



TURKMENISTAN'S OFFSHORE OIL AND GAS EXPLORATION IN THE CASPIAN SEA

Since Turkmenistan is an energy-rich Central Asian country with significant hydrocarbon reserves, the oil and gas industry is a key contributor to the country's economic growth. Nowadays, natural gas, crude oil and oil products make up about 80% of the country's exports. Therefore, the sustainable capacity development of the oil and gas industry and ensuring sufficient investment flows in energy infrastructure are vital for Turkmenistan's economic welfare.

According to the estimations, the energy potential of Turkmenistan is evaluated at 265 trillion cubic feet of proven gas and 600 million barrels of proven oil reserves. However, the energy potential of the country could be significantly increased in case Turkmenistan deals with developing the Turkmen shelf in the Caspian Sea. According to the experts, more than half of total oil reserves and nearly a quarter of total natural gas reserves of the country are concentrated in the Turkmen sector of the Caspian Sea (TSCS). For instance, Caspian basins offshore and onshore proved and probable reserves of Turkmenistan could reach 1.9 billion barrels of crude oil and lease condensate and 19 trillion cubic feet of natural gas. Considering the Turkmen sector of the Caspian Sea as a set of promising oil and gas fields, Ashgabat has strong intention to implement an energy strategy aimed at developing huge hydrocarbon resources in its own sector of the Caspian Sea.

In order to create favorable conditions for active exploration of the Caspian Sea basin reserves, Turkmenistan set up a legislative framework for implementing a strategy on developing offshore oil and gas fields. For instance, in 1993 Turkmen authorities adopted the Law on State Border that declared the establishment of the 12-mile zone of territorial waters and exclusive economic zone. It actually caused a dispute between Ashgabat and Baku mainly over the Kapaz field, referred to as Serdar by the Turkmen side. Discovered by Azerbaijani oil workers during the Soviet period, the field was considered as intermediate due to its location on the median line between Turkmenistan and Azerbaijan. Ashgabat has repeatedly demanded to halt operations in the territories whose legal status has not yet been defined. As a result, the parties could manage to sign an agreement in order to refrain from exploratory or extraction activities in the disputed field until the dispute is resolved.

It should be noted that the Azerbaijani geologists and oilfield experts so as specialists from other former Soviet republics played a significant role in the exploration of the part of the Caspian Sea shelf, which is currently under Turkmenistan's jurisdiction. Actually, most of

the new Turkmen offshore oil and gas fields were discovered during the Soviet era. For example, in 1985 the USSR authorities approved the Resolution on Measures to Establish a Caspian Oil and Gas Complex. Therefore, by possessing information on the geological work, which were made in the 1960s and 1980s, after independence Turkmenistan was able to attract foreign investment and sign Production Sharing Agreements (PSA) with the foreign oil and gas companies aimed at the development of the offshore projects in the Caspian Sea.

Turkmenistan has divided its sector of the Caspian Sea shelf with the total area of over 78,000 square kilometers into 32 licensed blocks, an average of 2,600 square kilometers per block. The Turkmen government gave the first license for exploration and production of oil and gas in the TSCS to the Malaysian company, Petronas, in July 1996. According to the agreement, Petronas Carigali (Turkmenistan) received the Contract area called Block 1 as a part of the Magtymguly, Diyarbekir and Garagol Deniz fields. Therefore, the company became one of the first partners of Turkmenistan for the development of offshore fields in the Caspian Sea. Currently, the operator carries out various types of work on the development and production of hydrocarbons in the aforementioned fields with a number of offshore production platforms.

The first extraction of oil in the framework of the project began in 2006 in the field of Diyarbekir. In 2015, Petronas Carigali started mining operations at the fields of the Western and Central Diyarbekir, which provided an increase in oil production to 10,000 barrel of oil per day. The company intends to increase the amount of produced oil to 17,000 barrel per day after launching the Garagol Deniz West project. In the beginning of 2016, the company has already announced its intention to start drilling the first well at the Garagol Deniz West field.

Petronas Carigali started the commercial production of natural gas along with the Turkmen shelf of the Caspian Sea in the Magtymguly field in 2011. In the same year, a large gas processing plant and ground gas terminal were commissioned near the Kiyanly settlement in order to receive natural gas produced from offshore fields.

Second PSA for the exploration of the Turkmen offshore resources was signed with the UAE-UK company, Dragon Oil, in 1999. A production license was granted to the company for development of the Cheleken Contract Area, which includes offshore oil and gas fields, namely Dzheitune, Dzhygalybeg and Chelekenyungummez. It should be noted that the first oil production at the Cheleken block

was made in the 1970s. Investing over \$5 billion in the project development, which makes it possible to drill more than 100 new wells and install three new platforms, Dragon Oil could manage to reach the average daily production at the level of 78,790 barrels of oil in 2014 with further increase to 96,000 barrels of oil a day by the end of 2015. The company is ready to maintain this high level of production for at least five years. In order to meet the desired objective the Cheleken's operator is planning to set up a new infrastructure such as additional wellhead platforms and in-field pipelines. It should also be noted that Dragon Oil will continue to export oil totally through the Terminal Sangachal of Baku.

Three more companies were granted licenses for the development of the TSCS oil and gas deposits, namely, the Canadian Buried Hill, the German RWE Dea AG and the Russian Itera. According to the Production Sharing Agreement signed in 2007, Buried Hill was given the right to explore the licensed block titled Block 3. In 2009, the Turkmen side granted licenses to RWE Dea AG and Itera giving them permission to develop the Block 23 and Block 21 respectively. It is worth mentioning that aforementioned companies are still carrying geological forecasting, testing and research works at their Contract areas.

To sum up, the exploration of oil and gas fields of the Turkmen sector of the Caspian Sea, which are prospective in terms of hydrocarbon reserves, is currently one of the priority directions of energy strategy of Ashgabat. In 2015, the total investments of contractors working in the Caspian Sea shelf of Turkmenistan are estimated at more than \$3.5 billion, which is \$1 billion increase in comparison with 2014. Moreover, last year Turkmenistan's state-owned company Turkmenneft made its first steps in the development of offshore hydrocarbon reserves of the TSCS for the first time in the country's oil and gas industry. Currently, the Turkmen oil workers are conducting deep drilling operations at the North Goturdepe and Altgyuyi fields. However, the Turkmen authorities could manage to sign PSA on the development of only 5 out of 32 licensed blocks of the TSCS. Therefore, it could be concluded that there is still a lack of interest in the Turkmen offshore field's exploration from the foreign oil and gas companies. Low degree of the Turkmen shelf's exploration and poor oil infrastructure in the country cause economic risks arising from necessity to spend additional expenditure while developing the offshore Caspian fields in Turkmenistan.

Politics, Foreign Affairs and Security

- Addressing a plenary session during the St. Petersburg International Economic Forum, the President of Russia, Vladimir Putin, the President of Kazakhstan, Nursultan Nazarbaev, and the Prime Minister of Italy, Matteo Renzi, focused on the prospects for deepening cooperation between the European Union and the Eurasian Economic Union.
- The Ministry of Foreign Affairs of Azerbaijan announced that the country was elected as a member of the United Nations Economic and Social Council (ECOSOC) for 2017-2019 getting support from 176 out of 185 states.
- During his official visit to Islamabad, the Minister of Energy and Water Resources of Tajikistan, Usmonali Uzmonzoda, and the Federal Minister of Petroleum and Natural Resources of Pakistan, Shahid Khaqan Abbasi, touched upon the issues of mutual interest and discussed ways to increase the cooperation in energy including coal and gas-related energy sources.
- The State Border Service of Uzbekistan announced about temporary closure of Uzbek border with four of its neighboring countries, namely, Kyrgyzstan, Tajikistan, Kazakhstan and Turkmenistan. The border closure is connected with the Uzbek authority's intention to ensure the security of the upcoming Shanghai Cooperation Organization (SCO) summit, which is to be held in Tashkent in June 2016.
- During the trilateral meeting held in St. Petersburg, the Presidents of Russia, Azerbaijan and Armenia, Vladimir Putin, Ilham Aliyev and Serzh Sargsyan discussed the situation on the Nagorno-Karabakh line of contact. As a result of the meeting, the parties agreed on a trilateral declaration, which confirms their commitment to the normalization of the situation on the line of contact and their consent to increase the number of the OSCE observers.
- The Spokesman of Central Military District of Russia, Yaroslav Roschupkin, reported that about 100 units of new equipment, mostly the BTR-82A armored personnel carriers, as well as more than 10 T-72B1 tanks, were delivered to the 201st military base in Tajikistan, which is Russia's largest military facility abroad.

Economy, Finance and Energy

- According to the Kazakh Statistics Committee, oil and gas condensate

production decreased by 4.4% to nearly 32.38 million tons in January-May 2016. The oil production decreased by 2.8%, to 27.67 million tons, while gas condensate decreased by 13.4%, to 4.71 million tons. Gas production in the same period decreased by 2.3% and amounted to 18.99 billion cubic meters. Associated gas production amounted to 10.63 billion cubic meters, which is 5% higher than the rate in the same period of 2015.

- The Minister of Energy of Russia, Alexander Novak, stated that the total investments in the development of projects such as the Baltic LNG, the Sakhalin-2 and the Yuzhno-Kirinskoye field exceeded \$13 billion. These projects are considered as a part of the collaboration between Russian state-owned gas company Gazprom and Shell Company.
- The State Agency for Regulation of Fuel and Energy Complex of Kyrgyzstan reported that due to a reduction in the purchase price of natural gas from \$165 to \$150 for 1,000 cubic meters, the Gazprom Kyrgyzstan LLC made a recalculation of gas tariffs for consumers.
- On the sidelines of the St. Petersburg International Economic Forum, the Deputy Chairman of the Board of Directors of Gazprom, Alexey Miller, and the Commercial Director of Gazco, Georgy Mamaladze, signed a contract for the commercial supply of 100 million cubic meters of Russian natural gas to Georgia in July-December 2016.
- According to the OPEC's report, Azerbaijan's oil production will average 0.85 million barrels per day (bpd) in the second quarter of 2016, which is 20,000 bpd less than in the first quarter of the year. In addition, the annual output is also expected to decline year-over-year by 20,000 bpd and to reach 0.84 million bpd.
- The Ministry of Energy of Kazakhstan reported that the installed capacity of renewable energy facilities and production of green energy totaled 251.55 megawatts (MW) in the first quarter of 2016, which is 1.4 times more than in the same period of 2015. Moreover, the total production of green electricity in the country amounted to 186.9 million kilowatt-hours in January-March 2016 compared to 82.3 million kilowatt-hours in the same period of 2015. It was also noted that the main part of the generated electricity accounted for small hydropower plants

(117.63 MW) and wind farms (59.76 MW).

- The State Statistics Committee of Azerbaijan reported that the country's GDP amounted to \$14.2 billion in January-May 2016, which is less by 4.2% as compared to the same period in 2015.
- The Minister of Finance of Kazakhstan, Bakhyt Sultanov, reported that the social expenditures in 2015 rose to 7% of GDP and reached \$8.28 million. The share of social expenditures in the public budget increased to 39.4% in 2015. It was also noted that 2015 public budget was amounted to \$20.7 billion.
- The National Bank of Kyrgyzstan announced that in order to stop the decline in dollar's exchange rate in June, it intervened the currency market twice. However, dollar in Kyrgyzstan fell by 50 tyiyn over the weekend totaling 8.5 soms lost in its price since the beginning of 2016. To date, the nominal exchange rate of dollar is fixed at 67.75 soms.

Society and Culture

- The Milli Majlis of Azerbaijan announced about the adoption of amendments to the country's Migration Code on the rules of issuing e-visas through the ASAN Visa system. The decree was signed in order to simplify the procedure for issuing visas to foreigners and stateless persons arriving in Azerbaijan.
- The Deputy Assistant Secretary of State for Central Asian Affairs, Daniel Rosenblum, announced the U.S. plans to spend \$164.1 million on Central Asia in 2017. Most of the funding, namely, \$51.8 million, will be allocated for further development of democratic institutions in Kyrgyzstan. Compared to 2015, funding will be increased by 39%.
- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, the country's population exceeded 17.753 million people. The Committee stated that over 10.129 million or 57% of Kazakhstan's residents lived in urban areas and 7.624 million people or 43% of residents reside in rural areas. It was also noted that the number of migrants who moved to Kazakhstan in January-April 2016 decreased by 23.9% compared to the same period in 2015 and reached 4,142 people.
- The 2016 Formula 1 Grand Prix of Europe was hosted by Azerbaijan for the first time.