The Energy Institute at the University of Houston’s College of Business Administration published a new study entitled *The Commercial Viability of the Trans-Caspian Gas Pipeline*. The report is the result of joint work of Dr. Bhamy Shenoy (Consultant, Hagler Bailly Services and Energy Institute Advisor), Dr. Gürcan Gülen (Research Associate, Energy Institute) and Dr. Michelle Michot Foss (Director, Energy Institute).

In 1997-98, the Institute participated in a consortium managed by Hagler Bailly Services for the U.S. Agency for International Development. The consortium was engaged in energy sector reform in critical republics of the Newly Independent States (NIS) of the Former Soviet Union including Kazakhstan, Turkmenistan and Georgia, all critical players in the development and export of Caspian Basin oil and gas resources. This report builds in part from knowledge gained through this experience.

Turkmenistan has large proved natural gas reserves. However, since Gazprom limits the use of its pipeline network for Turkmen exports to non-paying customers such as Ukraine, Turkmen exports have fallen to 77 bcf in 1998 from 2.4 tcf in 1987. Potential markets for Turkmen gas are Turkey via a new pipeline, Europe via Turkey or Russia, Pakistan and India via a new pipeline through Afghanistan, and China via a new pipeline through neighboring Central Asian Republics. For various reasons, pipelines heading West appear more feasible and rewarding. Among these, the Turkmenistan-Azerbaijan-Georgia-Turkey route has recently gathered great support.

After analyzing the potential for gas demand in Turkey as well as Azerbaijan and Georgia, and carrying out a NPV analysis supported with numerous scenarios, we conclude that the Trans-Caspian pipeline is commercially viable and would bring positive, *but limited*, returns to Turkmenistan *under most scenarios*. On the other hand, given the intense supplier competition to Turkey (further enhanced after the recent Azeri discoveries) and doubts about that market’s potential, there are significant risks for both Turkmenistan and pipeline operators. However, the strategic importance of the pipeline is tremendous for Turkmenistan, which stands to gain significant independence from, and bargaining power against Gazprom. Therefore, *Turkmenistan will need to participate in the pipeline consortium in order to share both the risks and operation revenues with other stakeholders*.

A version of our report is published in the November 15, 1999 issue of the *Oil & Gas Journal*. Copies of the report may be obtained from the Institute. This study is an independent effort and does not reflect the views of U.S. AID or Hagler Bailly Services. In addition, a version of our study will appear as a case study in a memoir, *International Oil and Gas Ventures: A Business Perspective*, forthcoming by the American Association of Petroleum Geologists in Summer 2000.

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