Analyses OSW

CENTRE FOR EASTERN STUDIES 19.09.2012 www.osw.waw.pl

Uzbekistan starts gas exports to China

Aleksandra Jarosiewicz

During a visit by the Chinese Deputy Prime Minister Hui Liangyu on 12 September, the President of Uzbekistan Islam Karimov revealed the start in August of regular gas exports to China. This process was preceded by the signing of an Uzbek-Chinese framework contract to export 10 bcm of gas per annum in June 2010.Statements by Uzbek officials reveal that the gas will be supplied on the following basis: 2-5 bcm of gas this year, 10 bcm in 2013 and 25 bcm in 2016 (the current level of gas exports from Uzbekistan stands at 11 bcm). Uzbekistan is the largest producer and consumer of natural gas in Central Asia; it produces about 63 bcm of gas annually (2011), of which it only exports 11-12 bcm, mainly to Russia, as well as minor quantities to Kazakhstan, Tajikistan and Kyrgyzstan. The natural gas will be supplied to China along the extended Central Asia–China pipeline, which runs from Turkmenistan through Uzbekistan and Kazakhstan to China. Its current annual capacity is 30 bcm, and will reach 55 bcm annually in 2014/2015.

Commentary

- The start of gas exports to China will allow Uzbekistan to diversify both its supply routes and the customers for its natural resources, which in the short term is critical in the context of the imminent new wave of economic crisis, and the possibility of Russia reducing its gas imports (as happened in 2009 with Turkmenistan). In the longer term, Uzbekistan hopes to be able to charge higher gas prices thanks to competition between China and Russia. The low level of gas exports from Uzbekistan, in turn, means that China's supplies will come either at the expense of exports to Russia, or by reducing domestic consumption; this will exacerbate current internal tensions, which are already fuelled by a shortage of gas for domestic consumers.

- Uzbekistan's 'joining' the pipeline to China will also bring about wider regional tensions. The various Central Asian countries, at least in the medium term, will compete for access to the pipeline because of its limited transmission capacity (which will reach 55 bcm of gas per year in 2014/2015; the countries' contracts provide for a total of 80-95 bcm). Moreover, their rivalry for access to the pipeline and for lower gas prices will be readily exploited by China.

- In geopolitical terms, Beijing is becoming the region's main partner and sponsor in the economic and energy fields. Unlike Russia, which re-exports Central Asian gas to the EU, China actually needs gas itself because of its rapid economic development, and is making big investments in order to guarantee its supply of energy resources. China is also conducting an effective policy towards Central Asia, as evidenced by the rapid pace of the pipeline's construction and its plan to connect all the gas producers in the region to it (Kazakhstan is expected to start selling gas to China in 2013). In this context, Uzbekistan's start-up of gas exports to China is effectively another stage in the long-term weakening of Russia's position as a key economic and political partner in Central Asia, to the benefit of China. In the medium term, however, it is possible that Russia and the EU will become more and more attractive to Central Asian states, in the face of possible Chinese domination.