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Russian gas in Central Asia: a plan to deepen dependence

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Since Gazprom lost a significant part of its European market, the Russian company has been looking for opportunities to export natural gas to new destinations, including Central Asia. Since the autumn of 2022, Russia has stepped up its diplomatic efforts, extending an offer to Kazakhstan and Uzbekistan to form a so-called gas union, the main aim of which is to ensure that Gazprom gains access to Central Asia's transmission infrastructure. For their part, Kazakhstan and Uzbekistan are interested in obtaining Russian gas in view of the inefficient development of their own fields, which do not produce enough gas to meet their high domestic demand while meeting their obligations to export their own gas to the People's Republic of China.

The first tangible result of Russia's efforts came in October, when it started exporting gas to Uzbekistan. Russia will deliver 2.8 bcm of gas per year under a two-year contract that was signed in June 2023. Its unique feature is that the gas flows in reverse, transiting Kazakhstan via the Soviet-era Central Asia-Centre pipeline; historically, it was the Central Asian countries that supplied gas to Russia.

The Uzbek-Russian agreement represents a moderate success for Russia. The fact that gas supplies have started flowing to Uzbekistan while exports to Kazakhstan are also likely to begin soon suggests that Gazprom will seek to gain access to regional transmission infrastructure in a gradual manner, by increasing its export volumes and expanding cooperation in this field. However, Russia's intentions will run up against the cautious attitude of the Central Asian states; they will also depend on the influence of China, for which these countries are the largest suppliers of pipeline gas.

Russia's limited success

Contrary to Russian propaganda, the start of supplies to Uzbekistan is only a moderate success from the commercial point of view. The export of 2.8 bcm of gas per year represents only a fraction of Russia's lost European market, and does not portend a significant improvement in Gazprom's financial situation (see '*Gazprom: revenue slumps, debt rises*'). Moreover, in view of Russia's proposal for the 'gas union', the agreement with Uzbekistan also falls short of the expected results. Its original intention was to ensure that Gazprom gains access to the region's transmission infrastructure, particularly the Central Asia-China gas pipeline, which runs from fields in Turkmenistan via Uzbekistan and Kazakhstan to China. This would make it possible to sell and transport Russian gas to the Chinese market without making costly investments in new transmission networks, and would increase Russian control over the pipelines in the region. In this context, Uzbekistan has firmly refuted media speculation that it intends to sell its stake in the companies that control the national transmission system to Gazprom, even though Russian influence has been rising steadily since President Shavkat Mirziyoyev took power in 2016. However, Russia has so far failed to persuade its Central Asian partners to work out tripartite agreements in the spirit of the 'union' it has been pushing, a sign of their growing assertiveness.

Nonetheless, it is worth noting the propaganda dimension of this project. Supplies began on Vladimir Putin's birthday, and the Russian president was joined by the leaders of the parties involved, President Kassym Jomart-Tokayev of Kazakhstan and President Shavkat Mirziyoyev of Uzbekistan, at the ceremony to inaugurate the transmission. Their presence and the grandeur of the event contributed to its high-profile coverage in the Russian media, which reinforced the narrative of the trilateral relationship. The very fact that these supplies have begun is an important step for the Russian Federation as it marks the first time that it has succeeded in launching gas exports in this direction. The use of local infrastructure for this purpose is an important indicator that Russia will make further efforts to gain influence over these countries' gas policies. Its gas sales to Uzbekistan may also be used as a means of applying pressure on the Uzbek elite given the hypothetical threat of gas blackmail. However, it should be noted that Russia has now adopted a more conciliatory tone in its official communication. It has also abandoned the idea of using the territories of Uzbekistan and Kazakhstan for the transit of Russian gas to China. This shows that the Kremlin has reconsidered its original proposal for the 'gas union' and taken a major step back from it.

Imports from Russia as a way to diversify supplies

The new dynamic of relations between Russia and the Central Asian countries with regard to gas policy stems from both domestic factors and their negative experiences of cooperation with Russia in this sphere, which lie at the root of their fears of potentially losing control over strategic infrastructure.

Until 2009, the Central Asian countries' dependence on Russian export infrastructure made them vulnerable to energy blackmail (including intentional failures of transmission system) and price dictates by Russia, which was an indispensable destination for their exports. This only changed when these countries established cooperation with China and built a pipeline to transport gas (mainly from Turkmenistan, but also from Uzbekistan and Kazakhstan) to this country. As a result, the region was able to reduce its dependence on Russia for gas sales; in 2019, Turkmenistan resumed exporting gas to Russia under an agreement that runs until the end of June 2024, but this involves relatively small volumes compared to those that Turkmenistan sends to China.

At the same time, current data points to higher consumption needs in Kazakhstan and Uzbekistan as well as problems in their gas sector, whose production has failed to keep pace with the growing demand. In Uzbekistan, the downward trend in domestic production has continued since 2020. In 2022, the country's output fell by 4% y/y to 51.7 bcm; from January to September 2023, it fell by 9.5% compared to the same period last year. At the same time, domestic gas demand has been increasing steadily, reaching 48.6 bcm in 2022. As a result, Uzbekistan completely stopped transporting gas to the Russian Federation in 2020 and has been gradually reducing its sales to China. In 2022, Uzbekistan's gas exports to China totalled 3–4 bcm, which fell short of the contracted volume, as these commitments probably amount to around 10 bcm per year. Kazakhstan has also been grappling with rising domestic consumption, which reached 19.3 bcm in 2022, 7.2% more than its energy ministry's plans for last year, while production fell by more than 5% y/y to 27.8 bcm. As in the case of Uzbekistan, this translated into a drop in exports from 7.2 bcm to 4.6 bcm in 2021–2, which mainly affected China. Kazakhstan's and Uzbekistan's difficulties in fulfilling their agreements with China have created reputational and trade problems for both countries and complicated their relations with the People's Republic.

In this context, Uzbekistan's imports of Russian gas are aimed at avoiding periodic deficits on the domestic market, as well as increasing the country's export capacity. During the winter season of 2022/3, domestic shortages led to the suspension of sales to China (they resumed on a small scale in April this year). At the same time, on 25 August Uzbekistan scored a success in its diversification efforts by concluding a one-year contract with Turkmenistan for the supply of 2 bcm of gas. Meanwhile, Kazakhstan has been seeking to enlist Gazprom in its efforts to gasify the country's eastern and northern regions, which would also involve gas imports from Russia; negotiations on the relevant agreement between Russia and Kazakhstan are ongoing. Kazakhstan's energy minister has estimated that the country needs to import about 4 bcm of Russian gas a year in 2024–5, with a view to increasing this volume to 10 bcm a year in the further future.

Despite the clear benefits for Kazakhstan and Uzbekistan, their gas cooperation with the Russian Federation is unlikely to develop into a trilateral 'union' due to fears that Russia would gain too much control over the two countries' transmission infrastructure. This would strip them of their leverage in relations with Russia, weaken their position as China's sovereign energy partners and reduce their opportunities for exports to customers such as Turkey and the European Union in the future. In response to the Russian offer, both Kazakhstan and Uzbekistan have repeatedly declared that they have no intention of participating in the trilateral format of cooperation if its formula is more political than commercial. This caution can be seen in the provisions of the Uzbek-Russian agreement, which limits gas supplies to relatively small volumes and will operate for only a short period of time. This should be viewed as a success for Uzbekistan and Kazakhstan, including in terms of their mutual coordination. Both countries have retained some leeway in shaping their gas policies in the future; at the same time, they have prevented Gazprom from transporting gas through the Central Asia-China pipeline, something which had openly been opposed by Turkmenistan, the main gas exporter in the region.

Conclusions

Uzbekistan's and Kazakhstan's limited dependence on Russia resulting from this agreement does not represent a success from the point of view of Russia's objectives for the 'gas union', which is designed to subordinate the two countries to the Kremlin in the gas sphere. However, it does correspond to the current interests of both Kazakhstan and Uzbekistan and their growing demand for gas. This reflects Russia's diminishing ability to impose its terms on neighbouring countries, which is a consequence of Gazprom's weakened position as well as regional fears that Russia could politicise its gas supplies. Theoretically, the Kremlin could exploit this newly established dependence by resorting to gas blackmail in the event of a significant deficit in the region, not least during the winter period. However, such a move would put Russia at odds with both partners as well as the government in Beijing, due to its fallout for the region's exports to China: any intentional exacerbation of gas shortages could have a knock-on effect on the volumes transported to the People's Republic.

Russia's steps to date suggest that it prefers to deepen Kazakhstan's and Uzbekistan's dependence on its gas in a gradual manner by increasing its exports to Central Asia and forging closer cooperation on infrastructural projects, such as the gasification of Kazakhstan's regions. The Kremlin would gain greater leverage if it secured access to the main pipeline that connects the region with China, but its aspirations in this field will be counterbalanced by the Chinese government, as well as Kazakhstan's and Uzbekistan's reluctance to allow Russia to use their infrastructure. Nevertheless, gaining access to this route remains Russia's long-term goal in its gas relations with Uzbekistan and Kazakhstan; this is the light in which the Kremlin's consensual tone towards the two countries should be seen. Russia's shift away from the 'gas union' rhetoric, its officially expressed satisfaction with its cooperation with Uzbekistan to date and the likely start of its gas exports to Kazakhstan all indicate that Russia is seriously considering this market as an area where Gazprom might be able to improve its standing.