



CHINA'S ENERGY STRATEGY IN CENTRAL ASIA: INTERACTIONS WITH RUSSIA, INDIA AND JAPAN

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Abstract:

China's energy strategy and its overseas investments are subjects of an intense debate. Central Asia is a neighbour region, rich in oil and natural gas reserves, which seems the most likely to play an important role in the Chinese strategy to reduce its dependence on energy supplies from the Middle East. Therefore, this paper will try to assess China's energy strategy towards Central Asia, analysing the following issues: China's interests in the region; its energy security strategy, respectively the energy diplomacy and its investments in Central Asia, and the interactions with Russia, India and Japan in the energy field. The paper will finish with conclusions and comments regarding: the influence of the geopolitical and geo-economic factors, respectively the efficiency, the durability and the potential developments of China's energy strategy in Central Asia.

Keywords: China's Energy Strategy, Central Asia, Energy Security Strategy, Interactions with Russia, India and Japan.

Resumen:

La estrategia de seguridad energética de China y sus inversiones en ultramar son el sujeto de un intenso debate. Asia Central es una región colindante, rica en reservas de petróleo y gas, que parece ser la más susceptible de jugar un papel importante en la estrategia china de reducción de la dependencia de suministros de Oriente Próximo. Por tanto, este artículo va a intentar evaluar la estrategia energética china hacia Asia Central, analizando las siguientes cuestiones: los intereses de China en la región, su estrategia de seguridad energética con respecto a su diplomacia energética y sus inversiones en Asia Central, y las interacciones con Rusia, la India y Japón en el campo de la energía. Este artículo finaliza con conclusiones y comentarios sobre: la influencia de los factores geopolíticos y geo-estratégicos con respecto a la eficiencia, durabilidad y desarrollos potenciales de la estrategia energética de China en Asia Central.

Palabras clave: *Estrategia energética china, Asia Central, estrategia de seguridad energética, interacciones con Rusia, la India y Japón.*

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1. Introduction

In the 1990s, China had not yet built up an integrated foreign policy towards Central Asia. The Chinese government had mainly focused on the political-military issues, such as: borders' settlement, reduction in the level of military presence in border areas, fight against Uyghur separatism, instability in Afghanistan, strengthened United States' presence in Asia, etc.

Since 2000, the economic growth and the domestic energy demand-supply gap had increased the importance of energy imports. In 2004, China surpassed Japan, the second largest consumer of oil in the world after the United States of America. Additionally, the lessons received from the Angarsk struggle and the Iraq War determined China to diversify its energy supplies. In this context, the economic relations with the Central Asian republics, mainly in the energy field, have been developing faster.

We will motivate that, although the production costs in Central Asia are higher than those from the Middle East, Beijing considers them safe investments in the long term. The energy supply, from Central Asia to China, can be easily secured from extraction to terminal. Consequently, China used different instruments: acquisition of equity stakes in oil and gas fields, projects and corporations; diversification of oil and gas suppliers and transport routes, bilateral agreements, investments in hydroelectricity, minerals and transport infrastructure, domestic reforms in Xinjiang, etc.

The investments of the Chinese national oil companies (NOCs), in the Central-Asian energy sites, were often perceived as aggressive and back up by the PRC's government. China seems to become a strong competitor for Russia, regarding the number of deals in the energy sector, while India and Japan appear less successful than China in pursuing their energy interests in this region.

2. China's Foreign Policy in Central Asia

The collapse of the Soviet Union represented a threat, but also an opportunity for China in Central Asia. Firstly, China wanted to resolve the problems regarding the borders and territories. On the diplomatic stage, China recognized the sovereignty of the Central Asian states in December 1991. Also, in January 1992, China established diplomatic relations with the five countries.² From the first half of that year, China had bilateral consultations over its borders with Kazakhstan and Kyrgyzstan. Later, China agreed to Russia's proposal of border negotiations on a multilateral basis. Consequently, in September 1992, a working group was set up in Minsk, known as the "4+1 formula" and including Russia, Kazakhstan, Kyrgyzstan, and Tajikistan versus China.³ Within the Shanghai Five Group (1996), the actors negotiated faster. Excepting the agreements reached in Shanghai Five or Shanghai Cooperation Organisation's framework, China signed agreements of good neighbourhood, friendship and cooperation with Russia (2001), Kazakhstan and Kyrgyzstan (2005), as well as a strategic

² Umarov, Adiljan and Pashkun, Dmitriy (January 2006): "Tensions in Sino-Central Asian Relations and their Implications for Regional Security", Conflict Studies Research Centre, *Central Asian Series*, p. 4.

³ Paramonov, Vladimir and Stolpovsky, Oleg (2008): *Chinese Security Interests in Central Asia*, Shrivenham, Defence Academy of the United Kingdom, p. 3.



partnership with Kazakhstan (2005), and agreements on borders' demarcation with Kazakhstan (2002), Kyrgyzstan (1996, 1999) and Tajikistan (2002).⁴

The political relations were firstly clearly defined in April 1994, during Prime Minister Li Peng's visit in Kyrgyzstan and Turkmenistan. The four principles, proposed for political cooperation, were: peaceful coexistence and maintenance of good neighbourly relations; mutual cooperation and promotion of economic prosperity; non-interference in the Central-Asian internal affairs, and respect of territorial integrity and sovereignty.⁵

But the late 1990s brought new threats for China concerning the security of its western borders: the intensifying of the Uyghur separatism in Xinjiang and the instability in Afghanistan. In the first case, China increased the number of border posts, controlled the commercial routes, and got the support of the Central Asian countries, inclusively within Shanghai Five. In the second case, China obtained the *Convention on the Fight against Terrorism, Extremism and Separatism* in the Shanghai Cooperation Organisation, in 15 June 2001, transferred military-technical resources and equipments towards its neighbours and launched joint exercises.

Since 2001, the military presence of the United States of America in Central Asia, as a result of the antiterrorist campaign in Afghanistan, as well as China's economic expansion, needed new policies in this region. China does not want the strengthening of the American position in Central Asia because this is perceived as a complete containment of China by the United States. The Chinese nightmare is the alignment Washington D.C.–New Delhi–Jakarta–Hanoi–Tokyo. Consequently, China promoted the Shanghai Cooperation Organisation and enhanced the economic cooperation with the Central Asian republics.

The economic links have grown rapidly. Between 2001 and 2005, China's trade grew with 429% in Kazakhstan, 718% in Kyrgyzstan, 1368% in Tajikistan, and 1067% in Uzbekistan.⁶ As we observe, the balance of trade is clearly in favour of China. Kazakhstan is the most important commercial partner in the region. The Central Asian states export mainly raw materials towards China, such as: energy (Kazakhstan, Turkmenistan, Uzbekistan), metals (Kazakhstan, Kyrgyzstan), and textiles (Kyrgyzstan, Turkmenistan, Uzbekistan).⁷

China has not expressed yet its interest for an exclusive sphere of influence in Central Asia. Recently, Russia, Belarus and Kazakhstan signed up to a customs union in the margin of a EURASEC meeting (5 July 2010). The documents establish a single market for goods, labour and investments to enter into force at the beginning of 2012.⁸ Additionally, the rapprochement with Kyrgyzstan, after the violent events of this year, may also attract Uzbekistan to Russia. This international context is favourable to new energy investments and military relations between Russia and the Central Asian countries.

But China can become a strong competitor for Russia because it is an attractive political model for the Central Asian regimes, it has a similar economy with these states, it is

⁴ Dwivedi, Ramakant: "China's Central Asia Policy in Recent Times", *China and Eurasia Forum Quarterly*, vol. 4, no. 4, (2006), pp. 145-147; 149.

⁵ Garnett, Sherman W. (2000): *Rapprochement or Rivalry? Russia-China Relations in a Changing Asia*, Washington D. C., Carnegie Endowment for International Peace, pp. 392-393.

⁶ Szadziewski, Henryk: "How the West was Won: China's Expansion into Central Asia", *Caucasian Review of International Affairs*, vol. 3, no. 2 (Spring 2009), p. 214.

⁷ Paramonov, Vladimir: "China and Central Asia: Present and Future of Economic Relations", Conflict Studies Research Centre, *Central Asian Series* (May 2005), pp. 3-7.

⁸ Cutler, Robert M.: "Russia tries a menage a trois", *Asian Times On-line* (08 July 2010).



a large market for their exports, it has the financial resources for loans and investments, and it can offer access to the Pacific Ocean, the Far East and the South-East of Asia.

3. China's Energy Security Strategy

The economic development is considered extremely important for the maintenance of the political and social stability in China. Its economic security depends on the equilibrium of three variables: economic growth, energy security, and environmental protection. In this context, the energy security has become an issue of the "high politics" of national security.

3.1. Energy Balance

Self-sufficient in oil in 1993, China has been the world's second largest consumer, since 2003. Also, in 2004, it has been the number three importer of oil after the United States and Japan. Additionally, China has begun to import LNG in May 2006.

According to Xuecheng Liu, "China's oil demand doubled from 1.7 to 3.4 million bpd between 1985 and 1995. It doubled again, reaching 6.8 million bpd by 2005, with the result that in 2005 China imported 2.46 million bpd – or about 40 percent of its oil needs."⁹ Yue Zhang asserts that the import volume of crude oil exceeded domestic production for the first time in 2009, resulting in an import dependency of more than 50 percent.¹⁰

Between 2001 and 2005, oil demand grew by 9% annually and natural gas demand grew by 15% over the same period. In 2005, oil met 21,1% of Chinese energy needs, up from 17% in 1990, while natural gas played a much smaller role than oil (2,7%). China's oil demand will continue to grow through 2020, the projections varying from 10 million to 13.6 million bpd.¹¹ The Chinese government plans to increase natural gas consumption to 8% of total energy demand by 2010.¹²

The industry accounts for over 70% of final energy consumption in China. It has realized 48% of global cement production, 49% of global flat glass production, 35% of global steel production, and 28% of global aluminium production.¹³ Therefore, the Chinese energy production struggles to keep up with domestic demand. Currently, China imports more than 40% of its energy consumption. However, the International Energy Agency considers that China's energy imports will reach 77% in 2030.¹⁴

⁹ Liu, Xuecheng: "China Energy Security and Its Grand Strategy", Stanley Foundation, *Policy Analysis Brief* (September, 2006), p. 3, at <http://www.stanleyfoundation.org/publications/pab/pab06chinasenergy.pdf>.

¹⁰ Zhang, Yue: "Strategic Change in China's Oil Policies to Further Strengthen Energy Security", *Institute of Energy Economics of Japan* (June 2010), at <http://eneken.iej.or.jp/data/3219.pdf>.

¹¹ Downs, Erica: "China", Brookings, *Foreign Policy Studies, Energy Security Series* (December 2006), p. 9, at <http://www.brookings.edu/~media/Files/rc/reports/2006/12china/12china.pdf>.

¹² Rosen, Daniel H. and Houser, Trevor (2007): "China Energy. A Guide for the perplexed", Center for Strategic and International Studies and Peterson Institute for International Economics, p. 17, at <http://www.iie.com/publications/papers/rosen0507.pdf>.

¹³ *Ibid.*, p. 8.

¹⁴ "World Energy Outlook", *International Energy Agency* (2006), p. 101, at <http://www.iea.org/textbase/nppdf/free/2006/weo2006.pdf>.



3.2. Energy Security Concept

In a simple definition, energy security means securing adequate and reliable energy supplies at stable prices. The Chinese definition became broader, through the introduction of concepts such as “conservation-minded society” and “scientific development”, beginning with 2000. According to them, energy security means guaranteeing access to the energy resources needed for economically and socially sustainable development, while ensuring that the production and use of these resources do not impact negatively on the environment.¹⁵

The 10th Five-Year Plan of Economic and Social Development, from 2001, proposed: to encourage the use of advanced technologies, to increase national production, to develop gas industry, to improve the competitiveness of the NOCs on the international markets, to build up the national strategic oil reserves, to improve the conservation and efficiency level of oil consumption, to improve the regulatory and overseeing framework of the industry, and to deepen the reforms of oil industry.¹⁶

Additionally, *Medium and Long Term Energy Development Program from 2004 to 2020* as well as *Medium and Long Term Energy Conservation Plan* promoted energy conservation and energy intensity reduction. They also included provisions regarding: recentralization of control over energy policy, energy security, diversification of oil supply, regional energy cooperation, and the need to build a Strategic Petroleum Reserve.¹⁷ Some of these documents' targets were included in the 11th Five Years Plan for National Economic and Social Development, from March 2006.

Finally, *The 12th Five Year Plan* (2011-2015) will be deliberated and passed at the Fifth Plenary Session of the 17th CCP Central Committee meeting scheduled for the fall of 2010.¹⁸ Regarding oil and natural gas industries, the plan focuses on the following points:

1. It will continue to implement resource strategies to accelerate the pace of oil and gas exploration and development, to expand international oil and gas cooperation;
2. It will seize favourable opportunities for the development of the low-carbon economy;
3. It will accelerate the optimal adjustment of the downstream business structure, and speed up business integration and production base construction;
4. It will speed up the construction of strategic oil and gas channels, marketing networks and storage facilities;
5. It will quicken the pace of technological progress and break the bottleneck of resource development and that of clean development;
6. It will vigorously carry out mutually beneficial international cooperation.¹⁹

¹⁵ Zhongwei, Lu (ed.) (2003): *Feichuantong anquan lun [On Non-Traditional Security]*, Beijing, Shishi Chubanshe, p. 166.

¹⁶ Constantin, Christian (2005): “China’s Conception of Energy Security: Sources and International Impacts”, Centre of International Relations, *Working Paper*, no. 43 (March 2005), p. 11, at http://www.ligi.ubc.ca/sites/liu/files/Publications/Constantin_WP43.pdf.

¹⁷ Christoffersen, Gaye: “The Dilemmas of China’s Energy Governance: Recentralization and Regional Cooperation”, *China and Eurasia Forum Quarterly*, vol. 3, no. 3, (November 2005), p. 67.

¹⁸ Hsiao, Russel: “Major Reforms in the 12th Five Year Plan?”, Jamestown Foundation, *China Brief*, vol. 10, no. 13, (June 2010), pp. 1-2.



Concluding, China's energy security compresses the following elements: diversify the sources of energy imports and increase the share of oil and natural gas imports from Russia and Central Asia; increase overseas investments by state oil companies; broaden ways of trade to avoid transactions risk; enhance the investments in oil and gas infrastructure and open more channels to imports; establish government controlled strategic petroleum reserves; adjust energy consumption and production structure; liquefaction and development of nuclear power; and establish a regional energy system.²⁰

The international investments strategy is driven by the following characteristics: acquiring stakes in high-potential exploration blocks, proven reserves or asset holding companies; government support through diplomatic and economic initiatives; integration, versatility and cooperation between the big three NOCs; low profile approach of investments; minimize public disclosure of acquisition details, after the failed Unocal deal; modernize the naval forces in order to protect the sea lanes; develop continental oil and gas pipelines; promote and strengthen regional and bilateral energy cooperation; participate in the Energy Charter Treaty.²¹

3.3. Government Institutions

China's energy policies have been shaped by government institutions and national oil companies (NOCs). On the eve of China's transition to a net oil importer, Premier Zhu Rongji abolished the Ministry of Energy in 1993. The recentralisation of the energy sector, developed since 2000, has brought new institutions, which have been trying to improve the management of energy policy.

The National Development and Reform Commission (NDRC) is the successor to the State Planning Commission. It is the most powerful agency, responsible of planning long-term energy development, setting energy prices, and approving investments in domestic and international energy projects.²²

Within the NDRC, there are many offices. Before 2008, the Energy Bureau approved energy projects of any meaningful size, the Price Bureau had control over what firms can charge for gasoline, diesel, natural gas and electricity, and the Industry Bureau set industry policy affecting the firms. The Bureau of Resource Conservation and Environmental Protection was responsible with achieving the energy efficiency targets.²³

Other institutions, with a decreased role in energy policy making, are: the Ministry of Land and Resources, which manages resource extraction licensing; the Ministry of Commerce, which oversees energy import and export licenses; the Ministry of Finance, the Ministry of Foreign Affairs; the State Environmental Protection Agency (SEPA); the Rail Ministry. Additionally, the State-owned Assets Supervision and Administration Commission (SASAC), representing "the people" who are majority shareholders in the large state-owned energy enterprises, and the Ministry of Personnel (MOP) are informal channels in the energy policymaking process.

¹⁹ "Report on Domestic and Overseas Oil and Gas Industry Development in 2009", *CNPC Research Institute of Economics and Technology* (2010), pp. 20-21.

²⁰ See Dwivedi, *op. cit.*, p. 147.

²¹ Liyan, Hu and Ter-Shing Cheng: "China's Energy Security and Geo-Economic Interests in Central Asia", *Central European Journal for International and Security Studies*, vol. 2, no. 2 (November 2008), p. 47.

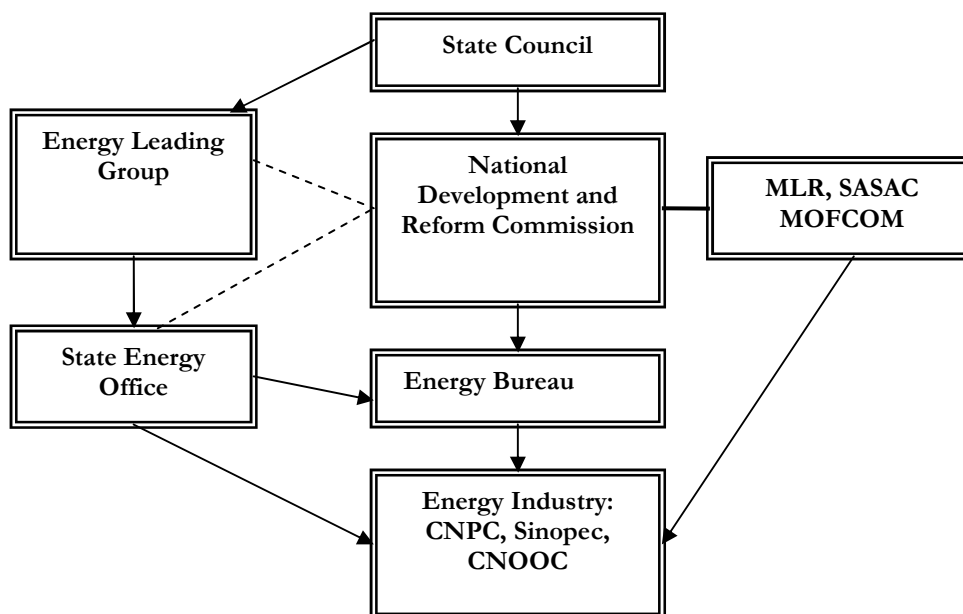
²² See Downs, *op. cit.*, p. 16.

²³ See Rosen and Houser, *op. cit.*, p. 18.

The energy crisis of 2003-2004 determined other changes in China's energy bureaucracy. Widespread power shortages contributed to a substantial increase in oil demand and imports. In May 2005, the State Council created the Energy Leading Group (ELG), headed by Premier Wen Jiabao, and composed of ministers and vice ministers, along with the State Energy Office (SEO), its administrative body.

There were several critics regarding these institutions. The Energy Bureau, established in March 2003, lacked manpower, financial resources and coordination authority among more politically powerful stakeholders. The Energy Leading Group did not formulate concrete policies, it made proposals to the State Council over the energy development and saving policies, energy security and external cooperation. Secondly, its effectiveness depended of its office. The State Energy Office had an unclear mandate, sometimes comparable with that of the Energy Bureau.

Figure 1: China's energy policy decision-making process in 2007



Therefore, China's government has made new reforms since March 2008: it dissolved National Energy Leading Group and Energy Bureau, and approved two new bodies: National Energy Administration (NEA) and National Energy Commission (NEC).²⁴

Firstly, the National Energy Administration (NEA) was formed within National Development and Reform Commission, institution which is responsible for developing and implementing energy industry planning, industrial policies and standards, and assuming the responsibilities of the Office of the National Energy Commission.

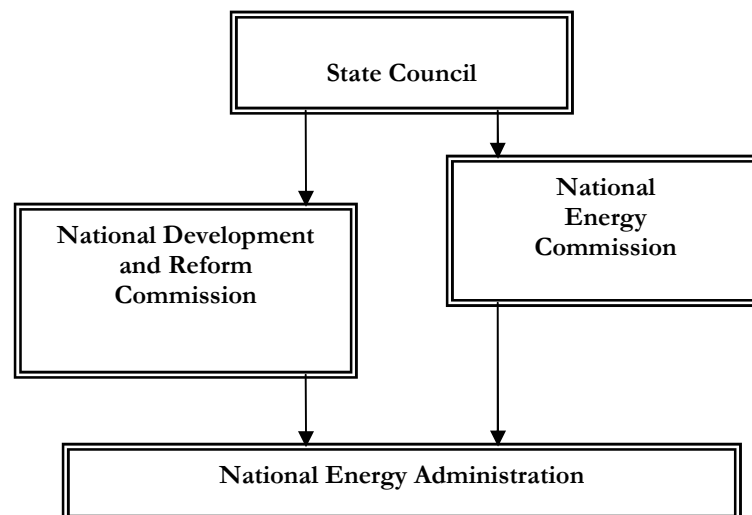
²⁴ Downs, Erica: "China's "New" Energy Administration", *China Business Review* (November-December 2008), p. 43.

Secondly, in May 2008, the National Standardization Technical Committee for the Oil and Gas Industry was set up. The committee is mainly responsible for petroleum geology, oil exploration, oil drilling, logging, oil and gas field development, gas production, storage and transportation, oil and gas measurement and analysis, oil pipes, offshore oil engineering, production safety and environmental protection.

In July 2008, the National Energy Bureau was set up. Its decisions are examined by the National Development and Reform Commission and submitted to the State Council for approval. Also, it will serve under China's National Energy Commission.

Fourthly, the National Energy Conservation Centre was formed in 2009. It is responsible for giving technical support to the government to implement energy efficiency and conservation management initiatives.²⁵

Figure 2: China's energy policy decision-making process in 2010



Finally, on 28 January 2010, the Chinese government officially announced the formation of the National Energy Commission (NEC). This is headed by Premier Wen Jiabao over 22 high-level government officials (vice premier Li Keqiang, top leaders of the NDRC and the ministries of finance, environmental protection, land and resources, and foreign affairs). The National Energy Commission formulates energy development strategy, reviews energy security policies and coordinates international cooperation, but it still needs the approval of the State Council. The National Development and Reform Commission initially resisted the attempt to set up an authority as powerful as the National Energy Commission. The fact it took nearly two years to formally announce the formation of the NEC illustrates the depth of the power struggles at play.

3.4. National Oil and Gas Companies

The relationship between Chinese government's institutions and national oil companies (NOCs) is characterized by internal friction and improved coordination abroad. The Chinese

²⁵ "APEC Energy Overview 2009", *Asia Pacific Energy Research Centre* (2010), pp. 42-44, accessible at <http://www.iadb.org/intal/intalcdi/PE/2010/04945.pdf>.



corporations exert tremendous influence in the energy policy decision-making process because of their political, financial, and economic resources. For example, general managers have direct access to senior leadership. The major reorganisation from 1998 enhanced the financial and administrative autonomy of China's NOCs. The state still controls them, through the appointment and dismissal of CEOs, respectively through the approval of any substantial investments by the National Development and Reform Commission and the State Council.

The most important Chinese energy corporations are: China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec Corp.), China National Offshore Oil Corporation (CNOOC), National Oil and Gas Exploration and Development Corporation (CNODC).

China National Petroleum Corporation (CNPC), set up in 1988, is China's largest oil and gas producer and supplier, providing services in 49 countries around the world.²⁶ China Petroleum and Chemical Corporation (Sinopec Corp.), founded in 2000, is China's largest producer and supplier of refined oil products and the second largest crude oil producer.²⁷ CNOOC Limited, created in 1982, is China's largest producer of offshore crude oil and natural gas.²⁸ PetroChina Co. Ltd., founded in 1999 as part of the restructuring of CNPC, occupied the position 13 in 2007, considering its reserves in oil.

The Chinese NOCs have traditional areas of operation: CNPC tends to dominate upstream and in the north and west, Sinopec - downstream and in the south, and CNOOC in the offshore regions.²⁹ CNPC has focused mainly on oil and gas exploration and production, while Sinopec has been engaged in downstream activities such as refining and distribution.

The level of overseas investments by Chinese NOCs has grown significantly in recent years. They have been present in over 30 countries around the world, such as: Kazakhstan, Russia, Iran, Sudan, Angola, Nigeria, Vietnam, Venezuela, Brazil, Canada, etc. With no real shareholder pressure and low interest rates from the domestic banks, they have strong incentives to invest their earnings in overseas projects.

China's energy strategy becomes more coherent every day. But the reform of energy policy is not sufficient. It must be complementary with other macroeconomic reforms. The Chinese government demonstrated that, in a short period of time, was capable of fast reactions to the challenges brought by the transition from an energy producer country to an energy importer country.

4. China's Energy Strategy in Central Asia

The instability of the Middle East and the American presence, the passage of about 80% of China's oil imports through Malacca Strait, with its security problems, the need to diversify

²⁶ China National Petroleum Corporation (CNPC), at www.cnpc.com.cn/en.

²⁷ China Petroleum and Chemical Corporation (Sinopec), at <http://english.sinopec.com>.

²⁸ China National Offshore Oil Corporation Limited (CNOOC), at www.cnooc.com.

²⁹ Houser, Trevor: "The Roots of Chinese Oil Investment Abroad", *Asia Policy*, no. 5 (January 2008), pp. 145-147.



its energy suppliers, and the necessity to develop the north-west China, all these factors determined the reorientation of China's foreign energy policy towards Central Asia and Russia. Here China has the possibility to secure its energy imports from extraction to terminal, through continental pipelines.

4.1. Energy Diplomacy

The Chinese government has involved in the energy geopolitics from Central Asia through political, military and financial instruments. The political support of the Chinese NOCs was pursued bilaterally and multilaterally. China has agreements of good neighbourly relations with Kazakhstan and Kyrgyzstan, and a strategic partnership with Kazakhstan. It supported Kazakhstan's bid to join the World Trade Organisation, respectively it sustained Uzbekistan in the Andijan episode. The exchange of visits at the highest level backed up various energy deals, the Chinese pursuing to obtain long-term agreements. Although China preferred to negotiate bilaterally its energy investments in Central Asia, the Shanghai Cooperation Organisation contributed a lot to build mutual trust and to balance Russia's historical influence in the region: "The purposes of the SCO are: strengthening mutual trust and good-neighbourly friendship among the member states; encouraging effective cooperation among the member states in political, economic and trade, scientific and technological, cultural, educational, energy, communications, environment and other fields; devoting themselves jointly to preserving and safeguarding regional peace, security and stability; and establishing a democratic, fair and rational new international political and economic order."³⁰

Secondly, China's military support to Central Asian republics meant conventional arms transfers, trainings and joint military exercises, especially with Kazakhstan and Kyrgyzstan.³¹ Within the Shanghai Cooperation Organisation, common military exercises took place in October 2002, August 2003, August 2006, September 2007, etc.³²

Finally, the Chinese financial support was represented by investments in different sectors of the local economies, loans with low interest rates and aid packages, given by China Eximbank and China Development Bank. China made investments in: hydroelectricity sector (Kazakhstan, Kyrgyzstan, Tajikistan); mineral industry, especially gold (Kazakhstan, Kyrgyzstan), aluminium (Tajikistan), and uranium (Kazakhstan); infrastructure sector – roads, tunnels, and railways, both in Central Asia and Afghanistan, in order to develop a new Silk Road and to connect itself with Iran and Pakistan; and in the telecommunications market.

4.2 Investments in Oil and Gas Sector

The Chinese corporations arrived late on the Central Asian energy market, but they tried to develop a methodical strategy of acquisitions. In 1997, China produced a great surprise when China National Petroleum Corporation acquired 60% in AktobeMunayGas (Kazakhstan). It got a twenty-year user license for the Zhanazhol gas site and the Kenkiyak oil site. The CNPC should have invested \$ 4 billion until 2010. In 2003, CNPC bought other 25% in that

³⁰ "Declaration on Establishment of SCO", *Shanghai Cooperation Organization (SCO)* (20 April 2006), at http://english.scosummit2006.org/en_bjzl/2006-04/20/content_85.htm.

³¹ Cornell, Svante E.: "The United States and Central Asia: In the Steppes to Stay?", *Cambridge Review of International Affairs*, vol. 17, no.2 (July 2004), p. 249.

³² Plater-Zyberk, Henry: "Who's Afraid of the SCO?", Conflict Studies Research Centre, *Central Asian Series* (September 2007), p. 4.



company, with \$ 150 million. China National Petroleum Corporation also obtained a participation in Uzen oil field, in 1997, but it withdrew from the project in 1999.³³

Since 2002, China has launched new acquisitions in Central Asia. At the end of 2002, China National Petroleum Corporation bought 50% in Salejan field (Kazakhstan).³⁴ In August 2003, CNPC bought 35% of the North Buzachi oil and gas field and acquired the remaining 65% from Chevron two months later.³⁵ Sinopec acquired American First International Oil Company (FIOC) in 2004, with more than \$ 160 million, obtaining its user licenses of small fields like Fedorov, Mezhdurechensk, Sagiz, Begaidar, Sazankurak.³⁶ In August 2005, CNPC outbid ONGC and Lukoil, in the auction for PetroKazakhstan, with a tender of \$ 4.2 billion.³⁷ In the same month, CNOOC and KazMunayGas signed a joint exploitation agreement for Darkhan oil field, in the Caspian Sea. But CNPC and Sinopec failed in their 2005 bid for British Gas's 16.67% stake in Agip KCO International Consortium, because the Chinese participation was refused by the other members of the consortium - Shell, Exxon Mobil, TotalFinaElf, Conoco Phillips and Agip.³⁸ In December 2006, CITIC Group (China) purchased Nations Energy (Indonesia), getting the exploitation rights in Karazhanbas field.³⁹ Also, in November 2007, CNPC and KazMunayGas signed an export agreement for 5 bcm of gas annually to China. Both companies also confirmed the two-phase construction of Kazakhstan-China gas pipeline, part of the great Sino-Central Asia gas pipeline.⁴⁰ In April 2009, CNPC teamed with KazMunayGas to purchase MangistauMunaiGas for \$ 3.3 billion, which also included CNPC extending a \$5 billion line of credit to KazMunayGas.⁴¹ China National Petroleum Corporation and KazMunayGas acquired 100% of MangistauMunaiGas shares in November 2009.

In Turkmenistan, China National Petroleum Corporation and Mitsubishi proposed the export of the Turkmen gas to China in 1992. Three years later, CNPC, Mitsubishi, and Exxon agreed to conduct a feasibility study, which was completed in 1996.⁴² In 2004, China Petroleum Technology and Development Corporation and Turkmengas signed a \$ 14.5 million contract to supply equipment, while, in April 2006, China and Turkmenistan signed an agreement regarding the delivery of 30 bcm of Turkmen gas to China in 2009.⁴³

In July 2007, CNPC signed a production sharing agreement to develop and extract gas from the Bagtiyarlik field in eastern Turkmenistan. China National Petroleum Corporation has

³³ Sébastien Peyrouse: "The Economic Aspects of the Chinese-Central Asia Rapprochement", Central Asia-Caucasus Institute, *Silk Road Papers*, (September 2007), pp. 50-51, at

http://www.silkroadstudies.org/new/docs/Silkroadpapers/2007/0709China-Central_Asia.pdf.

³⁴ Blank, Stephen J.: "China, Kazakh Energy and Russia: An Unlikely Ménage à Trois", *China and Eurasia Forum Quarterly*, vol. 3, no. 3 (November 2005), p. 103.

³⁵ Ziegler, Charles E.: "Competing for Markets and Influence: Asian National Oil Companies in Eurasia", *Asian Perspective*, vol. 32, no. 1 (2008), p. 146.

³⁶ Peyrouse, "The Economic Aspects...", *op.cit.*, p. 55.

³⁷ Guo, Xuetao: "The Energy Security in Central Eurasia: the Geopolitical Implications to China's Energy Strategy", *China and Eurasia Forum Quarterly*, vol. 4, no. 4 (2006), p. 131.

³⁸ Peyrouse, "The Economic Aspects...", *op. cit.*, p. 52.

³⁹ *Ibid.*, p. 56.

⁴⁰ Peyrouse, Sébastien: "China's recent advances in Central Asia", *CACI Analyst* (12 November 2008), at www.cacianalyst.org/?q=node/5001; China National Petroleum Corporation (CNPC), at www.cnpc.com.cn/en.

⁴¹ Seaman, John (2010): *Energy Security, Transnational Pipelines and China's Role in Asia*, Paris, Institut Français des Relations Internationales, p. 24.

⁴² Tønnesson, Stein and Kolås, Åshild: "Energy Security in Asia: China, India, Oil and Peace", International Peace Research Institute (April 2006), pp. 31-32.

⁴³ See Peyrouse, "The Economic Aspects...", *op.cit.*, pp. 64-65.



since won development contracts in Turkmenistan's South Yolotan onshore gas field. The deal was announced in June 2009.⁴⁴

During President Hu Jintao's June 2004 visit, China National Petroleum Corporation concluded several oil and gas contracts with Uzbekneftegas. In June 2006, CNPC signed an agreement with Uzbekistan to invest \$ 210 million in oil and gas exploration until 2011.⁴⁵ Also, in August 2006, CNPC entered into two contracts with Uzbekneftegas, to explore and develop natural gas deposits in the Aral Sea.⁴⁶ Furthermore, in October 2008, CNPC and Uzbekneftegas signed a cooperation agreement to develop a joint venture in the Mingbulak oil field.⁴⁷

Finally, in June 2010, CNPC and Uzbekneftegas have signed a framework agreement on the purchase of 10 Bcm per year of natural gas. Also, in cooperation with Korean companies, CNPC has discovered a new field of natural gas in the Aral Sea area. They will make other test wells in August 2010.

4.3. Oil and Gas Pipelines

The idea of an **oil pipeline between Kazakhstan and China** was launched in 1993. Later, in September 1997, China National Petroleum Corporation and KazMunayGas signed the memorandum of understanding to build an eastward oil pipeline to China. The costs of the project were estimated at \$ 3.5 billion.

Due to the competition with the Baku-Tbilisi-Ceyhan's project and the low level of oil prices, China postponed its construction. However, the first visit of President Hu Jintao in Kazakhstan, from June 2003, renewed China's commitments to building the oil pipeline.⁴⁸ The main arguments for this decision were: the increase of Kazakhstan's oil production, the increase of world oil prices and the Angarsk failure.

Having more than 3000 kilometres, the pipeline should have a capacity of 800000-1000000 barrels of oil per day. The first stage, between Atyrau and Kenkiyak, of 448 kilometres length, was completed in 2003. The second phase, Atasu-Alashankou, with the length of 988 kilometres, has been functioning since July 2006. Finally, in 18 August 2007, Kazakhstan and China signed the agreement for the third sector. The route Kenkiyak-Kumkol, with the length of 793 kilometres, was finished in 11 July 2009, reaching its full capacity in 2011.⁴⁹

The **Central Asia-China gas pipeline** was prepared by Beijing since 2000, through agreements regarding the development of infrastructure and loans with low interest rates.⁵⁰ KazMunayGas and CNPC made the feasibility study in February 2005. Then, in 3 April 2006,

⁴⁴ See Seaman, *op cit.*, p. 24.

⁴⁵ See Dwivedi, *op. cit.*, p. 148.

⁴⁶ See Ziegler, *op. cit.*, p. 157.

⁴⁷ China National Petroleum Corporation (CNPC), at www.cnpc.com.cn/en.

⁴⁸ Handke, Susann (August 2006): *Securing and Fuelling China's Ascent to Power - The Geopolitics of the Chinese-Kazakh Oil Pipeline*, Clingendael Institute of International Relations, *Energy Programme* (August 2006), pp. 43-44, at http://www.clingendael.nl/publications/2006/20060900_ciep_paper_handke.pdf.

⁴⁹ Peyrouse, "The Economic Aspects...", *op.cit.*, pp. 56-59.

⁵⁰ Paik, Keun-Wook; Marcel, Valerie; Lahn, Glada; Mitchell, John V. and Adylov, Erkin (2007): "Trends in Asian National Oil Company Investments Abroad: An update", Royal Institute of International Affairs, Chatham House, *Working Background Paper* (March 2007), p. 6, at http://www.chathamhouse.org.uk/files/6427_r0307anoc.pdf.



China and Turkmenistan signed a framework agreement concerning the construction of the pipeline and its supply in the long term. Additionally, in April 2007, China and Uzbekistan signed an agreement over the construction and the exploitation of the pipeline in Uzbekistan. Turkmenistan brought other confirmations in June, respectively in July 2007. China National Petroleum Company, TurkmenGas and the State Agency for Management and Use of Hydrocarbon Resources signed an agreement in August 2007, while KazMunayGas and CNPC signed an agreement in 8 November 2007.

The pipeline was inaugurated in December 14, 2009, and it follows the route Turkmenistan- Uzbekistan- Kazakhstan- Erdos- Urumqi- Lanzhou- Xian- Shanghai, reaching 4350 miles. The project's costs are nearly \$ 10 billion, and the pipeline should transport annually 30-40 Bcm of natural gas for thirty years, beginning with 2012.⁵¹

A second section, **Beyneu-Shymkent pipeline** will provide 10 Bcm of Kazakh gas annually to China. The protocol was signed on October 14, 2009, in Beijing, and ratified by Kazakhstan in June 2010. KazMunayGas and CNPC have also signed, in June 2010, an agreement on the design, financing, construction and operation of this pipeline.

China has several concerns regarding its energy supply from Central Asia. Firstly, the internal instability in Xinjiang has caused frequent disruptions. Therefore, China adopted the Great Western Development Drive, in January 2000, focusing on five priorities: quest for equality, foreign investments, infrastructure investments, sustainable development, tackling the nationalities issues.⁵² The Shanghai Cooperation Organisation should remove the threats of terrorism, separatism and extremism both in Central Asia and Xinjiang. Secondly, the Central Asian countries have their own domestic problems. The suspicious perceptions of China and the energy nationalism can endanger the Chinese investments in this region. Finally, the great power competition, the multiple energy transport routes, the growing number of Asian NOCs and also the IOCs, or the Russian and American military presences represent new challenges for China's interests in Central Asia. The balance between all these problems will need diplomacy, increased coordination and substantial financial resources. However, China succeeded, in just a decade, to put its mark in the Central Asian energy industry.

5. Interactions with Russia, India and Japan

The quest for energy security has transformed the foreign policies of China, Russia, India and Japan. Their competition for energy resources and regional dominance can be easily observed in Central Asia.

5.1. Analysis of the Energy Strategies

Despite the fact that Russia is an energy producer country, while China, India and Japan are, in different degrees, energy importer countries, their energy strategies have common characteristics in the recent years.

⁵¹ *Ibid.*, p. 21.

⁵² See Szadziewski, *op. cit.*, p. 212.



Russia's energy policy has the objective "to maximize the effective use of natural energy resources and the potential of the energy sector to sustain economic growth, improve the quality of life of the population and promote strengthening of foreign economic positions of the country".⁵³ The main strategic guidelines of the long-term state energy policy are as follows: energy security, energy efficiency of the economy, budget efficiency, and environmental safety of the energy sector.⁵⁴ Russia's approach of energy security is a strategic one: "Energy security is one of the most important components of the national security. Energy security is the country's security, that of its citizens, society, state and economy from the threats to reliable supply of fuel and energy. These threats are determined by external (geopolitical, macroeconomic, market) factors, as well as by the condition and operation of the country's energy sector".⁵⁵

Russia's international activities, from the energy sector, compresses: the development and exportation, at reasonable prices, of other states' energy resources; an enhanced participation on the international energy markets and the control of their energy resources and infrastructures; the cooperation with the neighbour energy corporations; the transit of energy exports, and the technical cooperation.⁵⁶

As a producer country, Russia exports energy to the European Union, China, Korea, Japan and India. In order to fulfil its commitments, Russia intends to create a common energy space between the CIS countries. The need to use the Central Asian energy resources is visible in the great number of agreements regarding the strategic energy cooperation, signed especially after 2000. In 21 January 2002, President Vladimir Putin proposed a single export channel for the Central Asian natural gas, respectively the setting of Eurasian Gas Producers Alliance (EGPA) by Russia, Kazakhstan, Turkmenistan and Uzbekistan.⁵⁷

The Russian energy strategies, in the post Cold War era, reflect an increased capacity to adjust to different challenges of the international system as well as a coherent vision in the long term.⁵⁸ In 13 November 2009, the government of the Russian Federation approved "Energy Strategy of Russia for the Period Up to 2030". To facilitate international cooperation on energy security, Russia has adopted the following initiatives: modernisation and development of energy infrastructure; development of a closed nuclear fuel cycle and expansion of nuclear power generation; development of new hydrocarbon provinces in remote

⁵³ "Energy Strategy of Russia for the Period Up to 2030", *Ministry of Energy of the Russian Federation* (2010), p. 10.

⁵⁴ *Ibid.*, p. 24.

⁵⁵ *Ibid.*, p. 28.

⁵⁶ Fredholm, Michael: "The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?", *Conflict Studies Research Centre, Russian Series* (September 2005), p. 4.

⁵⁷ *Ibid.*, p. 16.

⁵⁸ *Concept for Energy Policy under New Economic Conditions* (1992-2010) - September 1992; *Energy Strategy for Russia* - November 1994; *Energy Strategy of Russia. Major Provisions* - 7 December 1994; *On the Main Directions of Energy Policy and Restructuring of the Fuel and Energy Industry of the Russian Federation for the Period up to the Year 2010* - 7 May 1995; *Main Provisions of the Russian Energy Strategy* - 13 October 1995; *Main Provisions of Structural Reform in the Field of Natural Monopolies* - 28 April 1997; *Programme of Means for Structural Reconstruction, Privatisation and Reinforcement of Control in the Field of Natural Monopolies* - 7 August 1997; *Main Provisions of the Russian Energy Strategy to 2020* - 23 November 2000; *Elaboration of the Main Provisions on the Energy Strategy of Russia to 2020* - 28 May 2002; *Energy Strategy of the Russian Federation to the Year 2020* - 23 May 2003; *Russia's Energy Strategy as Current Development Program for the Fuel and Energy Complex* - 7 September 2006. See Fredholm, *op cit.*, pp. 2-3.



areas and offshore; accelerated energy exports to the Asia-Pacific regional international market.⁵⁹

In conclusion, Russia has tried to get as many agreements as it could with all the Central Asian republics. These agreements deal with the acquisition of equity stakes in oil and gas fields, companies (KazRosGas, KyrgyzNeftegas) and pipelines (Tengiz-Novorossiysk pipeline of the Caspian Pipeline Consortium⁶⁰) or the (re)construction of new pipelines, such as Central Asian Center-3 pipeline⁶¹ or Caspian Coastal Pipeline⁶².

India is the fifth largest consumer of energy in the world, with a GDP growth rate around 8%. According to *India's Hydrocarbon Vision – 2025*, a report presented by the Indian Prime Minister in 27 March 2000, the country's hydrocarbon demand will almost triple by 2025, from 2.5mb/d in 2005 to 7.4mb/d in 2025, while the domestic production will be around 1.6mb/d.⁶³

The Planning Commission of India provided a comprehensive and official Indian definition of energy security to date: “the country is energy secure when we can supply lifeline energy to all our citizens as well as meet their effective demand for safe and convenient energy to satisfy various needs at affordable costs at all times with a prescribed confidence level considering shocks and disruptions that can be reasonably expected”.⁶⁴

Consequently, the government of India took several energy policy initiatives, such as: greater autonomy for the public sector enterprises, a participation of nearly 30% of the private sector in refineries, New Exploration Licensing Policies (NELP), the division of the Oil Coordination Committee into two entities, Petrofed and the Petroleum and Natural Gas Authority, establishment of a Bureau of Energy Efficiency, etc.⁶⁵

In fact, there are a number of ministries involved that are responsible for policymaking related to various energy sources: Department of Atomic Energy, Ministry of Coal, Ministry of Petroleum and Natural Gas (which includes the Directorate General of Hydrocarbons (DGH)); Oil Industry Development Board (OIDB); Petroleum Planning and Analysis Cell (PPAC)); Ministry of Nonconventional Energy Sources, Ministry of Power, others ministries, and the Planning Commission (Commission's Power and Energy Division).⁶⁶

The strategy of the Indian NOCs' international investments consists of: competition or cooperation, on a case by case basis, with Chinese, Russian and Japanese corporations;

⁵⁹ “APEC Energy Overview 2009”, *op. cit.*, p. 157.

⁶⁰ In 2009, Russia has bought out Oman's and BP PLC's shares in the Caspian Pipeline Consortium, which means other 9% of the shares.

⁶¹ Central Asian Center-3 pipeline, representing the western branch of the Central Asian Center System, was built between 1972 and 1975. In December 2007, Russia, Kazakhstan and Turkmenistan announced signing an agreement to renovate and expand it.

⁶² Caspian Coastal Pipeline project should be parallel with Central Asian Center-3 pipeline. In December 2009, Russia and Turkmenistan agreed to go ahead with the project.

⁶³ Paik, Marcel, Lahn, Mitchell and Adylov, *op. cit.*, p. 18.

⁶⁴ “Draft Report of the Expert Committee on Integrated Energy Policy”, Planning Commission (New Delhi), *Expert Committee on Energy Policy* (2005), p. 56.

⁶⁵ Srivastava, Leena, Mathur, Riru: “India's Energy Security”, Friedrich Ebert Stiftung, *Briefing Paper* no. 14 (September 2007), p. 4, at <http://library.fes.de/pdf-files/iez/global/04809.pdf>.

⁶⁶ Madan, Tanvi: “India”, Brookings, *Energy Security Series* (November 2006), pp. 24-25, at http://www.brookings.edu/~media/Files/rc/reports/2006/11india_fixauthname/2006india.pdf.



governmental support with diplomatic and economic initiatives; supply of integrated packages in bids; cooperation with IOCs and choosing more expensive producing ventures.⁶⁷

For overseas investments, Cabinet officials approved an increase in ONGC's and IOCs investments limits to \$ 75 million in 2005. For investments over that limit, the government established an approval process. A single committee of senior bureaucrats - from the Ministries of Petroleum and Natural Gas, Finance, and External Affairs, the Planning Commission, the Department of Public Enterprises and the Department of Legal Affairs, clear investments over \$ 75 million.⁶⁸

Japan has very limited domestic oil and natural gas reserves. In 2004, Japan covered more than 95% from its energy demand through imports.⁶⁹ Japan is the third largest petroleum consumer in the world, behind the United States and China, and the largest importer of liquefied natural gas (LNG) in the world. Nearly 90% of its crude oil imports originate in the Middle East, while most of its LNG imports come from Indonesia, Australia and Malaysia.⁷⁰ Japan is currently looking towards Russia, Central Asia, and Africa in order to diversify its energy imports.

Energy policy in Japan has three dimensions: energy security, environmental protection, and economic efficiency (3Es). Ken Koyama, from the Institute of Energy Economics, gave a concise definition of energy security, which means "to secure sufficient energy supply at reasonable prices for the achievement, pursuit and maintenance of maximising economic and social welfares and sustainable development of national economy and citizens".⁷¹

The Ministry of Economy, Trade and Industry (METI) is responsible of formulating Japan's energy policy. Within METI, the Agency for Natural Resources and Energy is responsible for the rational development of mineral resources, securing stable supplies of energy, promoting efficient energy use, and regulating electricity and other energy industries, while the Ministry of Foreign Affairs formulates international policies.⁷²

Since 2002, Japan's *Basic Energy Law* has established the energy policy. In 2005, Ministry of Economy, Trade and Industry established two advisory committees on energy security policy: Energy Security Study Group, reported to the director of the Agency for Natural Resources and Energy, and General Advisory Panel on Resources and Energy.

The *New National Energy Strategy*, from 31 May 2006, proposed the following policies: strengthen its resource diplomacy and its overseas direct involvement and investment in oil and gas projects; strengthen comprehensive relations with resource supply countries by using a combination of technological assistance, economic aid and soft power; strengthen support for Japanese oil and gas development companies, both financially and diplomatically;

⁶⁷ Paik, Marcel, Lahn, Mitchell and Adylov, *op. cit.*, pp. 18-21.

⁶⁸ Herberg, Mikkal E.: "The Rise of Asia's National Oil Companies", The National Bureau of Asian Research (NBR), *Special Report*, no. 14 (2007) p. 11, at <http://www.nbr.org/publications/element.aspx?id=226>.

⁶⁹ "JOGMEC Business Report", Japan Oil, Gas and Metal National Corporation (2005), p. 1.

⁷⁰ "Japan Country Analysis Briefs", Energy Information Administration (EIA) (2008), pp. 2-8, at <http://www.eia.doe.gov/cabs/Japan/Background.html>.

⁷¹ Liao, Janet Xuanli: "Perceptions and Strategies on Energy Security: the Case of China and Japan", in: Len, Christopher and Chew, Alvin (eds) (2009): "Energy and Security Cooperation in Asia: Challenges and Prospects", Institute for Security and Development Policy (2009), p. 113, at http://www.isdp.eu/images/stories/isdp-main-pdf/2009_len-chew_energy-and-security-cooperation-in-asia.pdf.

⁷² "APEC Energy Overview 2009", *op. cit.*, p. 80.



promote diversification of oil supply regions; strengthen its supply strategy for natural gas; promote the transparency and stabilisation of energy markets; accommodating rapid demand growth for energy from Asia, primarily of China and India.

In March 2007, Ministry of Economy, Trade and Industry proposed a new *Basic Energy Law*, which incorporated the new emphasis on energy security.⁷³ Finally, in April 2010, METI proposed a draft for triennial revisions to the Basic Energy Plan, which aims at reinforcing energy security and counter global warming in harmony with the economic growth.⁷⁴

In conclusion, Russia and China have aggressive energy policies and strong national oil companies. They perceive Central Asian energy resources as vital for their economies and they give great importance to their defence policies. India and Japan are in a transition process towards integrated energy policies, while their NOCs are relatively strong. Also, they consider that Central Asia should become more important in their energy strategies.

5.2. Competition and Cooperation between the Asian NOCs

The Asian national oil companies are seeking and acquiring assets in Central Asia, in competition with international oil companies (IOCs) and with one another. Their influence depends on: the type of investment, the number of NOCs employees, the host country economy, the domestic political stability and the international alignment of forces in the region.

Russian NOCs. In 2003, Russia concluded an agreement with KazMunayGas for the joint exploitation of three sites – Kurmangazy (Rosneft), Tsentralnoye (Gazprom) and Khvalinskoye (Lukoil). Then, in January 2004, Lukoil got an exploration contract with KazMunayGas to develop the Tiyub-Karagan structure. Also, in 2005, Gazprom and KazMunayGas agreed to a joint venture to exploit the Imashevskoye gas fields in the Caspian Sea. In September 2006, KasRosGas, created in May 2002, set up the Orenburg gas processing plant.⁷⁵ On December 2007, the governments of Russia, Kazakhstan and Turkmenistan entered into the Agreement on the Pre-Caspian gas pipeline construction.

Gazprom and the government of the Kyrgyz Republic signed agreements and memoranda of understanding in May 2003, January 2006, and October 2008. It has also obtained, in February 2008, two subsurface use licenses for Kugart and Eastern Mailu-Suu IV areas.⁷⁶

Thirdly, Gazprom signed agreements with Turkmenistan in 2003 and 2005. The latter contract allowed Gazprom extensive rights over the Turkmen natural gas exports until 2028.⁷⁷ But from April 2009, there were some tensions in Russia-Turkmenistan relations. Considering the Central Asia-China natural gas pipeline, Russia worked hard to reach a new Russian-

⁷³ Chrisstoffels, Jan-Hein (2007): “Getting to Grips Again with Dependency: Japan’s Energy Strategy”, Clingendael Institute of International Relations, *Energy Programme* (August 2007), pp. 1; 19; 43-47, at http://www.clingendael.nl/publications/2007/20070830_ciep_paper_chrisstoffels.pdf;

“New National Energy Strategy (Digest)”, *Ministry of Economy, Trade and Industry of Japan* (2006), at www.enecho.meti.go.jp/english/newnationalenergystrategy2006.pdf.

⁷⁴ The Institute of Energy Economics, *Japan Energy Brief*, no. 7 (May 2010), pp. 1-4.

⁷⁵ Laruelle, Marlène and Peyrouse, Sébastien (2009): *China as a Neighbor: Central Asian Perspectives and Strategies*, Central Asia-Caucasus Institute & Silk Road Studies Program, p. 42.

⁷⁶ Gazprom, at <http://gazprom.com/production/central-asia>.

⁷⁷ “Russia and Central Asia”, *Russian Analytical Digest*, no. 29 (16 October 2007), pp. 2-3.



Turkmen gas agreement in December 2009, which renewed Turkmen gas exports to Russia (two thirds of the volume over the past several years).⁷⁸

In December 2002, Gazprom signed an agreement with Uzbekneftegas to buy 10 bcm of Uzbek gas per year until 2012. In 2004, another contract confirmed Gazprom's participation in the development of gas resources on the Ustyurt Plateau. Two years later, a 25-year production sharing agreement was signed for the Urga, Kuanysh, and Akchalak deposits.⁷⁹ In 21 September 2006, Gazprom, Uzbekneftegas and KazMunayGas signed a supply and transit agreement with natural gas (3.5 bcm). Gazprom also showed its interest to acquire 44% from Uzbektransgas.⁸⁰ Also, in January 2009, Gazprom agreed on the terms and conditions of gas supply from Uzbekistan and signed an addendum to the Uzbek gas supply contract stipulating a pricing formula based on average European gas prices.⁸¹

Lukoil has 15% in Karachaganak, 50% in Kumkol, 5% in Tengiz and 12.5 % in Caspian Pipeline Consortium.⁸² In 2004, Lukoil and Uzbekneftegas obtained rights to exploit the gas fields of Khauzak, Shady, and Kandym. In February 2007, Soyuzneftegas and Uzbekneftegas reached an agreement to exploit fields located in Ustyurt and in the Hissar region.⁸³

Indian NOCs. In Central Asia, the Indian corporations, such as Oil and Natural Gas Corporation (ONGC), Oil India Ltd. (OIL), Bharat Petroleum Corporation Ltd. (BPCL), Hindustan Petroleum Corporation Ltd. (HPCL), GAIL India Ltd., tried to adapt to the Chinese competition.

Oil and Natural Gas Corporation has 15% in the oil field Alibekmola (Kazakhstan). It announced an investment of \$ 1.5 billion in the Kurmangazy oil field, with Russia and Kazakhstan, but it also received exploration or exploitation rights in Darkhan, Karzahanbas and Aktyubinsk.⁸⁴

Negotiations between ONGC Videsh and KazMunayGas to develop oil and gas blocks in the Caspian region began in 2005. Also, in 2006, Kazakhstan offered ONGC-Mittal Energy Ltd. a 25% stake in the Satpaev offshore exploration block.⁸⁵ In April 2007, Mittal Investments acquired 50% from Lukoil's stakes in the Caspian Investments Resources (Kazakhstan), with \$ 980 million.

India signed agreements with Tajikistan (August 7, 2006) and Uzbekistan (April 26, 2006) in the field of energy, providing exploration rights to Indian companies without bidding

⁷⁸ Rosner, Kevin: "China Scores Again in Energy: Russia and Central Asia", ENSEC, *Journal of Energy Policy* (12 January 2010), at http://www.ensec.org/index.php?option=com_content&view=article&id=230:china-scores-again-in-energy-russia-aamp-central-asia&catid=102:issuecontent&Itemid=355.

⁷⁹ Laruelle and Peyrouse, "China as a Neighbor...", *op. cit.*, p. 42.

⁸⁰ Anand, Vinod: "Politico-military developments in Central Asia and Emerging Strategic Equations", *China and Eurasia Forum Quarterly*, vol. 4, no. 4 (2006), p. 168.

⁸¹ Gazprom, at <http://gazprom.com/production/central-asia>.

⁸² Rutland, Peter: "Russia's Response to US Regional Influence", in MacDonald, Juli A.; Rutland, Peter and Stephen J., Blank: "Regional Power Plays in the Caucasus and Central Asia", *NBR Analysis*, vol. 14, no. 4 (November 2003), p. 49.

⁸³ Laruelle and Peyrouse, "China as a Neighbor...", *op. cit.*, p. 43.

⁸⁴ MacDonald, Juli A.: "Rethinking India's and Pakistan's Regional Intent", in MacDonald, Rutland and Blank, *op. cit.*, p. 16; Monsonis, Guillem: "Les limites et contrecoups du rapprochement Indo-Américain dans le domaine de la sécurité", *Géostratégiques*, no. 19 (L'avenir géostratégique de la puissance indienne) (April 2008), p. 66.

⁸⁵ See Ziegler, *op. cit.*, p. 148.



in return for an equal share in revenue from any discovery.⁸⁶ GAIL India also signed a memorandum of understanding with Uzbekneftegas for joint exploration and production of oil and natural gas.⁸⁷

Additionally, OMEL - a joint venture of ONGC and Mittal Energy Ltd. since October 2007, Maersk and Wintershall won an exploration and production agreement in Turkmenistan's Block 11-12 from the Caspian Sea.⁸⁸ India has also expressed its interest for the TAPI pipeline (Turkmenistan-Afghanistan-Pakistan-India).⁸⁹ A Gas Pipeline Framework Agreement signed by the representatives of the four participating nations, on April 25, 2008, in Islamabad, envisaged construction to start in 2010, supplying gas by 2015.

Usually, the Indian corporations suffered defeat in competition with the Chinese corporations. This thing happened in: Angola, Nigeria, Ecuador, Kazakhstan and Myanmar. But they have already cooperated in Russia, Sudan and Iran. The Indian proposal for joint bids was accepted by Beijing in 13 January 2006 and it was consolidated in five memoranda on energy cooperation. Additionally, a joint bilateral working group is monitoring progress of cooperation with the focus on four main regions: the Caspian Sea region, Central Asia, Africa and Latin America. Furthermore, CNPC and ONGC, respectively Sinopec, CNOOC, Beijing Gas, and GAIL signed deals covering exploration and production.⁹⁰ Recently, in 2009, ONGC Mittal Energy signed an agreement for the joint exploitation of the Satpayev offshore block, in the northern Caspian Sea, but the project still needs to be finalised.⁹¹

Japanese NOCs. Mitsubishi, Mitsui, Itochu, Marubeni, Sumitomo, Nissho Iwai, etc., once they arrived in Central Asia, were relatively slow to conclude large business contracts.

In March 1993, Japan National Oil Corporation launched a study regarding oil and natural gas productions in Kazakhstan, Turkmenistan and Uzbekistan. Also, the Ministry of Commerce and Industry published a white charter about Japan's energy policy, which emphasized the opening policies of the Central Asian republics and the potential of the Tarim Basin, suggesting the construction of oil and natural gas pipelines on the route Central Asia-China-Japan.⁹²

Inpex Corporation obtained 8.33% stake in Kashagan oil field consortium (Kazakhstan), in 1998.⁹³ Itochu and Inpex are involved in the Baku-Tbilisi-Ceyhan consortium and the TAPI pipeline consortium. Inpex also entered in the KTI pipeline consortium (Kazakhstan-Turkmenistan-Iran), together with KazMunayGas, Total, and Japan National Oil Corporation, signing an agreement for common studies.⁹⁴ During Ryutaro

⁸⁶ See Dwivedi, *op. cit.*, p. 157.

⁸⁷ Sachdeva, Gulshan: "India", in S. Frederick Starr (ed.) (2007): *The New Silk Roads. Transport and Trade in Greater Central Asia*, Central Asia-Caucasus Institute & Silk Road Studies Program, p. 351.

⁸⁸ Paik, Marcel, Lahn, Mitchell and Adylov, *op. cit.*, pp. 7; 21.

⁸⁹ Schaffer, Teresita C. and Haté, Vibhuti: "India's "Look West" Policy: Why Central Asia Matters", *South Asia Monitor*, no. 110 (05 September, 2007), p. 1.

⁹⁰ Holslag, Jonathan: "Fuelling Competition? China and India's Need for Natural Resources and the Options for Cooperation", *BICCS Asia Paper*, vol. 3, no. 3 (09 January 2008), pp. 6-7.

⁹¹ Fu, Jen-Kun: "Reassessing a "New Great Game" between India and China in Central Asia", *China and Eurasia Forum Quarterly*, vol. 8, no.1 (2010), p. 19.

⁹² Len, Christopher: "Japan's Central Asian Diplomacy: Motivations, Implications and Prospects for the Region", *China and Eurasia Forum Quarterly*, vol. 3, no. 3 (November 2005), pp. 130-131; 133.

⁹³ King, Amy and Townsend, Jacob: *Is Japan's Interest in Central Asia Stagnating?*, Central Asia-Caucasus Institute, *CACI Analyst* (09 May 2007), at <http://www.cacianalyst.org/?q=node/4685>.

⁹⁴ Maleki, Abbas: "Energy Supply and Demand in Eurasia: Cooperation between EU and Iran", *China and Eurasia Forum Quarterly*, vol. 5, no. 4 (November 2007), p. 108.



Hashimoto's government, there was created a delegation, called the *Energy Mission on the Silk Road*, formed by ten governmental experts, business men and researchers, for the visits in Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan.⁹⁵

Although there were examples of cooperation between the Chinese and Japanese NOCs in Turkmenistan in the 1990s, the Angarsk struggle determined strong competition between them. The Japanese government restructured several NOCs, in 2001 and 2004, in order to be successful in its international acquisitions. The new Japan Oil, Gas and Metals National Corporation (JOGMEC), established on February 2004, is a governmental investment and technical support vehicle.⁹⁶

Chinese corporations have had greater success than other Asian NOCs in securing energy assets in Central Asia, although their efforts have been constrained by strong competition from an increasingly nationalistic Russian energy policy, the established position of IOCs, and by energy nationalism within Central Asia itself.

5.3. Bilateral and Multilateral Energy Initiatives

China has methodically pursued cooperation with other regional powers. Firstly, it has strategic partnerships with Russia (1996) and India (2003).⁹⁷ China and Russia signed a *Treaty of Friendship and Cooperation*, in 16 July 2001, which includes provisions on energy. They are close partners in the Shanghai Cooperation Organisation, too. Secondly, China and India have sporadic tensions over the border and the status of Tibet, respectively regarding the Chinese military presence in the Indian Ocean. Thirdly, China and Japan have disputes over the Senkaku Islands, respectively over the Chunxiao gas fields, known as Shirakaba in Japanese. In 2004, China surpassed the United States as Japan's largest trading partner. Therefore, there were several bilateral visits beginning with 2006.⁹⁸

Russia and India are rarely antagonistic toward each other, because they have no shared border. The Delhi Declaration, from 4 December 2002, wanted to improve their relation towards the common neighbourhood, Afghanistan and Central Asia. Russia supported India in the Shanghai Cooperation Organisation and it is also India's largest defence partner. Russia and Japan have border disputes in the Kurile Islands, but work together in the Sakhalin 1 and 2 projects or in the Angarsk-Nakhodka oil pipeline. India and Japan cooperate often against China, inclusively at the NOCs level. Finally, Russia, China and India have had many trilateral meetings.

Bilateral energy cooperation

China-Russia. Firstly, Gazprom concluded a strategic partnership with CNPC in October 2004. Secondly, Rosneft signed a memorandum with Sinopec seeking to establish a joint venture in the exploration of the Venin mining field of Sakhalin-3, in July 2005. Thirdly, Rosneft and CNPC established a joint venture - Vostok Energy in October 2006. Fourthly, in

⁹⁵ See Len, *op. cit.*, pp. 138-141.

⁹⁶ Mitchell, John and Lahn, Glada *Oil for Asia*, Royal Institute of International Affairs, Chatham House, *EEDP Background Paper* (March 2007), p. 5, at http://www.chathamhouse.org.uk/files/6350_bp0307anoc.pdf.

⁹⁷ Saunders, Phillip C.: "China's Global Activism: Strategy, Drivers and Tools", Institute for National Strategic Studies, National Defense Industry, *Occasional Paper*, no. 4 (October 2006), p. 15.

⁹⁸ Dumbaugh, Kerry (2008): *China's Foreign Policy: What Does It Mean for US Global Interests?*, CRS Report for Congress, pp. 17-18.



October 2009, Gazprom and CNPC signed a framework agreement on gas supplies and construction of a gas pipeline. Finally, the opening of the new oil terminal at Kozmino, near Nakhodka, in 27 December 2009, was partially facilitated by a \$ 25 billion in loan package from China. In return China will receive Russian oil supplies over the next twenty years.⁹⁹

China-India. During Premier Wen Jiabao's visit to India, in April 2005, the two governments issued a joint declaration. They agreed to cooperate in energy security and energy savings. In December 2005, oil companies from China and India teamed up to purchase 37% of oil assets in Syria belonging to the Canadian Oil Co. at a cost of \$ 573 million. Furthermore, in August 2006, they worked again to buy 50% of the shares of an oil field in Colombia.

China-Japan. The cooperation between CNPC and the Japanese government, business community and petroleum sector began in the 1960s, after the signing of a long-term agreement between the two countries. In April 2007, the first energy policy dialogue took place. A joint statement by METI and NDRC, on fostering cooperation between Japan and China in the energy field, was signed on that occasion.¹⁰⁰ Next year, PetroChina signed a letter of intent in Tokyo with Nippon Oil Corporation (NOC) to set up a joint venture refinery. Then, in June 2008, China and Japan agreed to conduct joint development in oil and gas in the disputed East China Sea.¹⁰¹ Finally, the 3rd edition of a China-Japan Energy Conservation Forum, in November 2009, finalised with 19 contracts between government institutions and companies from both countries.

Russia-India. India is Russia's second largest export market for arms.¹⁰² India's ONGC Videsh Ltd has held a 20% stake in Sakhalin-1 of \$ 1.7 billion, since 2001. It also looked to invest in the Sakhalin-3 project, without success, as well as in the joint Russian-Kazakh Kurmangazy oil field in the Caspian Sea. ONGC and Gazprom agreed to study the possibility of building an LNG project in Yamal. They also cooperate in the nuclear energy sector: Rosatom will assist India in the development of nuclear energy capabilities for peaceful purposes.

Russia-Japan. Despite a considerable potential for Russian-Japanese energy cooperation, presently there are only a few feasible projects and initiatives: Sakhalin 1 and Sakhalin 2. Also, in May 2009, a nuclear energy cooperation agreement was signed, when minister Putin visited Japan.

India-Japan. The India-Japan Energy Cooperation summit of April 2005, in New Delhi, prepared few joint statements regarding their partnership in September 2005 and December 2006.¹⁰³ India-Japan Energy Forum had the third meeting in 15-16 February 2010. The earlier editions of the Forum, held in December 2006 and February 2008, focused on issues related to their national policies on energy, energy conservation and climate change. The 3rd India-

⁹⁹ See Rosner, *op. cit.*

¹⁰⁰ Niquet, Valérie (2007): *Energy Challenges in Asia*, Paris, Institute Français de Relations Internationales, pp. 11-12.

¹⁰¹ Choo, Jaewoo: "Northeast Asia Energy Cooperation and the Role of China and Japan", in: Len and Chew, *op. cit.*, p. 57.

¹⁰² Norling, Nicklas: *India and its Neighbors: Development Scenarios 2009-2029*, Institute for Security and Development Policy, *Asia Paper* (September 2009), p. 34.

¹⁰³ Itoh, Shoichi: "Is there a Solution? Obstacles to and Prospects for Multilateral Energy Cooperation in Asia", in: Len, Chew, *op. cit.*, p. 329.



Japan Energy Forum has focused on the theme of technology cooperation. Additionally, India is the largest recipient of development loans from Japan.¹⁰⁴

There are several **multilateral economic and energy cooperation initiatives** in Central, South-East and North-East Asia: Eurasian Economic Community (EURASEC), Central Asia Regional Economic Cooperation Programme (CAREC), Shanghai Cooperation Organization (SCO), Greater Tumen Initiative (GTI), North East Asia Petroleum Forum, Intergovernmental Collaborative Mechanism on Cooperation in North East Asia (ECNEA), Boao Forum for Asia (BFA), Association of Southeast Asian Nations plus China, Korea, and Japan (ASEAN+3), East Asian Summit (ASEAN+3+India, Australia, and New Zealand), Asia Cooperation Dialogue (ACD), South Asian Association for Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Asia-Pacific Economic Cooperation (APEC), etc.

Table 1: China, Russia, India and Japan in regional energy initiatives

	CHINA	RUSSIA	INDIA	JAPAN
EURASEC		X		
CAREC	X			
SCO	X	X	x (observer)	
GTI	X	X		X
ECNEA		X		
BFA	X			X
ASEAN+3	X			X
East Asia Summit	X		X	X
ACD	X	X	X	X
SAARC			X	
BIMSTEC			X	
APEC	X	X		X

¹⁰⁴ Curtis, Lisa: "India's Expanding Role in Asia: Adapting to Rising Power Status", The Heritage Foundation, *The Heritage Foundation's Backgrounder*, no. 2008 (February 2007), p. 8.



Some of these regional energy initiatives are more successful than others. Within **EURASEC**, energy is one of the priority areas of cooperation. The **Eurasian Economic Community** adopted few energy policy resolutions, such as: “*Fundamentals of Energy Policy of the Eurasian Economic Community Member States*” (2003), and “*Concept on formation of common energy market in countries-members of EURASEC*” (2008). The recent EURASEC Summit, from July 5, 2010, in Astana, has had on its agenda the issue of the formation of a common energy market.¹⁰⁵

During the Shanghai Summit of 15 June 2006, Russia publicly announced the intention of founding an “Energy Club” within the **Shanghai Cooperation Organisation**. The proposal aroused concerns at international level, because the organisation would control more than 50% from the world energy reserves.¹⁰⁶ The project of the International North-South Transport Corridor (INSTC), initiated by Russia, Iran, and India, could become a competitor for the Transport Corridor Europe-Caucasus-Asia (TRACECA). Several states have already added to this initiative: Armenia, Azerbaijan, Belarus, Bulgaria, Kazakhstan, Kyrgyzstan, Oman, Syria, Tajikistan, Turkey, Ukraine, etc.¹⁰⁷

The **Association of Southeast Asian Nations plus China, Korea, and Japan (ASEAN+3)** created four forums of experts on: energy security, natural gas, oil markets, oil stockpiles, as well as ASEAN Plus Three Energy Security Communication System. Within the **East Asian Summit**, there are few declarations on energy policy: “*Cebu Declaration on East Asian Energy Security*” (15 January 2007), and “*Singapore Declaration on Climate Change, Energy, and the Environment*” (21 November 2007). Additionally, the EAS Energy Ministers have met in 2007, 2008 and 2009. The relationship between ASEAN plus Three and the East Asian Summit is still not clear.¹⁰⁸

India is an active supporter of the energy cooperation within **SAARC** and **BIMSTEC**. The **South Asian Association for Regional Cooperation** established: a Technical Committee on Energy (2000), a Working Group on Energy (2004), the SAARC Energy Centre (2006), four new Experts Groups (2009), and it approved “*The Concept of Energy Ring*” (2009). The government of India organised “*The First BIMSTEC Energy Ministers’ Conference*” (2005), “*South Asia Energy Dialogue*” (2007), and “*Fifth Asia Gas Partnership Summit*” (2008).¹⁰⁹ The **Asia-Pacific Economic Cooperation (APEC)** launched up to present: the Energy Working Group (1990), APEC Energy Cooperation (2000), Joint Oil Data Initiative (JODI, 2001), Asia-Pacific Network for Energy Technology (2007), Energy Trade and Investment Task Force (ETITF, 2008).¹¹⁰

¹⁰⁵ Eurasian Economic Community (EURASEC), at www.eurasian-ec.com.

¹⁰⁶ Mihalka, Michael: “Not Much of a Game: Security Dynamics in Central Asia”, *China and Eurasia Forum Quarterly*, vol. 5, no. 2 (2007), p. 25.

¹⁰⁷ Maleki, Abbas: “Iran”, in Starr *op. cit.*, pp. 185-186.

¹⁰⁸ Association of Southeast Asian Nations (ASEAN), at www.aseansec.org.

¹⁰⁹ South Asian Association for Regional Cooperation (SAARC), at www.saarc-sec.org; Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), at www.bimstec.org.

¹¹⁰ Asia-Pacific Economic Cooperation (APEC), at www.apc.org.



6. Conclusions

China's energy strategy in Central Asia was influenced both by geopolitical and geo-economic considerations. Although it has had several weak points, it has succeeded to achieve its goals. Therefore, we consider China's energy strategy in Central Asia one of the most efficient, in comparison with other competitors' energy strategies.

Usually, the Chinese NOCs win the bids and are quite visible on the international energy markets, but their efforts have been constrained by strong competition from an increasingly nationalistic Russian energy policy, the established position of IOCs, and by energy nationalism within Central Asia itself.

India has not been yet a strong competitor for China in Central Asia, but Japan has the potential to win bids as it demonstrated in the Angarsk struggle. There is possible cooperation between the Indian and Japanese NOCs in order to present more attractive offers and reach the Chinese gross overpayment auctions.

China has promoted and built its oil and natural gas pipelines from Central Asia faster than other actors. Through investments, China's influence and visibility grew significantly and it is perceived in a relatively positive way in the region.

In order to improve the efficiency of its energy strategy and increase the number of successful deals in Central Asia, China can develop: the bilateral relations with the host countries through loans, aid packages, trade, investments, security cooperation, education programmes; public diplomacy campaigns and improved business practices; new regional cooperation initiatives with the five republics and other actors engaged in the region (free trade agreements, energy security, environment protection), etc.

China's energy strategy in Central Asia is a durable policy. The agreements signed with the Central Asian countries demonstrate a long term vision. But the strategic competition will continue, especially with Russia. Although China and Russia are partners in the Shanghai Cooperation Organisation today, they have similar interests in Central Asia, inclusively in the energy field, which can become divergent in the long term. Once the United States of America's influence can be reduced in this region, the new Great Game will be played between these two Eurasian powers.