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## **GAZPROM PAYS PEANUTS FOR UZBEKISTAN'S GAS BUT INVESTMENTS CONTINUE**

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Russia's energy behemoth Gazprom has revealed the amount it is paying in a mid-term deal for the delivery of natural gas from Uzbekistan, and it is not very much.

RIA-Novosti reported on April 12 that Gazprom Export, an affiliate of the Moscow-based company, said its five-year contract to supply 4 billion cubic meters of gas annually from 2018 is worth a total of \$2.5 billion. That translates into \$125 per 1,000 cubic meters delivered.

The deal struck at the start of April has been cast as historic for how long it runs before expiring – long enough to ensure some certainty of cash transfers in economically uncertain times, but not so long as to make the hedge feel semi-permanent. Gazprom has historically favored calculating gas supply agreements in Central Asia in decades rather than single years.

Despite that spin, the deal evidently signals a noteworthy withdrawal by Russia from the Central Asian market. Gazprom bought 6.2 billion cubic meters of gas from Uzbekistan in 2016 and is buying only 5 billion cubic meters this year, so the five-year deal represents another drop.

And Gazprom has recently reiterated that it has no intention of resuming gas supplies from Turkmenistan.

As to the question of why Gazprom is buying the gas when it has more than enough of its own, the explanation is offered succinctly by Mikhail Krutikhin, an analyst with RusEnergy, writing in Russian weekly magazine New Times.

Gazprom sells its Uzbek gas to the southern regions of Kazakhstan, and in exchange on the Kazakhstan-Russian border it receives fuel for its gas refinery in Orenburg [in Russia]. This plant is heavily reliant on these foreign deliveries, which average around 8 billion cubic meters annually. And these substitution schemes, whereby the deliveries are partly compensated for by the gas from Uzbekistan remains in place, although the Kazakh are gradually working out the supply to their southern regions with their own gas, which will make Uzbek deliveries less critical than they are now, he wrote.

Krutikhin looks at the matter from an understandably Russian perspective and speculates about the implications of Kazakhstan gradually meeting its own demands internally.

The survival of the Orenburg plant would remain in doubt, he said.

But significance for Uzbekistan is hardly any less grave since it would – as is happening to Turkmenistan now – be reduced to a dwindling set of options about where to export its gas other

than China.

That said, Uzbekistan currently struggles to meet even internal demand, leading to thousands of households having to go without gas supplies at times of peak demand, such as in the winter. A gradual transition to a market-based internal distribution could prove more advantageous than any deal with Gazprom, but that scenario would require a substantial improvement in household incomes if it is not to cause deep and perilous discontent.

Gazprom's relationship with Uzbekistan goes back many years.

In 2002, it signed an strategic partnership deal with Uzbekneftegaz that envisioned its participation in production sharing agreement (PSA) projects to pump gas in Uzbekistan. That is now bearing fruit.

In 2004, Gazprom began producing gas at the Shahpahty field under a PSA. Between August 2004 and July 2010, the field saw an output of 1.5 billion cubic meters of gas.

In 2006, Uzbekneftegaz and Gazprom entered another agreement on the conditions for joint explorations at investment blocks in the Ustyurt region, where reserves of gas are estimated at around 120 billion cubic meters of gas. At the end of the year, Uzbekneftegaz granted Gazprom exploration licenses for seven investment blocks — investment into exploration was valued at \$400 million.

A breakthrough came in 2009, when the Dzhel natural gas field was found on the Ustyurt plateau. A PSA is reportedly in the works there too, but it is unclear what stage things are at on this front.

Both Shahpahty and Dzhel are located in the remote western deserts of Uzbekistan.

In February, Alisher Sultanov, chairman of Gazprom affiliate company Gas Project Development Central Asia, or GPD, predicted that there were imminent plans to sign a PSA between Gazprom and Uzbekneftegaz on yet another investment block — Independence of Uzbekistan (Uzbekiston Mustakilligi), in the southern Surkhandarya province.

We plan to sign the PSA during the visit of the president [of Uzbekistan] to Russia in April, he said at an intergovernmental commission in Tashkent on cooperation between Russia and Uzbekistan.

Sultanov admitted that the project was fraught with complications.

This is not the easiest field, the geology and the gas content is complicated, he said.

And that PSA was indeed signed during President Shavkat Mirziyoyev's visit to Moscow — making it the second PSA between Gazprom and Uzbekistan — although no useful details have been divulged by either party. The deal appears to require the near-site construction of a gas refinery facility, which implies a serious commitment.

While Gazprom may not be interested in buying huge amounts of Uzbekistan's gas, it evidently sees a commercial future in investing into producing fuel there.