko, who also negotiated the RosUkrEnergo deal.

On June 20 (the day after Gazprom chairman Alexei Miller's failed talks with Turkmen President Saparmurat Niyazov), Ukrainian President Viktor Yushchenko telephoned Niyazov requesting that he receive Plachkov urgently for discussions on gas purchases and settling the arrears. However, Plachkov's concept would appoint the same RosUkrEnergo to act as transport operator of the new Turkmen gas supplies to Ukraine; and would only pay \$60 for Turkmen gas (that is, less than Russia's offer already deemed unacceptable by Turkmenistan), on the pretense that the December 22 agreement was a "contract." Regarding the arrears, Plachkov indicated while still in Kyiv that settlement of the remaining \$64 million is being postponed from June to October.

The June 22 nomination of Yulia Tymoshenko as prime minister, awaiting a new Orange coalition government, holds the promise of renegotiating the RosUkrEnergo agreements. Tymoshenko's first statement in her new capacity reaffirms that commitment, in line with her electoral campaign message. Turkmenistan's gas price hike to Gazprom should help dismantle the RosUkrEnergo deal.

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