THE GROWING ROLE OF NATURAL GAS IN THE EURASIAN ENERGY GAMES

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Introduction

An analysis of the current economic and geopolitical processes on the Eurasian continent shows the growing importance of natural gas in the competitive struggle unfolding among the leading industrial countries and organizations for priority access to primary energy sources.

There are many reasons for this keen interest in natural gas. First, the industry's experts are forecasting a probable change in the traditional structures of world energy consumption in the next few decades due to the anticipated drop in oil production at currently exploited fields, which will have a detrimental effect on the overall world production of this primary energy resource.

Despite directly opposite forecasts that rely on positive estimates of land-based, deep sea, and offshore oil reserves, pessimistic moods nevertheless prevail.

Moreover, the forecasts of an increase in global energy consumption, the growth rates of which can no longer be fully met by oil as in the past, are another reason for the growing interest in natural gas.

Yet one more important reason for this is environmental protection, particularly where the Western political-economic expanse is concerned. Keeping in mind that environmental levers are becoming an important tool in the policy of Western countries, adherence to environmental requirements and preservation of the biosphere could artificially whip up natural gas consumption rates throughout the world. Western environmental organizations are becoming increasingly adamant about reviewing the energy consumption structure of other states and demanding a transfer to more environmentally friendly types of energy.

There is talk that natural gas is becoming the frequent focus of attention due to the extreme politicization of the oil factor. According to some data, in recent years political risk has hiked up the price of a barrel of black gold by 75-80%.

However, it should be kept in mind that politicization of the natural gas factor is also only a matter of time. It is actually already becoming increasingly clear. There is nothing surprising in this, since it is an objective process characteristic of any sphere that plays a specific role in the development and security of the economic system of a particular state or interstate organization.

Several multidirectional trends are promoting and will continue to promote politicization of the gas factor in Eurasia in the next few years.

First, this applies to competition among the leading continental economic forces for priority access to gas production and its transportation routes. This rivalry will grow since more and more players are joining the game. Whereas the continental energy development vectors with respect to consumption were dictated in the past by the Western European countries, the Asian economic boom changed the configuration of the market. The recent powerful industrial upswing in Asia caused by China and India's tempestuous economic growth has already placed the Asian mar-

ket among the global leaders in terms of oil consumption rates. It appears that South and Southeast Asia will also soon be determining the trends on the global gas market.

Second, there is latent and blatant rivalry between the consumers and producers of natural gas. The gist of the matter is that both the first and the second are trying to ensure the most favorable price and transit conditions for themselves, acquire political advantages, and gain access to production, pipeline, and distribution facilities.

The diverging interests are leading to squabbling and contradictions. This is particularly clear if we take the example of Russia's tension with the post-Soviet transit countries and consumers—Ukraine, Belarus, Georgia, Moldova, and the EU. It is logically leading to attempts to coordinate the activity of suppliers, on the one hand, and consumers, on the other.

Third, there is rivalry within the group of producers that runs parallel to the attempts to coordinate activity and is generated by the natural laws of market competition. Each producer is trying to increase its own share on the gas market, push forward its own pipeline projects, and attract foreign investments into the development of new gas fields. Meanwhile, rivalry within the group of producers can also be provoked in some cases by consumers who are trying to prevent cartelization of the delivery market. They are joined, in the form of junior partners, by new players who are attempting to stake out even the smallest segment for themselves on the consumption market, so are ready to make several concessions, even going as far as selling gas at prices lower than those offered by traditional exporters.

The economic estimates of prestigious analytical centers are also pointing directly to the high likelihood of greater rivalry on the world natural gas market. According to the assessments of America's Energy Information Administration (EIA), world consumption of natural gas should grow from 3.3 trillion cubic meters (tcm) to 5.4 tcm by 2030. Blue fuel will occupy the second place after coal in terms of consumption increase.[1]

Industry and electrical power engineering will continue to be the main consumers of this type of primary energy. Despite the fact that the percentage share of natural gas consumption in the industrial sector will be 43% of the total blue fuel consumption volume (in 2004, it was 44%), there will be a rapid increase in quantitative terms that will outstrip the increase in consumption of liquid hydrocarbons. The annual growth in the industrial sector's demand for natural gas will amount to an average of 1.9%, while the demand for liquid hydrocarbons will be 1.1%.

According to the EIA, the new industrial states will demonstrate the highest blue fuel consumption growth rates. For example, whereas in 2004, the industrially developed countries of the Organization for Economic Cooperation and Development (OECD) accounted for half of all the natural gas consumption in the world, and those countries not belonging to the OECD for 25%, as of 2007, the second group of states demonstrated growth rates that were twice as high as the demands in the OECD zone. Until 2030, the ratio will be 2.6% to 1.2%.

The ratio of own production to consumption will undergo dramatic changes. In 2004, the OECD countries accounted for 40% of the world's gas production and for 52% of its consumption. It is forecasted that by 2030, these indices will amount to 27% and 43%, respectively, whereby average annual production will grow by only 0.4% and consumption by 1.2%. This will result in an increase in the dependence of the developed countries on imported primary energy resources, the volumes of which will grow from 22% to more than 30%.[2]

As mentioned above, the increase in consumption and greater dependence on imports may directly aggravate rivalry, both among the importers and between the importers and suppliers, as well as promote a permanent change in the configuration of partner ties and the appearance of various large-scale projects with far-reaching geopolitical consequences.

[1] See: Energy Information Administration / International Energy Outlook 2007, Chapter 4, Natural Gas.

[2] Ibidem.

European-Russian Segment of the Eurasian Natural Gas Market

At present, the gas axis on the Eurasian energy market is composed of the Russia-EU dyad. The Russian Federation plays the role of natural gas supplier in it, while the European Union is the largest importer of Russian gas.

Today, Gazprom, Russia's monopolist, is delivering more than 150 billion cubic meters (bcm) of natural gas to the European market, thus satisfying a quarter of all the EU's needs. Gazprom is the main energy partner of many European Union countries. For example, Germany meets 43% of its gas needs by means of Russian imports, Italy—30%, Hungary—62%, the Czech Republic—84%, Slovakia and Finland—100%, Bulgaria—89%, Greece—96%, Poland—47%, and France—26%.

Despite the fact that the interdependence between the RF and EU in the gas industry is very high, during the last couple of years these countries have been encountering serious crises which are having a noticeable effect on the entire Eurasian blue fuel market.

Russia's claims to world leadership in the energy sphere, which do not suit Europe and its trans-Atlantic partner, the U.S., form the tip of this iceberg of contradictions. These aspirations began to appear at the beginning of the war on Iraq, which brought about a rapid upswing in hydrocarbon prices.

Although Moscow was and still is opposed to Washington's Iraqi campaign, this war turned out to be an economic boon for it. A significant flow of hard currency revenue from the sale of oil and gas poured into the country, the Russian market became an advantageous entity for foreign investors, national energy companies became noticeably stronger, and the country's gold and currency reserves increased, moving Russia up to third place in the world in terms of this index after the PRC and Japan.

The importance of the problems of the world's energy industry put the country in the limelight as a guarantor of world energy stability. The energy industry should have returned Moscow to the embrace of the global players, and there was every reason for this, if we take the resource indices into account.

For example, Russia's gas resources amount to more than 56 tcm, which corresponds to 27.7% of the world's proven reserves (first place). Gazprom accounts for more than 60% of this amount (or 30 tcm). Russia is producing up to 640 bcm annually, more than 560 bcm of which are generated by Gazprom. According to the forecasts of Western analysts, in the next two decades, the average annual production increase in the Russian Federation will remain at 2%. Russia is exporting more than 200 bcm of blue fuel a year.

Gazprom has the largest pipeline network in the world, via which gas is delivered to the country's internal regions, as well as to 32 CIS and Far Abroad states. What is more, Russia is the leading inner-continental transit state through which blue fuel is transported from Central Asia.

However, Russia's attempts to use natural gas and oil as a way to achieve goals other than economic are arousing noticeable disquiet in the U.S. and EU. Washington is apprehensive about processes emerging and evolving on the Eurasian continent that it cannot control, since the White House has traditional geopolitical claims in this region of the world.

American strategists understand that Eurasia is a key continent, the breakdown in forces on which directly influences all of global policy. In this respect, Russia's efforts to position itself as an independent guarantor of the Eurasian and global energy industry cannot help but arouse anxiety in the U.S.

In Europe, the Baltic countries and Poland are acting as consistent critics of Moscow's global energy plans. They believe that in time, the Russian Federation will try to convert its growing energy and economic influence into political clout, and this will have a direct effect on the fate of the entire European political expanse.

Whereas during the time of Jacques Chirac and Gerhard Schroeder, the leading European states did not entirely share the worries of the young East Europeans, after the changes in the political picture in France and Germany, pessimistic moods have begun to increasingly predominate in the EU regarding the prospects for a Russian-European energy dialog. In so doing, the matter does not concern curtailing cooperation, which is essentially impossible, it concerns the reaction to the new economic and political reality.

The misapprehensions overwhelming the European political circles have specific aspects. Firstly, many people in Europe believe that they are too much at Russia's mercy, particularly against the background of the European countries rather inauspicious energy prospects. For example, there will be a growing imbalance between the increase in consumption and their own production.

Natural gas consumption in the European OECD member states will increase at rather high rates, by 1.4% on average a year. Whereas in 2004, overall consumption of this primary energy resource amounted to 626 bcm, by 2015, it will grow to 760 bcm, and in 2030, it will reach a level of almost 900 bcm. This will largely be promoted by the EU's policy aimed at increasing the share of natural gas in the production of electric power and at reducing the role of the energy-producing facilities that operate on coal, oil, and nuclear feedstock.

The increase in natural gas consumption will go hand in hand with the forecasted decrease in its proven reserves. They are already on the decline today, mainly in Europe's energy region, the North Sea. According to the latest data, reserves have decreased by 400 mcm in the Netherlands and by 66-67 mcm in Norway and Great Britain.

The specific instances of Moscow halting natural gas deliveries during the price disputes with Ukraine and Belarus are also adding to Europe's anxiety. The cutback in blue fuel deliveries to these countries was perceived as a threat to European energy and political security.

Nor does the promotion of Russian companies that have noticeably augmented their financial potential as a result of the increase in hydrocarbon and mineral prices suit the Europeans. The EU states are not happy about the fact that Russian capital is trying to buy up the most important facilities of Europe's economic infrastructure, including energy distribution networks, thus hoping to acquire access to the main source of financial flows, the end consumer.

Many people in Europe and in the West as a whole are also expressing doubts about Moscow's ability to guarantee the EU's energy security with respect to primary energy resources. The European Union has no doubts about Russia's vast potential and proven reserves, the doubts are aroused by the sources of blue fuel already in operation. By way of example, data are presented about depletion of the reserves of such giants as the West Siberian Medvezhie, Yamburg, and Urengoi fields, where 70% of Gazprom's primary energy resources are produced.

To this can be added the increase in natural gas consumption within Russia due to its tempestuous economic growth. At present, up to 435-440 bcm a year are consumed on the domestic market, and this volume will keep rising, which is also confirmed by Russian analysts, some of whom are generally in favor of a significant decrease in gas exports in order to guarantee problem-free provision of Russia's burgeoning economy with this type of primary energy resource.

In turn, official Moscow is trying to convince the European capitals that their anxiety is unfounded. The Kremlin has repeatedly stated that it was and is still Europe's reliable economic partner and intends to fully guarantee the energy security of its economy in the future.

Russia also evaluates the policy of its energy giants aimed at gaining access to the energy infrastructure of the European countries as an attempt to intensify integration of the two leading continental markets. In so doing, examples of granting several Western companies access to the development of promising gas fields, for example, South Russian and Stockman, are presented as proof of just how genuine its intentions are. The Russian expert community often claims that there is nothing unusual

about national companies wishing to penetrate the EU economy, since this corresponds to the "free market" principles that the West customarily practices and promotes throughout the world.

With respect to the energy wars with Ukraine and Belarus, Moscow claims that this is merely the price that has to be paid for contemporary pragmatic policy regarding the new regulations in economic relations with traditional partners during the transition to mutually advantageous gas trading conditions on the market.

But it appears that the level of mutual mistrust is continuing to rise, and the sides are unable to resolve their current problems. Yes, widespread cooperation is going on today and joint production and pipeline projects are being implemented. But behind this façade, a fierce battle is being waged for the right to priority access to natural gas reserves and to determine primary energy resource transportation routes. Its outcome could significantly shape the future configuration of the Eurasian gas market and have serious geopolitical consequences.

The EU's Strategic Steps to Diversify Sources of Gas Deliveries and Reduce Its Dependence on Russia

At present, the European Union and the U.S. supporting it are carrying out a multi-move combination on the Eurasian blue fuel market aimed at gaining access to sources of natural gas deliveries, which should become an alternative to Russia's primary energy resources. Measures are also being carried out to prevent Russian and other foreign companies from gaining a strong foothold on the domestic European energy market.

The Europeans are placing great hopes in their energy diversification policy on gas suppliers from Africa, particularly Algeria. This country is in eighth place in the world in terms of blue fuel reserves, which are estimated at 5.4 tcm (or 2.6% of the planet's reserves). Algeria produces up to 100 bcm of gas a year, 24% of which is consumed within the state, and the rest are exported to Italy, Spain, France, Turkey, Portugal, Belgium, the U.S., Great Britain, and Greece.

Algerian gas is delivered to Europe via two underwater pipelines. The first is the Transmed, which runs from Algeria via Tunisia and Sicily to the Italian peninsula. The route's capacity amounts to 28.2 bcm a year, and in the near future, Algeria plans to increase the pipeline's throughput capacity to 42.3 bcm.

The second functioning gas pipeline is the Maghrib-Europe gas pipeline (GME) with a capacity of 10 bcm a year. It runs from Algeria through Morocco to Spain and Portugal. The exporter country intends to increase the throughput capacity of this pipeline to approximately 21.6 bcm a year.

Algeria is also delivering liquefied natural gas (LNG) to Europe and North America, occupying fourth place in the world in terms of LNG export after Indonesia, Malaysia, and Qatar. The main importers are France, Spain, Turkey, Belgium, and the U.S.

Algeria's plans to increase deliveries of blue fuel (via the existing pipelines), as well as LNG are naturally welcomed by the EU. But the latter does not intend to stop here and is currently working on jointly laying another two high-capacity gas pipelines from Algeria.

In 2001, Spain's Cepsa and Algeria's Sonatrach reached an agreement on building the Medgas pipeline, via which gas will be transported from Algeria to Spain and possibly to France. The cost of the project is 1.2 billion dollars; construction was supposed to begin in 2007 and end by 2009. At the initial stage, the throughput capacity will amount to 4.75 bcm a year and may be raised to as much as 18-19 bcm.

There are plans to put the Galsi gas pipeline, which is already being built, into operation by 2009. Its route will run across the Island of Sardinia to Italy. Deliveries will amount to 12 bcm a year.

In the event all the intended projects to build new gas pipelines from Algeria and increase the capacity of existing ones are implemented, European consumers will receive an additional 42.5 to 56-57 bcm of blue fuel a year, and this is not counting LNG deliveries.

The EU's expert circles regard Algeria as an important partner in the transit of West African gas to the European market. The matter concerns a project to build a Trans-Sahara gas pipeline from Nigeria through Niger and Algeria to the European Union. The route aims to deliver 30 bcm of Nigerian primary energy resources a year. The cost of the project amounts to 10 billion dollars (the African section) and 27 billion dollars (the entire route to Europe). The pipeline will be one of the longest in the world, its length reaching 4,128 km on African territory alone.

Implementation of this plan will make it possible for the EU to gain access to the largest reserves of Nigerian gas in Africa, which are estimated at more than 6 tcm (or 2.9% of the planet's reserves). In terms of this index, the country is in seventh place in the world. The project is still at the discussion stage, but the sides concerned—the Algerian Sonatrach Company and the Nigerian National Petroleum Corporation—are confident that the gas pipeline will be built by 2015.

In order to resolve the EU's energy problem, European experts are looking at the possibility of creating a so-called Mediterranean Ring, in which the states of Northeast Africa—Libya and Egypt, as well as Middle East countries, Jordan, Syria, Lebanon, and Turkey—are planning to participate.

There are plans to create three directions for transporting African blue fuel. First, the pipeline from Lebanon to Italy with an annual capacity of 8 bcm, as well as deliveries of Egyptian LNG to Spain. There are also plans to build an Arabian gas pipeline, via which Egyptian primary energy resources will be transported through Jordan and Syria to Lebanon, Turkey, and Cypress in volumes of 10 bcm a year. But despite the fact that some sections have already been built, experts doubt the project will go into full operation due to the complicated military-political situation in Lebanon and around Syria.

Keeping in mind the importance of the African countries in the European energy plans, the EU is showing great distress over any attempts by Russian companies to gain a foothold on this market. The contacts between the Russian Federation and Algeria in the gas sphere aroused a particularly nervous reaction. Europe immediately presumed that two of the largest suppliers of blue fuel to the European Union might form a cartel for establishing control over gas prices. The attempts of LUKoil to increase its presence on Egypt's energy market are also perceived with similar caution.

The EU is focusing particular attention on creating a second large-scale energy corridor for delivering gas from Central Asia, the Southern Caucasus, Iran, and Iraq. This is where the European Union and U.S. are directly competing with Russia, since the breakdown in economic and political forces in some of these regions directly affects Moscow's interests and is having an immediate impact on the geopolitical processes on the continent.

With respect to Central Asia, the West is placing priority on laying the Trans-Caspian gas pipeline from Turkmenistan along the bed of the Caspian Sea to Azerbaijan and on, via Georgia, to Turkey. The throughput capacity of the route is to be 30 bcm a year. Hooking up of natural gas from Kazakhstan is also an alternative, although the West is nurturing ever greater hopes with respect to oil deliveries and Astana joining the BTC pipeline.

Such a high interest in Central Asia was aroused by the large volume of proven gas reserves in this region, which are on the steady rise. For example, according to the EIA, Kazakhstan augmented its reserves of blue fuel during the year to 1.16 tcm (or 54%), and Turkmenistan to 960 bcm (or 41%).[3] Uzbekistan's reserves are estimated at 2.15 tcm and, in the total proven gas reserves of these three regional countries, amount to more than 4% of the world reserves.

[3] See: Energy Information Administration / International Energy Outlook 2007, Chapter 4, Natural Gas, Reserves and Resources.

The EU and U.S. have long been striving to build a Central Asian blue fuel export route through the Southern Caucasus bypassing Russia, but they were unable to come to terms with late Turkmenistan president S. Niyazov. This was mainly due to the tension between Ashghabad and Baku regarding several disputed oil fields, the indefinite legal status of the Caspian sea, and the West's continuous criticism of the Turkmen authorities with respect to human rights violations and non-observation of democratic norms.

The advent to power of new president G. Berdymukhammedov in Turkmenistan aroused the West's interest in the Trans-Caspian gas pipeline. In European and American analytical circles, statements about taking advantage of the unique geopolitical opportunity offered as quickly as possible were heard all the louder. The project to form a network of Nebuchadnezzar (Nabucco) gas pipelines drawn up by the European Union also boosted the West's activity in the Turkmen vector.

But despite the renewed attempts by Western politicians to enlist Ashghabad's support regarding the Trans-Caspian, the new Turkmen authorities are still not giving an unequivocally positive answer, restricting themselves to mere rhetoric. They prefer to continue to develop traditional cooperation with Russia and Iran, as well as hatch plans to create an Eastern corridor of gas deliveries to China.

Talking about the Nebuchadnezzar project, I would like to note that it envisages deliveries of blue fuel from Central Asia and Azerbaijan to the European Union. The length of the pipeline should amount to more than 3,000 km, its capacity to 30 billion cubic meters, and its cost to 5.8 billion dollars. The EU is counting on the gas deliveries to begin as early as 2012.

As for implementation of the above-mentioned development project as such, European Commissioner for Energy Andris Piebalgs and the energy ministers of Turkey, Bulgaria, Rumania, Hungary, and Austria have already signed a special document, and the Nebuchadnezzar project acquired the status of a Trans-European network.

Along with ensuring gas deliveries from CA, this structure would also be entrusted with the task of becoming part of the integrated gas-pipeline "web" that joins pipelines from Central Asia (bypassing Russia), the Southern Caucasus, Iran, Iraq, Northeast Africa, and the East Mediterranean. This network of gas pipelines should promote the export of blue fuel from regions in which, according to preliminary data, reserves are sufficient to meet demand for the next 200 years, while Russia's reserves will only suffice for 80.

However, the inability of the EU and U.S. to ultimately convince Central Asian exporters to begin deliveries in the westerly direction is placing the entire Nebuchadnezzar project under threat. For the time being, the European Union can more or less reliably count on natural gas from Azerbaijan, keeping in mind Baku's desire to become another active participant in the Eurasian gas game. Azerbaijan is ready to cooperate with the EU and U.S. (an example is the Baku-Tbilisi-Ceyhan oil pipeline) and even go for significant discounts in gas price at the first stage in order to gain access to Europe's promising consumer market.

Azerbaijan's ambitions are based on increasing blue fuel production at the Shah Deniz structure, which is considered one of the largest shelf fields to be discovered in the last 20 years. The project operator, British Petroleum, estimates its supplies at 500 bcm of gas and 600 million barrels of gas condensate. According to other expert estimates, Shah Deniz's reserves are more than 1.1 trillion cubic meters in natural gas alone. The country's overall proven blue fuel reserves reach 1.6 trillion cubic meters. The Baku-Tbilisi-Erzurum pipeline is designed for delivering natural gas abroad. At the initial stage, 7.7 bcm a year will be exported along it, gradually increasing to 23 bcm.

The joint efforts of Azerbaijan, the EU, the U.S., and Turkey are already yielding their fruit. In particular, Azerbaijani gas succeeded in gaining access to Greece's strategically important market in mid-2007. Gas from Azerbaijan will be transported through the Turkish pipeline system. Before the end of 2007, 800 mcm of this primary energy resource at 149 dollars per one thousand cubic meters

will be exported to the Greek market.[4] Azerbaijani gas is much cheaper than Russian, which costs Athens 250-260 dollars for one thousand cubic meters. According to experts, Gazprom could lose up to 15% of the Greek market, and deliveries from Algeria could be reduced by 50%. At present, Gazprom is providing 80% of Greece's needs (2.74 bcm a year) and Algeria is providing 20%.[5]

Despite the fact that Russian analysts talk about how Azerbaijan and Greece are not threatening Gazprom's position on the Greek market, this is probably not the case. In the price respect, Azerbaijani gas is "outperforming" both the Russian and Algerian, which is making it more attractive for consumers.

Moreover, by strengthening its position in Greece, Baku is opening up the prospect of making further deliveries to Europe. This is particularly important keeping in mind the possibility of increasing gas export from Shah Deniz. In the near future, 1.2 bcm will be delivered to Turkey, and by 2009, export would increase to 6.6 bcm.

The success of Europe's diversification policy in this direction could be even greater if large long-term deliveries of blue fuel could be organized from Iran. Some European energy companies have long been exerting efforts to establish cooperation with the IRI in gas import. As early as 2004, a memorandum of mutual understanding was signed between Austria's OMV and the National Iranian Gas Export Co., which concerned possible partnership under the Nebuchadnezzar project. It was presumed that Iran would export its own gas through Turkey to Austria.

It is worth noting that the IRI itself has long been trying to stake out a place for itself on the European gas market. Tehran has been selling Turkey blue fuel since 2002; the delivery volumes of this primary energy resource were to reach 11.6 bcm in 2007. Turkey is seen in Iran's gas plans as a springboard to Europe, which is graphically demonstrated by the fact that Iran and Greece signed a memorandum of mutual understanding in 2003 for a total of 300 million dollars, envisaging an extension of the Iranian-Turkish gas pipeline to Northern Greece, and on, through Bulgaria or Rumania, to Central Europe. There has also been talk of laying an underwater section to Italy.

Nevertheless, the chances of successfully implementing Iranian-European gas cooperation plans are still assessed as low. The complicated political relations between Iran and the U.S-EU over the Iranian nuclear program are to blame for all this. It appears that the sides are still not inclined toward reaching a real compromise and prefer to place the accent on their own vision of the problem, first of all, as a result of which the crisis will most likely become even more aggravated. The latent rivalry between the U.S. and the IRI in Iraq, Lebanon, Palestine, and Afghanistan is also having an unfavorable influence. For the reasons already indicated, Washington is unlikely to look favorably on the development of gas partnership between the Europeans and Iran.

All the same, Tehran is indeed offering a real alternative to Russia in the gas sphere. The proven gas reserves in the IRI are evaluated at 32 tcm (or 15% of the world reserves), which puts it in second place after the Russian Federation. In so doing, it should be kept in mind that 62% of Iranian blue fuel is found in pure gas fields and has still not been developed. Iran has enormous export potential, even despite Tehran's large-scale plans for increasing gas consumption inside the country in order to substitute it as quickly as possible for oil and petroleum products.

Along with the search for new sources of blue fuel, a policy aimed at limiting the influence of Russian capital is gaining momentum in the EU. Europe regards the Russian Federation only as a natural gas supplier. A special control structure for limiting undesirable investments from Russia, China, and several other states is being created today in Germany, which during Schroeder's time was Russia's main economic and energy partner in the EU. The structure's task will be to prevent foreign companies from purchasing strategically important German enterprises.

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[4] See: "Baku otbivaet Gretsiiu i Turtsiiu u 'Gazproma.' Azerbaijan nachal dempingovye postavki gaza," *Vremia novostei*, 4 July, 2007.

[5] See: Ekspert: "Azerbaidzhanskiy gaz 'Gazpromu' ne pomekha," *Rosbalt*, 4 July, 2007.

In Great Britain, political circles are actively opposing Gazprom in its purchase of Centrica, a leading British gas-distribution company. The story of the sale of the Lithuanian Mazeikiu Nafta oil refinery still comes to mind, when the Russian companies offering the most advantageous gas sales and supply conditions were overlooked and the refinery sold to Poland's PKN Orlen, which did not have enough resources to fully load the refinery's capacity. Many Russians believed that this was done for exclusively political considerations.

According to Russian economists, between 2006 and 2007, transactions of Russian companies totaling 82 billion dollars fell through due to active opposition from European officials.

Russia's Energy Strategy

In its energy strategy in the European vector, the Russian Federation is trying to solve several tasks at the same time, the goals of which often overlap each other. First, Moscow is exerting efforts to retain its position as a leading natural gas supplier on the European market. Gazprom essentially does not have any other choice at present but to develop energy relations with Europe, taking into account that most of the export gas pipelines are oriented toward Europe. Moreover, Russia is showing an interest in further increasing its deliveries and is developing and implementing plans to build new gas-transportation capacities to this end. These plans are based not only on economic, but also on far-reaching strategic considerations.

It has already been mentioned that Moscow is trying to integrate as deeply as possible into the economic systems of Russia and Europe in order to form a single market space on which the European and Russian segments would be interdependent. This would make it possible not only to give the economic component priority over the political, but also to create conditions for changing the overall political climate in bilateral relations, in which the ingrained negative stereotypes of the past are still latently and blatantly present.

Based on this, the Russian Federation is placing its stakes on increasing blue fuel deliveries to Europe and implementing new large-scale gas pipelines—the North European (NEG) and South Stream—as soon as possible. NEG is intended for exporting Russian natural gas to the states of the northern part of Europe—Germany, France, the countries of the Scandinavian Peninsula, and Great Britain. The initial throughput capacity of the pipeline will amount to 30 bcm with a gradual increase to 55 bcm a year. The NEG's route will pass along the bed of the Baltic Sea. In turn, the South Stream will run along the bed of the Black Sea from Novorossiisk to the Bulgarian coast and on through the Balkan peninsula to Italy and Austria. The capacity of the gas pipeline will amount to 30 bcm a year. In this way, these two projects alone will make it possible to provide European consumers with an additional 60-85 bcm of blue fuel.

Nevertheless, if we keep in mind the gas and geopolitical rivalry in Eurasia, these pipelines are pursuing a few more important goals. They must primarily diversify the delivery routes of Russian gas to Europe, as well as lower Gazprom's dependency on the East European transit states and the Baltic countries. Moscow faced similar tasks after the Orange Revolution in Ukraine, when the pro-Western Iushchenko-Timoshenko coalition came to power. An additional factor was the rather difficult political relations between Russia and several Baltic countries and Poland. As a result, a course was steered toward creating new gas corridors which would minimize the risks coming from East European transit states.

The South Stream pipeline is entrusted with an unusual task, particularly in light of Europe's attempts to implement the Nebuchadnezzar project. By building the South Stream, the Russian Federation is planning to gain an even firmer foothold on the South European gas market and downplay any possible negative effects from the implementation of the rival European project.

South Stream's importance for Moscow in its competitive struggle for the European gas market lies in the fact that blue fuel from Central Asia, which plays a critically important role in supplying Europe's Nebuchadnezzar with primary energy resources, can be delivered via it. South Stream is called upon to strengthen Russia's position in the gas dialog with Turkey. It is no secret that the latter is trying to position itself as a key energy and transportation terminal on the route of the Southern Caucasus' oil and blue fuel deliveries from the Russian Federation, Central Asia, Iran, and Iraq to Europe. Ankara is hoping to raise its importance even more by attracting the new regional pipeline projects. In addition, the Turks want to earn money by reselling the gas they receive.

It goes without saying that Russia does not want to further increase its dependence on Turkey, which is already having a negative effect on oil transportation and forcing Russian exporters to look for new detour delivery routes, in particular through Bulgaria and Greece (the Burgas-Alexandroúpolis oil pipeline project). Nor does the Russian Federation want to place all the trump cards in Ankara's hands in the gas sphere, particularly since it is Moscow's rival in the South Caucasian and Central Asian geopolitical vectors.

In this respect, South Stream is being called upon to reduce Turkey's transit dependence. After this pipeline goes into operation, Turkey will no longer be an exclusive, but only one more ordinary transit country for Russian and Central Asian gas in the Black Sea region, although it is still extremely important. By making Bulgaria and Greece energy transit terminals, Moscow is turning them into Turkey's natural rivals and Russia's energy allies.

A decrease in Ankara's transit potential could also have long-term goals, make it more complaisant in possible negotiations with Russia about a project to build a second branch of the Blue Stream gas pipeline, as well as prompt Turkey to take more account of Russia's interests in the Southern Caucasus.

A special feature of Russia's policy in Eurasia and in the European vector is retaining its position as the main partner of the Central Asian states in the transit and purchase of natural gas. In this respect, it is extremely important for Moscow to prevent the Trans-Caspian route from being built, since the latter might deprive Russia of the cheap Central Asian blue fuel it so badly needs.

Moreover, implementation of the pro-Western pipeline project will have a negative effect on Russia's position in the region and may affect the country's global ambitions. The thing is that military-political and economic partnership with the Central Asian states is a significant geopolitical resource for Moscow in its strategy to restore the Russian Federation as a leading world power. Russia's loss of its transport monopoly in the region (in the Western vector) will lead to intensified geopolitical rivalry with such centers of power as the U.S. and EU, which, following natural logic, will try to build on the success they have already achieved.

Taking into account these circumstances, Moscow was apprehensive about the change in power in Turkmenistan, which made review of Gazprom's former agreements with president Niyazov on the purchase of Turkmen gas for 25 years doubtful and also created prerequisites for restoring contacts between Ashghabad and the EU and U.S. regarding the Trans-Caspian pipeline.

The Kremlin decided to forestall any negative turn in events. First it made an effort to obtain assurances from the new Turkmen authorities that they intended to observe the 25-year gas agreement. Russia also managed to achieve preliminary agreements in the shortest time with Turkmenistan and Kazakhstan on building the Caspian pipeline. In addition, the Russian Federation made arrangements with Uzbekistan to increase the capacities of the Central Asia-Center gas pipeline that is in operation. Moscow also hopes to join Uzbekistan to the Caspian pipeline.

Russia's emergency measures came as a surprise to Western strategists. The agreement on the Caspian route gave rise to a large number of gloomy assessments about the prospects for redirecting Central Asian gas resources to Azerbaijan, Turkey, and the EU. The pessimism is based on the fact that the European countries will miss out on at least 30 bcm of Turkmen blue fuel, the throughput

capacity of the Caspian pipeline, which they could have received via the Trans-Caspian. If the future increase in deliveries via the Central Asia-Center route is added to this, potential losses could double.

It should be noted that reaching agreements about the Caspian gas pipeline and increasing the capacity of the Central Asia-Center pipeline would have been impossible without the constructive and pragmatic position of suppliers from Turkmenistan, Kazakhstan, and Uzbekistan.

The future of the Trans-Caspian will largely depend on the prospects for creating new gas fields on the Turkmen shelf of the Caspian Sea, as well as on the South Iolotan structures that, according to preliminary assessments, might contain several trillion cubic meters of blue fuel.

Russia's steps to study the possibility of consolidating the leading world producers of natural gas can be evaluated in the context of the Eurasian gas game and energy rivalry between Russia, on the one hand, and the EU and U.S., on the other.

The West's current strategy consists of preventing the appearance of a powerful alliance of gas producers (modeled on OPEC). In the 1970s, the Western countries felt the entire power of the oil weapon wielded by the Arab producers of black gold, so they have no intention of tolerating the appearance of another energy cartel.

It is easier for European and American importers to deal with individual gas suppliers, since they can use their political and economic supremacy more effectively to achieve advantageous conditions with respect to prices and transportation routes and draw Western companies into projects aimed at producing and prospecting blue fuel. The appearance of a gas cartel in which gas prices will be determined by the producers in no way fits in with the long-term economic and political plans of the EU and U.S.

Moscow, on the other hand, will benefit from close cooperation with gas exporters, since this will give the suppliers a powerful lever of influence on the world market and global political expanse. For this reason, several regional and planetary ideas are being mulled over in Russia's political circles.

First, there is the SCO Energy Club designed to consolidate the natural gas suppliers belonging to this organization. Moscow's analytical community thinks this is a very propitious idea, keeping in mind that such leading oil and natural gas producers as Russia, Kazakhstan, and Uzbekistan are members of the SCO. Moreover, Iran, a world energy giant with the desire to raise its status in the organization and work more actively in various vectors of the SCO's development, is an observer country. Cooperation in the energy sphere is possible with Turkmenistan which, although it does not belong to the SCO, is closely related with several member states of this structure due to common interests in blue fuel delivery and transportation.

In the event the idea of the Energy Club is realized, a powerful oil and gas organization will appear in the very center of Eurasia, the influence of which on the continental energy processes will be impossible to ignore.

A very original feature of the Energy Club is that it will enhance cooperation with the leading world consumers of energy resources, China and India, whereby the first is a permanent member of the SCO, and the second is an observer state. Partnership between suppliers and these states will make it possible to closely follow the world energy processes, keeping in mind that the Asian segment of the global oil and gas market is already defining many of its parameters.

For Russia, the possible development of energy relations with the PRC and India within the SCO could pursue far-reaching goals that directly affect the global interests of suppliers and importers. By agreeing to take account of the energy interests of China and India, the Russian Federation is encroaching on the EU's and U.S.'s room for maneuver.

It is very obvious that the United States, the EU, and several of its allies from the CIS have, on the whole, a consolidated view of the structure of the Eurasian and world natural gas markets. Despite certain differences in views with China and, to a lesser extent, with India in several energy regions of the world, the West may try to draw them onto its side in order to create a kind of joint front of natural gas consumers in counterbalance to the trends toward cooperation being demonstrated among pro-

ducers. In this respect, strengthening Moscow's energy ties with Beijing and Delhi in the SCO Energy Club could decrease the likelihood of broad opposition from blue fuel importers.

The second strategically important vector is Russia's attempts to feel out points of interception in interests with the leading world players on the delivery market of the indicated primary energy resource. A first step was participation in the 6th summit of natural gas producers and exporters held in April 2007 in Doha (Qatar). This event aroused a great response in the world, particularly in the West, since three countries with the largest reserves of blue fuel, Russia, Iran, and Qatar, participated in it along with other primary energy resource producers.

The participants in the meeting were immediately suspected of attempting to create a Gas OPEC, particularly since this idea was earlier put forward by Iran, but nothing of the sort happened. The main goals of the summit were to define the prospects for forming a global open natural gas market and identify conditions for possible interaction among producers, although a few specific results were achieved, in particular, an organizational group was created to determine gas prices.

It is presumed that, along with establishing relations with blue fuel producers, this meeting helped Russia to keep track of the situation and development trends on the liquefied natural gas market. The Russian Federation is trying not to lag behind the leading producers of LNG and not lose sight of the nuances in creating a global liquefied gas market. This desire is based on the forecasts of the leading analytical centers on the future increase of LNG production and consumption. At present, the percentage of the latter in world gas trade amounts to 26.2% or around 190 bcm, while pipeline deliveries account for more than 530 bcm. However, as early as 2010, the share of LNG might increase to 30-33% and will keep growing, weakening the position of pipeline deliveries, the share of which in world blue fuel trade could drop to 38% by 2020.

Gas producers and exporters are already preparing for new market realities and increasing investments in industrial and transportation infrastructure. According to the International Energy Agency, in the next three years, energy companies will invest up to 135 billion dollars in the construction of new LNG terminals and tankers.

Russia also plans to play an important role in the development of the world LNG market, since its monopolist, Gazprom, is hoping to become a leader in LNG production by 2030. The company intends to achieve this by putting several powerful liquefied natural gas production plants into operation. As early as 2008, deliveries of LNG from Sakhalin-2 should begin—approximately 4.8 million tons a year, which could be doubled in the future. The export of LNG from the east of the Russian Federation will give Gazprom access to the markets of North America, Southeast and South Asia, and the Far East. By 2011-2012, there are plans to put an LNG production plant into operation in the west of Russia (Primorsk) with a capacity of 5 million tons a year.

From the perspective of the energy dialog with the EU, the development of the Russian Federation's LNG deliveries will help it to strengthen its negotiation position, which is rather vulnerable at present since the lion's share of exported blue fuel is pumped via pipelines that are tied to the European market. However, the orientation toward LNG will make it possible deliver this primary energy resource anywhere on the planet, and not only to the European market, as was the case with pipeline gas.

Influence of the Asian Economy on the Continental Natural Gas Market

Despite the fact that Russia and the EU are and will remain the key links on the continental gas market in the near future, the Asian energy market, where two of the most rapidly developing countries, China and India, stand out, is nevertheless steadily growing in influence.

Although the share of natural gas in the overall energy resource consumption of both states is still rather small (in China, it is 3%, and in India, 8%), the course being steered by these countries toward an increase in its production and import, as well as the implementation of gasification programs and replacement of other types of raw hydrocarbons, makes it possible to say that in the foreseeable future China and India will seriously change the configuration of the traditional primary energy resource delivery systems in Eurasia. These states are essentially already making adjustments to the energy plans of blue fuel suppliers from Russia, the Middle East, and Central and Southern Asia, as well as of traditional large importers of pipeline gas and LNG from North America, Europe, and the Far East (Japan and South Korea).

A common characteristic of the PRC and India is the fact that these two energy players do not have proven reserves of natural gas that could guarantee them long resource self-sufficiency and, consequently, full energy security. In this respect, Beijing and Delhi are looking for the most optimal gas strategies.

China is in a more advantageous position compared with India since it has several large gas-bearing provinces in the western and northern regions of the country. The PRC's proven blue fuel reserves are estimated at 1.7 tcm, or, according to other data, at 2.7 tcm. Extensive geological survey work by Chinese companies resulted in the discovery of several large fields in the past two years, which make it possible to talk about an increase in proven crude gas reserves of 900 million cubic meters.

Under recently, gas consumption in the PRC was regional, giving rise to the fragmentary structure of the national pipeline system. But Beijing is exerting efforts to create an integrated blue fuel market, the key role on which should be played by several gas pipelines intended for delivering this primary energy resource from the western provinces to the industrial centers on the coast. The first of them is the West-East pipeline put into operation in 2005, which begins in XUAR and ends in Shanghai; its throughput capacity amounts to approximately 15 bcm a year.

Such volumes are naturally insufficient for China's rapidly growing economy, the gas share in energy consumption of which should at least double in the next few years. According to experts, in 2020, the PRC may experience a shortage of 50-60 bcm, which will have to be covered by means of import. This is forcing Beijing to look for additional sources of gas abroad, and at this juncture a rather interesting situation is arising that is complicating the Eurasian and world gas game.

On the one hand, China is acting as a potential rival of the large gas importers—the U.S., EU, Japan, and others, as well as, correspondingly, a prospective partner of the suppliers, including the Russian Federation. But, on the other hand, with respect to the key Russian factor on the Eurasian gas market the PRC is also acting as a rival in the Central Asian expanse and hypothetically at the global level (Gas OPEC), which is creating the theoretical possibility of a partnership between Beijing and the leading importers. This is giving rise to a rather ambiguous situation on the continental and world energy markets.

The PRC will mainly vie with the leading gas consumers on the LNG market, particularly since there are few large suppliers on this market. During the past year, China demonstrated simply unbelievable LNG consumption and import rates. In July 2007, its liquefied natural gas deliveries increased five-fold (from 62,427,000 to 356,139,000 metric tons) compared to the same period in 2006. This increase was caused by demand from electric power companies. The purchased gas is mainly delivered from Algeria and Australia.

It is very obvious that if the high rates of Chinese LNG import (for example, from Algeria) are retained, this will make the PRC a serious rival of the European Union and U.S., which also purchase Algerian liquefied gas. China will come face to face with Japan and South Korea on the Asian market.

The rise in demand for LNG will force the PRC to become increasingly involved in the Persian Gulf, which possesses vast supplies of blue fuel and the states of which are hoping to become leaders on the LNG market. Today, the total proven reserves of natural gas in the Gulf states amount to more

than 40% of the world reserves. Such states as Iran, Qatar, Saudi Arabia, and the United Arab Emirates occupy second, third, fourth, and fifth places, respectively, on the planet after Russia.

The Gulf countries are stepping out onto the LNG market with increasing vigor. The region has already claimed an 18-percent segment of world trade. A large amount of gas is exported to Japan (46%), South Korea (24%), India (17%), Spain (14%), and the U.S. The leaders in terms of deliveries are Qatar and the UAE.

Qatar is demonstrating particularly impressive development rates in the gas industry. It owns the largest shelf field in the world, the North field, with proven reserves of more than 30 tcm. It is worth noting that Qatar made its debut on the LNG market relatively recently. In 1997, the first delivery of 120,000 metric tons of liquefied gas was made, however, by 2005, these deliveries amounted to 20.1 million metric tons, placing the state among the world leaders. It is forecast that export will grow even more if we keep in mind this country's plans to build another series of plants for producing liquefied natural gas.

Qatar and the Persian Gulf as a whole are regarded by the EU states, the U.S., Japan, South Korea, and the industrially developed countries of South and Southeast Asia as a long-term source of natural gas deliveries, particularly against the background of the forecasted drop in production in Indonesia.

In this respect, China's growing economic and political presence in the region may not please everyone, particularly the United States, which believes the territory in question to be a zone of its traditional influence. American strategists are concerned in particular about the contacts between Beijing and Tehran in the oil and gas industries, which regard each other as prospective energy partners. In particular, in 2004, China and Iran signed a memorandum, according to the conditions of which China's Sinopec Group will develop Iran's Iadaravan oil field in exchange for Beijing's annual purchases of 10 million metric tones of Iranian LNG for 25 years and the construction of a liquefied gas plant. The cost of the agreement is estimated at 100 billion dollars. And although today, according to American data, Iran still does not have large LNG-producing capacities, the country could become the supplier of 35 million tons of liquefied gas a year in the future. Tehran is making no bones about the fact that the Chinese market will be one of its main export vectors.

The second key vector in the PRC's strategy for importing blue fuel is gaining access to pipeline deliveries from neighboring regions, Russia and Central Asia, which is important for China not only from the economic, but also from the military-strategic viewpoint. The thing is that Chinese import of oil and LNG by tankers via sea routes is rather vulnerable, since Beijing does not have a strong military ocean fleet and bases in South and Southeast Asia. If a conflict arises on the oil and gas sea transportations routes, China's energy security may be threatened. In turn, intra-continental pipelines will make it possible to minimize the risks, since the routes will pass through the territories of states that are stable and friendly with the PRC.

The promising projects for Beijing include plans to lay a gas pipeline from the Kovykta field near Irkutsk (RF). The route of the pipeline incorporates North China and the Korean peninsula. Beijing has already stated its intentions to purchase more than 23 bcm of gas a year, but, according to experts, it will not be able to do this before 2012, and perhaps even later, keeping in mind the tension between Gazprom and TNC-BP, which has a 63% share in the project.

This fact is forcing the PRC to concentrate its efforts for the time being on implementing the plans to deliver blue fuel from Central Asia. The main hope is placed on two gas pipelines—Kazakhstan-China and Turkmenistan-China. So far the dialog between Beijing and Ashghabad has progressed the furthest. During his first visit to the PRC, President Berdymukhammedov confirmed the agreement of Turkmenistan's former president with the Chinese side of 3 April, 2006, which stated that Ashghabad will deliver 30 bcm of gas a year beginning in 2009 for 30 years. At present the Kazakhstan-China pipeline project is at the analysis stage. It is also designed to export 30 bcm of natural gas a year.

The implementation of these plans will change the entire traditional system of the region's gas deliveries, which, of course, will have an effect on the geopolitical situation in Central Asia. In this respect, it can be presumed that the PRC, as it moves toward the practical implementation of its projects, will encounter increasing concern from Russia and the EU. This prospect does not suit the Europeans at all, since deliveries to China will reduce the chance of the Trans-Caspian gas pipeline being built to almost zero. In turn, the Russian Federation is apprehensive about Turkmenistan's resource potential. As some Russian experts believe, Ashghabad is unlikely to be able to fulfill the obligations to both Gazprom and Beijing it assumed, relying on current reserves. Russian analytical circles believe that Ashghabad can redirect some of the blue fuel intended for Gazprom in the Chinese direction. Moscow's misapprehensions are generally substantiated and rely on Art 2 of the Chinese-Turkmen agreement which says that "if additional volumes of gas are needed to build the Turkmenistan-China gas pipeline, the Turkmen side can guarantee gas deliveries from other gas fields."

Meanwhile, the Turkmenistan leadership is trying to dispel Russia's anxiety and show that the raw gas reserves on the right-hand bank of the Amu Darya are sufficient for ensuring export to the PRC and that Moscow's worries are groundless. During the ceremony to lay the gas pipeline held at the end of August 2007, President Berdymukhammedov stated that the rich gas reserves on the right-hand bank of the Amu Darya were confirmed by local scientists, specialists from foreign companies, and independent experts. These resources were evaluated at 1.3 tcm. By 2009, this territory will be able to provide the pipeline with 30 billion cubic meters of gas a year.

Beijing's active attempts to gain access to the Central Asian gas market have muddied the waters even more and raised competition in the region to an even higher level. A particular sensitive situation is developing in this respect in interrelations among the Central Asian states, China, and Russia.

There are no doubts that the appearance of another delivery corridor is beneficial for suppliers from Central Asia, particularly since, after gaining their independence, they declared one of the strategic aspects of their policy to be diversification of hydrocarbon export routes. On the other hand, Moscow, the leading strategic partner, is not going to greet the opening of a Chinese gas corridor with open arms.

This is well understood in Turkmenistan, which is striving to readdress possible Russian claims against Turkmenistan to Beijing and place all the responsibility for resolving transit questions on the PRC. This is directly indicated in Art 5 of the General Agreement which states that "the Chinese Side will hold consultations with the governments of transit countries in order to reach agreements on mutually advantageous conditions of natural gas transit through their territory."

On the other hand, nor does the PRC want to be drawn into an acute competitive struggle with Russia, which is acting as Beijing's partner in the SCO, plays an important role in ensuring regional security, and poses as a key business companion in deliveries of the latest arms. China is also placing great hopes on the Russian Federation in the energy sphere, but at the same time, the PRC is in critical need of additional and safe sources of energy.

For Moscow, on the other hand, the striving of the CA states to diversify export and Beijing's intentions to become a consumer of Central Asian hydrocarbons, particularly against the background of launching the Atasu-Alashankou oil pipeline and the beginning of construction of the Turkmenistan-China gas pipeline, present factors that cannot be dismissed or ignored.

In this situation, it appears that Russia will have no other option in the long term than to review the possibility of its own participation in the development of the eastern corridor of gas deliveries. It is particularly pertinent that for several years the Russian Federation has been looking at the possibility of reducing its dependence on the European market and setting up export of its crude hydrocarbons from Western and Eastern Siberia to China and the Pacific Ocean region. The Russian pipeline company, Transneft, began building the Angarsk-Nakhodka oil pipeline not that long ago. Gazprom is looking at similar projects for laying export routes. They are all called upon to balance the export

component of Russia's energy policy, which is leaning heavily toward extreme dependence on the European market.

In this respect, one of the alternatives for developing an Asia Pacific vector in Moscow's export-energy policy could be joining a project to create and develop an eastern pipeline corridor from Central Asia and Siberia to the PRC. Theoretically, such cooperation with Central Asian exporters could have several benefits for Russia. Gas export to the PRC will naturally create a serious alternative to the EU market, which will strengthen Russia's position in its difficult energy dialog with Western partners and make Russian export policy in the delivery of crude hydrocarbons more flexible.

Moreover, orientation toward the offshore market of the industrial region of Shanghai, which will presumably become a key consumer of Central Asian gas, might be more preferable for Russian companies from the commercial viewpoint. The thing is that deliveries of blue fuel to the northern and northeastern provinces of China currently being considered in the RF have one weak point—these regions have huge reserves of coal which is produced on an industrial scale. This fact makes it possible for the northern provinces of the PRC to flexibly alternate sources of energy consumption and, if they want, quickly replace future deliveries of Siberian gas with coal. The coal factor will most likely help Beijing to form a stronger negotiating position in its upcoming price dialog with Gazprom.

In contrast to the northern provinces, the Shanghai market will continue to give priority to a rapid increase in blue fuel consumption and import volumes, which is primarily for environmental reasons, particularly against the background of the mounting discussion in world political and economic circles of the problem of environmental pollution. The use of natural gas will make it possible to reduce the load on China's railroad transportation system, which, according to some data, is experiencing significant difficulties today due to the transportation of growing volumes of coal.

The joint development by Central Asian exporters and Russia of the Eastern energy corridor on the basis of some pipeline consortium could create conditions for suppliers to coordinate their positions in order to determine export prices for the gas delivered to the PRC, forecast the growth dynamics of market demand, and regulate the exported gas volumes.

This will all help to reduce unnecessary competition to zero and make it possible for all the sides involved to glean the maximum benefit, while dismissing any misapprehensions and mistrust that exist.

As for India, it, like China, is also gradually gaining momentum as a driving force behind the development of the Asian energy consumer market. At present, the country is mainly visible on the oil market; while it is forecast that its role on the gas market will grow in the next few years. Delhi has long been steering a course toward achieving energy independence, but these ambitious plans are probably not destined to be, keeping in mind its rather poor primary resource base compared with the dimensions of the economy and rates of its development, including in energy consumption. Proven gas reserves in India are assessed at approximately 1.26 tcm (annual production amounts to 33.2 bcm). In so doing, gas consumption is growing at rather high rates, outstripping the consumption of other types of energy resources in the past five years. As early as 2004, consumption exceeded the country's own production and amounted to 36.3 bcm.

Despite the fact that some offshore sectors were discovered in the Bengal Gulf in 2006 with forecasted reserves of 700-730 bcm, none of this can make the Indian market self-sufficient with respect to crude gas provision. As in the case of China, India was forced to place even greater stakes on import, which is creating prerequisites for drawing Delhi into a global competitive struggle for natural gas.

India began importing the first large batches of LNG in 2004 from Qatar, whereby the growth dynamics are quite significant: whereas in 2004, 3.1 billion metric tons were imported by sea, in 2005 this amount rose to approximately 7.5 billion. Indian companies did not intend to stop there, which was directly shown by the plans to build facilities for receiving LNG. In addition to the first terminal, Dahej, in the state of Gujarat, with a capacity of 5 million metric tons a year, a second terminal is being built in Kochi capable of receiving from 2.5 to 5 million metric tons. It should go into operation in 2009.

Moreover, the future of the LNG import sector, from the viewpoint of development rates, will largely depend on whether India can implement alternative gas-pipeline projects. At present, Delhi is experiencing serious difficulties in this direction for geopolitical reasons. This primarily applies to the Iran-Pakistan-India pipeline designed to export 21-22 bcm of Iranian gas from the South Pars field to the Pakistani and Indian markets.

After declaring its support of the plan to build a gas pipeline as early as the mid-1990s, Delhi was drawn unwittingly into the Eurasian gas game, becoming a target of tough pressure from the U.S., which was categorically against this project. There is also a large number of opponents to this gas pipeline in India itself who believe that Pakistan, through the territory of which this pipeline will pass, is an unreliable partner.

All of this is naturally slowing down implementation of the project, although Indian officials do not tire of expressing their willingness to continue cooperation under a trilateral agreement. But it seems that the delay in putting this plan into practice is already beginning to wear on Iran's patience, which is looking for ways to reach bilateral agreements with Pakistan.

Nevertheless, the Iran-Pakistan-India pipeline was supported by Vladimir Putin and Gazprom. According to the Russian president, "Gazprom is willing to support the construction of a gas pipeline from Iran to Pakistan and India. This project is entirely refundable and extremely feasible. The joint venture will make it possible to coordinate efforts on the markets of third countries and will be able to join fields on the territories of both countries."[6]

Such a statement should most likely be viewed in the context of the Eurasian gas game. By supporting the Iran-Pakistan-India route, Moscow may be striving to reach several goals. First, operation of the gas pipeline will make it theoretically possible to redirect large amounts of Iranian blue fuel from the European to the Asian market. This step, if it does not remove it entirely, will at least minimize the Iranian gas threat to Russia's position on the EU market. The Iran-Pakistan-India pipeline will serve as an additional factor for decreasing the likelihood of the Iranians joining the Nebuchadnezzar project, along with the factor of America's political-diplomatic and economic pressure. On the other hand, by supporting Tehran in its attempt to begin exporting blue fuel to India, Moscow is paving the way for joint specific interests to appear in the two countries on the corresponding market, which could stimulate intensification of bilateral energy cooperation and, on the whole, strengthen the position of suppliers on the Eurasian gas market.

In turn, India is facing a difficult dilemma. Taking into account that the deadline for implementing the project is already upon it (gas export should begin in 2011), Delhi has less time to ultimately determine its position. If the pipeline is built, it is likely that complications will arise in relations between Delhi and Washington.

In the event of a refusal to lay the pipeline, India risks losing not only Iranian pipeline gas, but also LNG deliveries from Iran. The thing is that in January 2005, the IRI and India signed an agreement according to which Delhi, along with developing the Iadaravan and Jofeir oil fields, promised to purchase 7.5 million tons of LNG a year over the span of 25 years beginning in 2009. The total cost of the contract is estimated at 40 billion dollars.

It will be rather difficult to find an alternative to Iranian gas. Such promising projects for India as the Turkmenistan-Afghanistan-Pakistan-India and Myanmar-Bangladesh-India pipelines are still difficult to implement. The domestic conflict continues in Afghanistan, which makes investments in the project risky. In turn, the complicated domestic political situation in Myanmar, its growing isolation from the Western world, as well as the difficulties in the negotiations between India and Bangladesh, in which the latter is acting as a transit state, are hindering gas deliveries from this country.

[6] "'Gazprom' tianet trubu v Indiiu iz Irana," *Kommersant*, No. 108, 17 June, 2006.

In this respect, Delhi may not have any other alternative but to choose liquefied natural gas which, in turn, will promote even greater aggravation in the future of the competitive struggle on the Eurasian and global LNG markets.

Conclusion

Summing up the above, I would like to note that drawing up new rules of the game and augmenting the structural changes on the Eurasian gas market will not happen overnight. All the participants in the energy game, including the suppliers and the consumers, are essentially searching for the most optimal strategy alternatives today, while striving to ensure more advantageous positions for themselves on the market. The signing of agreements does not mean that the exporter or importer will not look for alternatives, say in terms of transit or increasing the number of energy partners. The processes on the natural gas market will essentially place the emphasis on as much diversification as possible and on achieving the most advantageous price conditions. This will most likely result in a rather high level of mutual mistrust in certain vectors of commercial interrelations in the gas sphere. The various geopolitical considerations that can be seen quite clearly behind large gas transactions and projects will aggravate this factor, which of course will add fuel to the fire on the continental natural gas market.