

In the hunt for Caspian Gas, the EU can learn from China

Alexandros Petersen

The prospect of reaching European markets once excited oilmen in the energy-rich Caspian countries of Azerbaijan, Kazakhstan and Turkmenistan. Now, the famed Baku-Tbilisi-Ceyhan oil pipeline has been built and the State Oil Company of Azerbaijan Republic (SOCAR) is on the cusp of realising a natural gas line through Turkey that will finally get the long-stalled Nabucco project going. On the eastern side of the Caspian, Kazakhstan and Turkmenistan's major energy partner is China. As the uneasy grouping of European governments, EU negotiators and Western companies dithered, China worked to create the world's fastest-built natural gas pipeline, linking Turkmenistan's vast southeastern gas fields with Kazakhstan and Uzbekistan's formidable reserves to help slake the second-largest economy's seemingly unquenchable thirst for resources. This has caused a split down the middle of the sea. For the moment, most resources on the western side go West, and most resources on the eastern side go East.

This may change in the coming years, but only if European decision-makers do what they have not yet been able to muster: coordinate effectively with the other energy players in the region, Western and local, private and public sector. They also need to modify European approaches to the holders of the gas, in both Azerbaijan and Turkmenistan. At the moment, both are building their own pipelines heading west, largely because they became fed up with the incessant disorganisation and non-seriousness of European efforts. For years, it was the US Special Envoy for Eurasian Energy, Richard Morningstar, who kept the flame alive for Caspian gas exports to Europe. He visited the region and made the argument for coordinated efforts to industry and producer countries far more often than his European counterparts. The United States has wisely broadened its energy diplomacy portfolio recently, creating an entire Bureau in the State Department for Energy Resources. This means that while there will be US support for Caspian gas going to Europe, it will be Brussels and key European capitals – working in conjunction – that will have to take the lead.

China's efforts in Turkmenistan show how it is done. Plans now call for Turkmenistan to export 65 billion cubic metres (bcm) of gas to China annually, more than double that envisioned for the largest capacity version of the Nabucco pipeline. At the moment, exports amount to well over 10 bcm, the final amount that EU policymakers are likely to request from Ashgabat. Two strings, or portions, of the Central Asia-China pipeline are already completed, connecting Turkmenistan to China through Uzbekistan and Kazakhstan. A third is already under construction along the original route and a fourth would potentially take an alternative path through relatively stable northern Afghanistan and Tajikistan to China's Xinjiang province and thence onward to the burgeoning east coast. The pipeline was operational a record 18 months after its original announcement. In contrast, Western companies and policymakers have been mulling over a Trans-Caspian gas pipeline for more than a decade and a half.

Turkmenistan has long made clear that its policy is to "sell gas at the borders", i.e. not to get involved with complicated and costly energy transit projects outside of Turkmenistan, but rather to wait for other governments or companies to build the required infrastructure to Turkmenistan. It also has a policy of restricting production sharing agreements (PSAs), the preferred arrangement for Western companies, to offshore reserves. The idea is that with infrastructure built to the country's borders, Turkmenistan's government-controlled firms can produce their own gas onshore, reaping most of the benefits without troublesome foreign meddling. For years, the Western approach was to try to convince decision-makers in Ashgabat to amend their policies or bend their rules.

China's calculation was that if one is serious about getting gas, one should work with the terms put in place by the holder of the gas. The China National Petroleum Corporation (CNPC) built the pipeline, with regional contractors, in record time. As part of the deal, it was promptly awarded onshore production rights – the only foreign company afforded the privilege. It did not hurt that it provided Turkmenistan with over eight billion USD in soft loans linked to these deals. It is now working onshore, on the eastern side of the Amu Darya river, as well as in South Yoloton, recently renamed Galkynysh, the world's second-largest gas field. CNPC may well be poised to develop other fields in the country's east, but also in western onshore and maybe even Turkmenistan's offshore Caspian reserves. There is speculation that the East-West or Trans-Turkmen pipeline currently being built by Turkmen Oil and Gas Construction has not only been funded by Chinese soft loans, but

might even have Chinese advisers working on it. Whether or not this is true, CNPC is certainly staying for the long term: it just built a brand new, large office building in Ashgabat.

Turkmenistan watchers widely agree that of all the powers vying for a piece of Turkmenistan's pie, China now has the inside track with the Presidential Administration and the State Agency for Management and Use of Hydrocarbon Resources. This is because they have made an effort. Apart from the CNPC's activities, Beijing and Ashgabat have created the Turkmen-Chinese Cooperation Committee (TCCC), which regularly brings together policymakers from both countries not just to look at energy concerns, but a whole host of issues organised into smaller sub-committees. No such regular consultative group exists between the EU and any of its Caspian energy partners. Turkmenistan's president, Gurbanguly Berdymukhammedov, has also been feted in Beijing on several occasions, the most recent invitation being for the Shanghai Cooperation Organization (SCO) Summit in June, even though Turkmenistan is not a member of the group. Berdymukhammedov's only visit to Brussels, in 2007, was brief and very much a working visit.

China's President Hu Jintao and Premier Wen Jiabao have both held successful visits to Ashgabat. When European Commission President José Manuel Barroso visited last year, the Turkmens remarked that they were not sure why he was coming. There was apparently nothing new on the agenda. This was the EU's follow up to a disastrous meeting in 2008 in which Benita Ferrero-Waldner announced that she had convinced Turkmenistan to join the Nabucco pipeline project. Of course, she had done nothing of the sort, and Ashgabat promptly distanced itself from a bumbling Brussels.

So, how can European gas consumers get a foot in the door to the world's fourth-largest gas reserve? There is one issue that haunts the development of offshore Turkmen reserves and by extension the construction of a Trans-Caspian pipeline. Although the pipeline itself would be relatively simple and cost-effective to build – it would simply connect existing offshore infrastructure in the middle of the Caspian Sea – it is hampered by a dispute between Azerbaijan and Turkmenistan over two gas fields: Serdar/Kyapaz and Omar-Osman/ACG. The dispute flared up again this summer when diplomats from both countries exchanged barbs. Energy Commissioner Günther Oettinger has been tasked with mediating between Ashgabat and Baku and so far has done an admirable job. He was also part of discussions in Ashgabat earlier this month that included an offer from Ankara to act as mediator.

The EU is of course not China. It does not have the luxury of a close symbiosis between policymakers and state-owned energy companies. The EU does not have endless capital that it can funnel towards projects it deems strategically important. Western companies are in turn hampered in their business dealings due to anti-corruption regulations that do not take into account the realities of working in the non-Western world. Western policymakers must also balance public perceptions when dealing with governments such as those in the Caspian. But none of these are excuses for a record of ineffectiveness over a decade and a half. Compared to the EU and Western companies, China is a newcomer to Turkmenistan. Yet it has achieved far more than Brussels could ever have dreamed.

The age-old problem remains: despite the fact that EU representatives say it all the time, Europe does not speak with one voice. Brussels would do well to work on building a wide-ranging coalition, including US diplomats – who have the longest track-record of mediating on this issue – their Turkish counterparts and most importantly energy company representatives, to coax Ashgabat and Baku to come to a final agreement soon. Instead of seeking to 'score a goal' with Ashgabat, European policymakers should take a page out of China's playbook and focus on taking Turkmenistan seriously before they start asking of it its lifeblood.

Alexandros Petersen is the author of 'The World Island: Eurasian Geopolitics and the Fate of the West'. He serves as Advisor to the European Energy Security Initiative at the Woodrow Wilson International Center for Scholars. His latest research is available at www.chinaincentralasia.com