

Eurasia Geopolitics: Iran Making Inroads On Caspian Gas

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Theme: [Oil and Energy](#)

Global Research, February 26, 2009

[Energy Tribune](#) 26 February 2009



For years, several western countries have been fruitlessly trying to secure Caspian natural gas. And now it appears that the Iranians have the inside track in both Turkmenistan and Azerbaijan.

On February 21, during an official visit by Turkmenistan's president, Kurbanguly Berdymukhamedov, to Tehran, the Iranian and Turkmeni governments signed an agreement that will give Iran the rights to develop the Yolotan gas field in Turkmenistan. The deal will help Iran resolve gas supply problems in its northeastern provinces. Turkmenistan will sell Iran an additional 350 billion cubic feet of gas annually, more than doubling current supplies of almost 300 bcf a year, according to the agreement first disclosed by Iran's official media and later confirmed by Turkmenistan.

Iran also recently offered to invest \$1.7 billion for a 10 percent stake in the second phase of Azerbaijan's huge Shah-Deniz gas field which will come on line by 2014. Iran already has a 10 percent share in the first phase and it wants to import large volumes of gas from the Azeri field.

For Iran, the deals couldn't be better suited to its objectives. It's economically unviable currently to supply gas to its isolated, northeastern third of the country. Getting gas from Turkmenistan would therefore make more Iranian gas available for export to Turkey. Also, connecting both Caspian countries to Iran via pipeline would allow Tehran to accomplish its long-held objective of transiting any gas production increases from its neighbors to customers in Europe, the Persian Gulf, or Asia. (That last one would depend on gas liquefaction.)

But for the West, these new gas deals could pose deal-breaker challenges to several pipeline plans, especially the proposed Nabucco line. Meanwhile, Russia and China could find their plans for increased supplies from the Caspian undermined.

But the loss would be felt more by the US and Europe, which have lobbied hard to get Azerbaijan and Turkmenistan to commit some of their gas to Nabucco, the 2,400 mile, \$10 billion pipeline extending from the Turkish border to an Austrian hub, with planned capacity of more than 1 Tcf a year. For Europe, it is a question of security of supply and decreasing dependence on Russia. For the US, it would mean efforts to diplomatically isolate Iran would almost certainly fail.

While details on the Turkmen gas deal are still sketchy, the gas would come from the South Yolotan-Osman field near the Iranian border, believed to be one of the world's biggest, with between 141 and 500 Tcf of reserves. Iranian companies would help develop the field, making them the second foreign investor to be allowed on Turkmen soil. Iranian officials are expected in Ashbagat in the next few days to finalize the deal, which would also involve building a pipeline to export the gas through Iran.

As for Shah Deniz, the Iranian investment proposal was made through a subsidiary of the National Iranian Oil Company, which already owns a 10 percent stake in the first phase of the project. StatoilHydro also has a 25.5 percent share, while Socar, the Azeri state oil company, Lukoil, TPAO, and Total each have 10 percent. Russia's Gazprom and European countries are also competing for a share of the 42 Tcf of proven gas reserves in the field. Output of 300 Bcf is expected to at least double with the second phase, according to conservative estimates from the operator BP, which has a 25.5 percent stake.

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