GAZPROM WRAPS UP PIPELINE OVERHAUL IN KYRGYZSTAN

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Kyrgyzstan has affirmed its growing ties with Russias Gazprom during a ceremony to mark the launch of an overhauled section of a cross-country gas pipeline.

Top Kyrgyz officials met with the state-owned companys chief Alexei Miller in Bishkek last week to unveil a renovated 111-km stretch of the Bukhara Tashkent Bishkek Almaty (BTBA) gas trunk line The Soviet-era pipe carries gas from fields in southern Uzbekistan to supply-deprived areas in Kyrgyzstan and southern Kazakhstan. The pumping capacity of the section in question has now been doubled to around 3.9 bcm per year, Gazprom said in a press release on August 29.

Miller noted that the renovation of the BTBA line had great significance to Central Asia as a whole and would help ensure supply security both in Kyrgyzstan and Kazakhstan. The pipeline was built during the late 1960s and early 1970s but fell into disrepair following the breakup of the Soviet Union. Gazprom began modernising the line in August 2015 and originally aimed to complete it before the end of 2016.

Total control

Gazprom has dominated Kyrgyzstan ever since it purchased the countrys grid operator Kyrgyzgaz in mid-2013 for a symbolic US$1. Under the deal, the Russian giant took on the utilitys US$40 million of debt and pledged to invest at least 20 billion rubles (US$346 million) in repairing and expanding the national gas network. Kyrgyzgaz was later rebranded as Gazprom Kyrgyzstan. The Russian supplier now serves all of Kyrgyzstans gas, which it buys from neighbouring Uzbekistan.

The Kyrgyz government welcomed Gazproms takeover of its gas grid as a means of safeguarding against supply cuts and diplomatic pressure.

Previously Bishkek had bought gas directly from Tashkent, which under the rule of late president Islam Karimov often used these supplies as a political tool. Uzbek authorities were able to exploit

Kyrgyzstan and Tajikistans dependence to charge higher prices, causing them to accrue debts. This eventually led to Uzbekistan halting deliveries to Tajikistan in 2012 and Kyrgyzstan in 2014. Now, with Gazprom in charge of purchasing, supply disruptions are no longer a problem.

Unpaid tab

Kyrgyzstans newly appointed prime minister, Sapar Isakov, took the opportunity last week to highlight that gas prices in the country had fallen steadily in recent years under Gazproms watch. The Russian company charges Bishkek a wholesale price of US$150 per 1,000 cubic metres, following a revision from US$165 in April of last year. As of May this year, residential gas tariffs in Kyrgyzstan were fixed at 14,190 som (US$207) per 1,000 cubic metres, while rates for industry were set at 17,420 som (US$254).

Gazprom revealed earlier this year that it buys this gas from Uzbekistan from just US$125 per 1,000 cubic metres. While this would suggest a profitable operation, the Russian supplier has struggled to get its Kyrgyz customers to pay for fuel.

Non-payment in Kyrgyzstan is a really big problem, Igor Yushkov, a senior analyst at the Moscow-based National Energy Security Fund, told NewsBase Intelligence. The population has a relatively small income, which is why it is difficult to pay bills [and] as in many other countries in the former USSR, gas is perceived as a guaranteed benefit from the state.

As a result, Yushkov said that consumers that did not pay their bills often continued receiving gas.

In early 2016, a dispute over the non-payment of a German glass manufacturer in Kyrgyzstan prompted local Gazprom officials to warn that a supply cut to the whole country was possible. Ultimately, though, the supplier did not follow through on its threat. Gazprom also sought to cut losses by requesting last year that users pay off part of their debt in return for the remainder being written off. Still, it seems unlikely that the company will manage to enforce payment discipline in the Central Asian state given low wages and ingrained cultural norms.

These problems have undermined Gazproms financial position in the country, although the extent is difficult to discern, as the company does not publish separate results for its Kyrgyz business.

Political aims

Gazproms interest in Kyrgyzstan is largely driven by political rather than commercial considerations, according to Yushkov.

Moscow is looking to expand the Eurasian Economic Union (EAEU) project, so it needs to offer Kyrgyzstan favourable economic conditions, he told NBI.

As part of Russian efforts to win influence in Bishkek, Gazprom committed last year to investing around 100 billion rubles (US$1.73 billion) in expanding Kyrgyzstan gas grid by 2030. Under this scheme, the supplier aims to provide 60% of Kyrgyz territory with access to gas, versus 26% currently.

Gasification is beneficial where there is effective demand, Yushkov said. While there are no such conditions in Kyrgyzstan, gasification will continue, as Gazprom assumed these obligations.

Further ahead, Bishkek is hoping to secure even cheaper gas when the EAEU unveils its common market for the fuel in the mid-2020s.

Kaynak/Source: