

CENTRAL ASIA: THE RUSSIAN-IRANIAN-CHINESE TROIKA

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The relatively discreet inauguration on 6 January of the Turkmenistan-Iranian gas pipeline *Dauletabad-Sarakhs-Khangiran*¹ contrasts with the well publicised inauguration three weeks earlier, on 14 December 2009, of the Turkmenistan-Chinese gas pipeline *Saman Depe – Alashankou*. Taken together, alongside the resumption on 9 January of exports to Russia², we are witnessing the point of departure of a new and important episode in the geopolitics of gas in Central Asia. Since the beginning of January 2010, nearly all of the annual gas exports of Turkmenistan – some fifty billion m³ – is now headed in the direction of a *troika* consisting of Russia, China and Iran. The corollary to this fact is the relegation to the background of American-European gas pipeline projects and a profound modification of the gas landscape of Central Asia.

A new model of energy cooperation is being put in place in the region. It opens new pathways for transporting gas and, as regards Iran, makes a mockery of the threat of sanctions raised by the Western countries. The first, second and third largest reserves of gas in the world are held by Russia, Iran and Turkmenistan respectively. And in this affair, which will have profound consequences both for the strategy of the United States and for European ambitions in the field of energy, China has been playing since the beginning of the century the role of super consumer, par excellence.

1. Without complexes, Tehran is weaving its fabric

The new *Dauletabad-Sarakhs-Khangiran* gas pipeline has an annual capacity of 12 billion m³ and will now be used to supply the northern regions of Iran with about 6 billion m³ during the first year it enters service. It is expected to reach its full capacity in 2011. Together with the *Korpeje - Kordkuy*³ pipeline, which since 29 December 1997 has been supplying Iran with 8 billion m³ per year, beginning in 2011 Iran will import a total of 20 billion m³ of Turkmen gas.

¹ Dauletabad is the largest gas field now operating in Turkmenistan; Sarakhs is a city in Iran situated on the eastern border with Turkmenistan; and Khangiran is one of the most important gas refineries in Iran.

² These exports were interrupted following explosions of suspicious origin which occurred in the spring of 2009 within the network operated by Gazprom.

Cf. : <http://www.esisc.org/documents/pdf/fr/turkmenistan-le-gaz-sous-pressions-454.pdf>

³ The *Korpeje-Kordkuy* gas pipeline is 200 km long, of which 135 km passes through Turkmenistan territory. It links the gas field of Korpeje, north of the city of Okarem in the West of Turkmenistan with the Iranian city of Kordkuy. It was 90% financed by Iran.

By itself this new gas pipeline already constitutes a feat. Nearly 185 km long – of which 150 passes through Iranian territory- it took Iran and Turkmenistan just 6 months following their decision on construction taken in July 2009 to put it into service. The Russian-Turkmen dispute which paralysed gas exports to Moscow and which drained the state treasury of Turkmenistan goes far to explain the speed of this new pipeline's completion. It is connected to the Iranian network of gas pipelines and supplies the processing plant and major distribution centre of Khangiran in the northern Iranian province of Khorasan.

The mutual interest of both protagonists is obvious. On the Turkmen side, Ashkhabad is gaining an interesting guaranteed outlet in its southern neighbour and can calmly plan new transit routes to the world market in general, and to the European market in particular. On the Iranian side, the north of the country will no longer have to fear winter shortages. Tehran can now increase its gas exports and, above all, extract benefit from its favourable geographic position as a gas platform for Turkmen exports.

Tehran has also announced the conclusion of an agreement with Ankara for the transport of Turkmen gas to Turkey via the gas pipeline which, since 26 July 2001, has linked Tabriz, in the northwest of Iran with Ankara. With nearly 11 billion m³ per year⁴ capacity, this line makes Iran the main supplier of gas to Turkey. Turkey also is aspiring to the role of first rank platform for supplying energy to Europe. As a consequence, it could well be that Europe is on its way to losing the battle for direct access to the Caspian.

The Turkmenistan-Iranian gas pipeline plays on the Iranian policy of the United States. The Americans are threatening Iran with new sanctions and claim that Tehran is *'more and more isolated.'* This in no way has prevented the presidential airplane of Mahmud Ahmadinejad from flying off on a tour of Central Asia which will take him first to Tajikistan, then to Turkmenistan. Commenting on this visit, Sherali Gul, Tajik Minister of Energy and Industry, said on 24 January that his country *'attached the greatest importance to relations with Tehran'* and he stressed that *'the future development of these relations, in particular in the economic domain, is one of the priorities of Dushanbé.'*⁵ Upon Ajmadinejad's arrival in Turkmenistan, his counterpart, President Gurbanguly Berdimuhammedov, rolled out the red carpet for him. Washington's diplomacy of coercion is showing its limits. Turkmenistan is holding its ground before the American superpower and – still worse – by choosing to do business openly with Iran, it makes it seem routine.

2. Beijing leaves no stone unturned

China is demonstrating its economic and political ambitions on all fronts, in particular with regard to the Central Asian republics, which were hitherto largely under Russian influence. The opening on 14 December 2009 of an 1,833 kilometre long gas pipeline designed to transport Turkmen gas via Uzbekistan and Kazakhstan up to Xinjiang, from where it will later be linked to the Chinese network so that by 2013 Shanghai and Hong Kong are also connected, is just the most recent concrete expression of its aspirations.

Initiated by former Turkmen President Saparmourad Niazov, now deceased, a Chinese-Turkmenistan frame agreement was signed in 2006. One year later an agreement on operations and production and a commercial contract with thirty years duration were concluded. The same year, China and Turkmenistan initialed an agreement which enabled the start of construction. The real exploit is that it took less than two years to link Saman Depe in Turkmenistan to Alashankou in China, after having passed through Uzbekistan and Kazakhstan. Its path follows rather closely that of the ancient and mythical Silk Route, and it allows Turkmenistan to have gas markets different from those which *Gazprom* assured for it up to the present.

⁴ <http://encyclopedia.thefreedictionary.com/Iran-Turkey+pipeline>

⁵ <http://english.farsnews.com/newstext.php?nn=8811031368>

China is confirming its political and economic presence in the three republics, where it has been distributing a certain number of loans in exchange for projects involving energy production or infrastructures. The fact that these republics are mostly of Muslim culture does not seem to worry it. On the contrary: good relations with them will allow it to stabilise the province of Xinjiang, which has experienced, ever since July 2009, inter-ethnic and inter-faith rioting and clashes between Uighurs and Han Chinese. Once pacified and stabilised, this region could become the commercial and industrial centre for the transit of Chinese export products towards Central Asia.

The first deliveries to China will amount to 6 billion m³ in 2010 and progressively reach 40 billion per annum in 2015, i.e., nearly half of China's present consumption. The gas pipeline is supplied from the concession of Bagtyyarlyk, which since 2007 has been run by the *China National Petroleum Corporation (CNPC)*. This company already owns 67% of *PetroKazakhstan*. It has also taken control of *MangistauMunaiGaz*, the fourth largest Kazakh hydrocarbon company, in exchange for a line of credit of 6.8 billion Euros for Astana.

Turkmenistan has received a Chinese loan of 2 billion Euros for exploration in the Yolotan-Osman South gas field near the Afghan border. Aside from gas, an oil pipeline links the oil producing fields of the Caspian to Xinjiang and will transport each year nearly 20 million tonnes of petroleum beginning in 2011. Negotiations are also under way for projects over the tapping of Kazakh uranium reserves. Finally, China is very active in Kirghizstan, where it has numerous infrastructure and mining projects.

3. Moscow is displaying a calm attitude

The Russian authorities do not seem to be very perturbed over the growing importance of China in the Central Asian energy market. Thanks to the crisis, European requirements for energy imports have fallen considerably - down 30% in 2009 – and the producing countries of Central Asia are naturally turning to the immense possibilities of the Chinese market. For the Russians, the Chinese imports are not presently such as to deprive Russia of energy either for its own domestic and industrial consumption or for its exports. The presence of Russia in Central Asia is sufficiently well anchored to guarantee the continuation of its energy supplies. In reality, it is more important for Moscow to maintain its nearly monopolistic position as energy supplier to Europe. Insofar as the Central Asian countries have no need to build new gas pipelines allowing the producing countries to bypass Russian territory, the Russian authorities are satisfied. The latest developments surrounding the European project *Nabucco* are likely to reassure Moscow.

According to Andrei Grozin, director of the Central Asian Department of the Moscow-based Institute of the Community of Independent States (CIS), during the nine months when Turkmen exports were interrupted, Ashkhabad owed its financial survival solely '*to the generosity of the Chinese.*'⁶ A loan of 2 billion Euros arrived just in time to save the state of Turkmenistan from bankruptcy.⁷ And since China, unlike Russia, does not have the habit of wiping away the debts of recipient countries, sooner or later Turkmenistan will have to ensure repayment of this loan, even if the interest rates are minimal. In conclusion, this is a very relative kind of generosity.

In the view of Dimitri Alexandrov, an analyst in *Univer*, a Moscow-based investment group, '*geopolitics constituted the main obstacle to resolving the Russian-Turkmen dispute last spring because, apart from a purely economic problem linked to gas, it was political factors which delayed the conclusion of an agreement.*'⁸ During his visit to Turkmenistan on 22 December 2009, President Dimitri Medvedev succeeded in normalising the Russian-

⁶ <http://www.gundogar.org/?o2200489660000000000011000000>

⁷ <http://www.esisc.org/documents/pdf/fr/turkmenistan-le-gaz-sous-pressions-454.pdf>

⁸ Ibid note 7.

Turkmen energy links, which had become seriously distended. *Gazprom* Vice President Alexander Medvedev was especially pleased to announce this agreement, which covers the delivery of 30 billion m³ per year beginning in 2010, saying that '*for the first time in the history of Russian-Turkmen relations it will be done on a price formula perfectly suited to the conditions of the European gas market.*'⁹

According to Andrei Grozin, *Gazprom* will not pass up the slightest chance to renegotiate rates downwards during the course of 2010. It has all the more reason to do so given that the accord of 22 December seems not to have resolved all the Russian-Turkmen problems. Even if *Gazprom* returns to a purchase price of 200 dollars per 1,000 m³, this will still be more than Beijing or Tehran can offer. It therefore appears that this special rate is a poisoned gift which puts Ashkhabad in a delicate position vis-à-vis Moscow. At the same time, by tempting Turkmenistan with such rates, Moscow is displaying its determination not to leave any vital space for the alternative gas pipelines supported by the United States and the European countries.

Officially, Chinese-Russian relations are excellent. But if China's advance into Central Asia were deemed to weigh too heavily on the energy interests of Moscow and of *Gazprom*, there can be no doubt that the Russian authorities would seek ways to counter it. This could range from a certain agitation at the borders to a strategic re-balancing of Moscow in the direction of Europe. On the one hand, Beijing manifestly wants to continue to export its products calmly towards Central Asia and Russia. There is no lack of tensions with Central Asia and it would have everything to fear if these countries set up protection on their borders. For example, China and Kazakhstan have a dispute over the sharing of water from rivers on their borders., the Chiatura Irtych and the Ili. The farmers of Xinjiang draw water from these rivers to irrigate their crops. On the Chiatura Irtych, the Chinese have created a dam and control the flow of the river. The re-balancing under consideration could concern the *Shanghai Cooperation Organisation (SCO)*. The initial idea of this organisation was to counter growing Western influence, in fact that of the United States and of *NATO*, in the Caucasus and in Central Asia. One can imagine that the interest recently shown by President Medvedev for a strategic alliance with the European Union could be the result, in part, of Russia's desire to recalibrate the equal balance that Moscow is trying to maintain between Europe and Asia.

When they concluded the agreement on resumption of deliveries, President Medvedev and his Turkmen counterpart also signed documents of intent relating to the construction of two new pipelines. The first of these is a coastal pipeline which will go along the littoral of the Caspian Sea and is expected to link Turkmenistan with Russia by passing through Kazakhstan. The second project concerns an East-West gas pipeline which will connect gas fields in the eastern part of Turkmenistan with the Caspian coast. At the conclusion of this visit, during a joint press conference, the two presidents were keen to reaffirm the bonds of friendship which unite their two countries and to stress the commonality of their views on the issues of regional security as well as their determination to deepen and reinforce their cooperation¹⁰.

Washington's energy strategy in Central Asia and in the Caspian Basin – to contain Moscow, to sideline Beijing and to isolate Tehran – clearly seems to be marking time. Still more, the signing on 14 October 2009 of an agreement between Russia and Azerbaijan¹¹ covering an

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http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=35866&tx_ttnews%5BbackPid%5D=407&no_cache=1

¹⁰ http://www.rferl.org/content/Turkmenistan_To_Restore_Gas_Supplies_To_Russia/1910511.html

¹¹

http://www.rferl.org/content/Azerbaijan_Criticizes_Turkey_Over_Gas_Prices_To_Seek_New_Routes/1853890.html

initial quantity of 500 million m³ of gas per year, allows Moscow to envisage the doubling of its imports of Azerbaijani gas, thereby reducing a bit more the ability of the Western powers to keep Baku as a supplier to *Nabucco*.

4. Conclusion

During its closing months, the year 2009 was marked by a formidable acceleration of the Great Game in energy supplies. The year 2010 has started out following the same tempo. Barely three weeks went by between 14 December, the date of the inauguration of the Turkmenistan-Chinese gas pipeline, 27 December, the date of the opening by Russian Prime Minister Vladimir Putin of the oil terminal in Nakhodka, to the east of Vladivostok, which is supplied by a gigantic pipeline costing 15 billion Euros running from the oil fields of Eastern Siberia and opening the way to China and the Asia-Pacific region, and the inauguration on 6 January of the Turkmenistan-Iranian gas pipeline. In this short period, the energy map of Eurasia, of the Caspian Sea Basin and of Central Asia was substantially redrawn.

Taken together, the two Russian gas pipeline mega-projects designed to serve Northern and Southern Europe, *Nord Stream* and *South Stream*, show clearly that they have truly reached the point of no return.

The final obstacles which could still delay *Nord Stream* were removed when Denmark, in October, and Finland and Sweden, in November, plus Germany, in December, gave the green light following environmental reviews to this 8 billion Euro project. While avoiding the transit routes dating from the Soviet era - Ukraine, Poland and Belarus – it will link up the port of Vyborg, in the northwest of Russia and the German port of Greifswald after passing along 1,220 km under the Baltic Sea. The first phase of this gas pipeline, with a capacity of 27.5 billion m³, will be completed in 2011 and plans call for doubling its capacity in 2012. All observers agree that it will profoundly affect the geopolitics of Eurasia, the trans-Atlantic equations and ties between Russia and the European Union.

Like its twin brother, *South Stream*, which passes under the Black Sea, is forecast to link up Russia and Southern Europe in 2015. For this project, which has a capacity of 63 billion m³ per year and competes with the European project *Nabucco*, the Russian gas giant *Gazprom* has obtained support from two heavy-weight allies, Italy's *ENI* and France's *EDF*. In recent months the advantage of *South Stream* over the *Nabucco* project has become crushing. In its January 2010 issue, the French monthly *Expansion* published an article which is patterned on the automobile magazines and their well-known comparison tests. The title is '*The match between the future European gas pipelines.*' At the end, *South Stream* outclasses *Nabucco* by 4 to 1. There is a final judgment from the former President of *Gaz de France International*, Jacques Deyrimentjian who says that '*in the collection of howlers in the gas industry, the idea of building a gas pipeline without having found the gas which it will transport is the primordial error.*'¹² Even though the anticipated annual capacity is just 31 billion m³, it is most likely now that *Nabucco* will encounter very big difficulties finding supplies.

Thus, the year 2010 begins on a new and fascinating note. The light music of the Russian-Iranian-Chinese trio may resonate for a long time in the ears of the Europeans and Western powers generally. This will be the case, above all, if the protagonists of the '*triple alliance*' succeed in harmonizing their competitive interests and in coordinating their future movements.

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¹² L'Expansion, January 2010.