

KAZAKHSTAN-CHINESE COOPERATION IN THE ENERGY SPHERE

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Relations with the PRC is a priority area in our republic's foreign policy. This is not just because we are neighbors, but also because Beijing has enormous economic potential, as well as immense influence on the international arena. China was among the first states to recognize Kazakhstan's sovereignty. These countries began to develop multifaceted bilateral cooperation from the mo-

ment diplomatic ties were established in January 1992. Cooperation in the energy sphere began in 1997, when the Chinese National Petroleum Company (CNPC) became a shareholder of the Aktobemunaigaz Company (60.3%). (An agreement on cooperation in the oil and gas sphere was signed by the governments of both countries in September. At that time, the Kazakhstan Ministry of Energy and Mineral Resources and the CNPC signed a general agreement on developing fields in Kazakhstan and building an oil pipeline from Kazakhstan to China.)

Today, cooperation in the energy sphere is developing successfully and becoming the pivot of Kazakhstani-Chinese relations, which was emphasized in particular during Kazakhstan President Nursultan Nazarbaev's visit to the PRC in May 2004. But joint work in this area did not get off to a smooth start. Delays in laying the West Kazakhstan-West China oil pipeline kept economists and political scientists in a state of tension. Many forecasts of its prospects have been made over the years, but they were all very pessimistic, no one believed the route would ever come to fruition. Mainly because it is economically inefficient, and the Kazakhstan side will not be able to fully load the pipeline, which is too long anyway. The low quality of Kazakhstani oil, which requires additional refining, thus raising its net cost, was also among these pessimistic arguments. So many experts decided that the intentions to build this pipeline were merely a political step and Beijing's arrival on Astana's oil and gas market was dictated to a certain extent by geopolitical considerations. At that time, many believed that the main stimulus behind transporting oil was not economic expediency, but exerting influence in the region.

However, the decisive steps taken by both sides in 2004 to implement this project, as well as the fact that construction of the Atasu-Alashankou line actually began, refuted all these arguments. Now political scientists are looking for the true reasons for the keen attention being shown what would seem to be an already frozen project and which many called unrealistic. In our opinion, it was revived for several reasons, including those not related to Kazakhstani, but to Russian oil, or to be more precise, to pumping it along the Angarsk-Daqin pipeline, which would be more economically preferable for the Chinese. First, because the Russian side is always putting off its construction, second, partly due to the recent events involving YUKOS,

and third, due to failure of the transaction between the PRC and the Slavneft Company. The anti-Chinese moods in the RF State Duma and among ordinary Russians also had an important role to play here. The "theory of the Chinese threat" is currently very popular in Russia, and Moscow does not want the Chinese economy to become any stronger. Nor is Kazakhstan entirely free of Sinophobia, although now it has subsided, whereby it was never as rampant in our country as it was in Russia. Even in the Kazakhstan mass media, where it was a hot topic for a while, it has now essentially disappeared into oblivion. Incidentally, Beijing is also very concerned about the "theory of the Chinese threat," with respect to which Deputy PRC Foreign Minister Liu Guchang particularly stressed the need to raise political trust between the countries.

Another reason for reviving the pipeline project from Kazakhstan to China is the PRC's concern about the U.S.'s actions in the Middle East. Speaking at an international forum on China's economic strategy (Beijing, 21-23 May, 2004), Professor Fang Zhangping, an employee of the Research Center of International Energy Strategy, stated: "The events in Iraq graphically show that the United States, as the first oil importer in the world, will try to ensure its direct presence in the regions where oil is produced, which could pose a threat to China's increase in oil import."¹ That is, the PRC's serious concern about its oil security was probably one of the reasons the Celestial Kingdom decided to create strategic oil supplies. Of course, since its accelerated economic growth rates require increasingly larger amounts of energy resources, creating these supplies becomes extremely problematic. This is probably why China decided to step up its cooperation with Kazakhstan and Russia in order to safeguard against any possible boycott on deliveries of Middle Eastern oil. In this context, Beijing's desire to begin building the "forgotten" pipeline as soon as possible does not look so sudden and strange.

What is more, according to some researchers, an important component of the oil security strategy for China is the "go abroad" (*zouchuqu*) slogan, which implies, among other things, participating in the development of foreign oil fields using Chinese technology and Chinese capital. As Ya. Berger believes, this slogan is aimed primarily at the countries neighboring on the PRC. In his book *On Chi-*

¹ Interfax-China, 25 May, 2004.

na's Energy Strategy, he presents the following quote from an article by Xia Yishan, "The Situation in China's Energy Sector and its Development Strategy," published in the newspaper *Renmin ribao*: "Russia, Kazakhstan, and the Central Asian states have rich oil and gas resources, are friendly neighbors, and have relative political stability, so, from the viewpoint of long-term prospects, the center of gravity should be here."²

Based on this, the actions of the Celestial Kingdom on the Kazakhstan energy market look entirely logical. (For starters, let's list several measures taken by Beijing in 2003.) For example, in August, the CNPC bought 35% of the shares of the North Buzachi field and created a powerful infrastructure in the Aktiubinsk Region, which fully ensures the production and refining of oil, as well as its transportation to China. At the end of December, the Chinese Sinopec Company purchased 50% of three large fields close to Tengiz, and actively developed the Zhanazhol and Kenkiak fields.

What is more, Beijing does not intend to limit itself to only transporting this oil, it also plans to sell petroleum products at the site, in Kazakhstan. This is shown by the network of Sinooil fill-up stations (China owns 67% of the shares) which appeared in Almaty. In other words, China is acting "on all fronts." The seriousness of its intentions is also shown by the fact the CNPC is generously financing projects which envisage training young Kazakhstani specialists in the oil and gas business in the PRC. It is possible that this was prompted by the fact that Beijing is hoping to have its "own Kazakhstani" specialists in the future in our country's oil and gas sector. If anyone who studied in China eventually occupies a leading position in this sphere, the PRC will be able to rely on their, to put it mildly, loyalty, which is very natural, and what is more in the Chinese spirit.

Cooperation between the PRC and RK in the energy sphere, particularly in building the West Kazakhstan-West China main pipeline, is playing an important role in the policy declared by the PRC toward developing the country's economically backward western regions, including the explosive Xinjiang-Uighur Autonomous Region. As these regions begin to prosper economically and the standard of

living of the local population rises, the threat of so-called "Uighur separatism" should subside. But no matter how much Beijing wants the Uighurs to feel part of the "great Chinese nation" (*zhonghua minju*), the Uighur question will always be one of the West's potential levers of pressure on the Celestial Kingdom. What is more, cooperation in the energy sphere is also important for developing China's economic relations with the Central Asian countries.

In our opinion, close interaction with Beijing in this sphere is beneficial to Astana not only politically, but also economically. But there are a lot of nuances here. Kazakhstan's economy depends directly on oil and gas export. What is more, our republic is rich in hydrocarbon resources, does not have access to the open sea, and at least for this reason should uphold the principle of diversity in its export routes. China is a kind of "window" for Kazakhstan's penetration into the Asia Pacific Region, which, according to the forecasts, will occupy a predominant position this century in the economic and technological development of today's world. In other words, the pipeline to China is opening up broad opportunities for exporting Kazakhstani oil. What is more, Chinese oil corporations have begun investing money not only in the Kazakhstan oil and gas infrastructure, but also in the development of Kazakhstan's education and culture.

But the pipeline aspect of cooperation harbors a number of risks. Among them is the project's orientation only toward the Chinese market, which is strictly controlled and regulated by the state, on the one hand, and the instability of the resource base, on the other. What is more, with the aid of this oil pipeline, Beijing will be able to dictate the price it is willing to pay for Kazakhstani oil, which Astana will have to accept. It is possible that this will turn the RK into a target of Chinese political manipulation. What is more, as Klara Khafizova rightly believes, "cultural policy and demographic pressure are part of China's energy policy."³ And for our young state, which has still not been entirely shaped and strengthened by a unifying national idea, this could be fraught with danger. It is highly likely that Chinese restaurants, casinos, hotels, hairdressing salons, medical centers, and so on, will soon appear in Aktiubinsk and Aktau. Based on what we see in Almaty, it is obvious that the Hans prefer to use their

² Ya. Berger. Ob energeticheskoi strategii Kitaia [http://obzor.ava.ru/news/economic/2004/10/12/5459_1097565874], 12 May, 2004.

³ *Modernizatsionnye protsessy v Tsentral'noi Azii: modeli budushchego*, Almaty, 2004, pp. 51-52.

own service facilities and their own banks. This will increase the number of Chinese employed in this sphere. The Hans are inclined in general toward cultural and everyday isolation in a foreign environment, and despite their show of friendliness and amenability, they are loath to permit outsiders into their inner circle. The ubiquitous China towns are a case in point, that is, control over migration will become more difficult. On 27 September, 2004, the RK Ministry of Education and Science and the Chinese National Petroleum Company signed an agreement in Astana on cooperation in education, based on which young people from our republic will be able to obtain an education in the PRC. If we keep in mind that Beijing is steering a course toward promulgating and spreading the Chinese language and culture, the CNPC is acting as an indirect conductor of this course.

Kazakhstani-Chinese relations in the energy sphere go far beyond the framework of regional relations, since in this context not only the interests of the Central Asian and Caspian Region countries are affected, but also the interests of such world powers as the U.S. and Russia. A graphic example of this is the objections raised by some representatives of the Agip KCO Company to transactions between a participant in the BG Group consortium, which has decided to leave the project, on the one hand, and the Sinopec Group and the China National Offshore Oil Corporation (CNOOC), on the other.

A preliminary agreement was reached that the BG Group would sell 16.67% of its shares in the Chinese Sinopec Company and the CNOOC. The U.S. and EU countries have essentially refused to allow the Chinese near the Kashagan field (on the Caspian shelf), even though the Kazakhstan government approved the transaction. Politics has a significant role to play here. Probably China's recent activity on the Kazakhstani oil market sent a warning signal to the United States and European Union countries. For the U.S. dominates on this market and is unlikely to feel kindly toward losing this choice niche. But nevertheless, as K. Khafizova believes, "the U.S. is encouraging China's energy advancement as compensation for Iraq, otherwise its incredibly high level of activity in Kazakhstan in 2003-2004 would not have been possible."⁴ Russia also occupies a prominent position on the Kazakhstani oil market. It does not find the appearance of such a major player as China, which is claiming the role of world superpower, to its advantage either. But no matter what, Beijing, despite the obstacles, is slowly but surely beginning to establish itself on this market and will most likely soon claim a leading role. And this will have a direct influence on the political situation not only of Kazakhstan itself, but also of the entire region.

⁴ *Modernizatsionnye protsessy v Tsentral'noi Azii: modeli budushchego*, Almaty, 2004, pp. 51-52.

Description of the Stages in Kazakhstan-Chinese Energy Cooperation

As noted above, in September 1997, the Kazakhstan and Chinese governments signed an Agreement on Cooperation in the Oil and Gas Sphere. At the same time, the RK Ministry of Energy and Mineral Resources and the CNPC signed a general agreement on developing fields in Kazakhstan and building an oil pipeline to the PRC.

Following the dynamics of this cooperation, two main stages can be singled out: the first (1997-2003) is characterized by the "cautious" entry of the Chinese onto the Kazakhstan energy market; and the second (which began in 2003) is characterized by the abrupt and tempestuous activation of bilateral ties.

The arrival of the Celestial Kingdom on this market aroused an unequivocal reaction in Kazakhstan society. Despite the fact that Astana is demonstrating a friendly policy toward Beijing on the state market, public opinion in our country is fraught with mistrust toward this partner. Therefore, the first steps of the CNPC in Kazakhstan fell under the "discriminating eye" of society. From this viewpoint, the PRC's failure to fulfill its obligations to reactivate the Uzen field and conflicts with the work collective of Ak-tobemunaigaz confirmed the "hostile intentions" of the Chinese. But here we must give their patience and

endurance their due, as well as their ability to “smooth out the sharp corners,” as a result of which mistrust of them perceptibly abated. Even the violations harboring an enormous threat to the surrounding environment, which were revealed during a special inspection organized on 23 April, 2004 at the oil pipeline (30 km in length) construction site related to the Kenkiak and Zhanazhol fields belonging to the CNPC, did not arouse any particular public uproar.

The CNPC created active extraction, production, and infrastructure groups at the Aktiubinsk fields it owns. For example, in addition to the Zhanazhol and Kenkiak fields being fitted out with equipment manufactured in China, a factory was put into operation for manufacturing and repairing this equipment. In 1998, the company laid the Zhanazhol-Aktobe gas pipeline, and since 2001, the production of hydrocarbons has been rising annually. During an official visit by then deputy chairman of the PRC Hu Jintao to Kazakhstan (July 2000), our president, Nursultan Nazarbaev, confirmed the country’s intention to render political support to implementing the West Kazakhstan-West China oil export project. On the instructions of the RK prime minister, a working group was formed for preparing technical documentation. (Building the pipeline, which will have a throughput capacity of 20 million tonnes of oil a year, was to begin in 2001.) In December 2001, the Kazakhstan-Chinese joint venture MunaiTas was created, the main task of which is to equip the Atyrau-Kenkiak branch of the pipeline. In 2002, the CPNC fulfilled the five-year program of its investment obligations. At this time, along with KazTransOil, a feasibility study of building the oil pipeline was carried out and the problems of filling it were reviewed. In April 2002, Zhang Cheng-wu, assistant to general director of OAO CNPC-Aktobemunaigaz, said the feasibility study had been approved and assured that China was not backing down from this project, the implementation of which would be more realistic due to confirmation of the oil supplies on the Caspian shelf. These questions were discussed during a visit by Kazakhstan Foreign Minister K. Tokaev to the PRC in May 2002. At that time, Astana confirmed its interest in delivering oil to the PRC. Nevertheless, building the pipeline was put off. But Beijing did not get a bee in its bonnet, in fact it appeared to be content with the Aktiubinsk fields, making it seem that the “pipeline of the century” was only a lofty declaration and the CNPC did not have any far-reaching plans in Kazakhstan. But the field was prepared for the increased activity of the Chinese oilers in 2003-2004. It can be presumed that the CNPC carefully studied the Kazakhstan energy market for more than five years and analyzed the breakdown in forces on this market, that is, this period can be characterized as “cautious,” “analytical,” and “biding one’s time.”

However, some negative aspects of cooperation during these years should also be noted. Since 1997, the CNPC-Aktobemunaigaz Company has been exporting approximately 2 million tonnes of oil a year to China (through Russia), delivering it via direct pipeline to the Orsk oil refinery. A special order of the RF government exempted this oil from customs fees as transit. In January 2001, this privilege expired, but the CNPC did not reregister the agreement or its export license. So the Orsk refinery refused to accept Kazakhstani oil, halted the operation of dozens of oil wells, did not supply the associated petroleum gas to homes in Aktiubinsk, and operation of the Aktiubinsk thermal heat station was under threat. The CNPC had great difficulty reaching an agreement with the owner of the Orsk refinery, the Tiumen Oil Company. What is more, the Kazakhstani side noted that the CNPC had not fulfilled its obligation when purchasing shares of the AMG company to build a pipeline from Kazakhstan to West China (oil is still delivered there by rail) and was not keeping to the investment schedule set forth in the contract. In 1999, it was fulfilled by only 59%.

But in 2003, the tactics of this company in Kazakhstan changed, which was manifested in particular by the PRC’s attempt to participate in the Production Sharing Agreement (PSA) at Kashagan. However, as mentioned above, joint actions between the CNPC and Sinopec were blocked by other participants in the international consortium. In May, the CNPC purchased a governmental set of shares (20.12%) in Aktobemunaigaz, thanks to which it obtained more than 80% of this enterprise’s shares. The Atyrau-Kenkiak pipeline was put into operation, the first section of the entire route. In August of the same year, the company bought up the entire set of shares of the North Buzachi field (the Mangistau Region), but then transferred some of these shares to the Canadian-Kazakhstan company, Nelson Resources Ltd. (Apparently, with the help of such measures, the Kazakhstan authorities were trying to stem the Chinese encroachment.) In June 2003, Kazakhstan President Nursultan Nazarbaev and PRC Chairman Hu Jintao

signed several important documents, which also included aspects of cooperation in the energy sphere. Among them were the oil pipeline project, development of oil fields, and the possibility of building a gas pipeline from Kazakhstan to China. Apart from this, the RK supported the PRC's participation in surveying and developing oil fields on the Kazakhstan shelf of the Caspian Sea. At the interdepartmental level, a protocol on joint research and stage-wise building of an oil pipeline from Kazakhstan to China, as well as an agreement on a further increase in investments in Kazakhstan's oil and gas sphere were signed. In June, the National KazMunaiGaz Company and CNPC signed an agreement on joint research to justify investment necessary for implementing the stage-wise construction project of the Atasu-Alashankou section of the oil pipeline to China, including adjustment of the feasibility study of the West Kazakhstan-West China oil pipeline project. In August, a memorandum on accelerating the construction of this section of the pipeline and on the possibility of building a gas pipeline to the PRC was signed. In September, at a meeting with RK Prime Minister D. Akhmetov, chairman of the board of OAO CNPC-Aktobemunaigaz Wu Yaowen said that the Chinese corporation was willing to complete the joint projects already begun.

Great achievements were also made in 2004. For example, in February, it became clear that the pipeline would indeed become a reality: at a press conference in Astana, president of KazMunaiGaz U. Karabalin said that with the approval of the Kazakhstan government, construction of the oil pipeline Atasu-Alashankou-Dushanji (1,300 km) would begin in July-August and be completed in 2006, whereby Astana and Beijing would share the financing equally between them. The cost of this work is estimated at 700-800 million dollars, and the pipeline capacity at the first stage is assessed at approximately 10 million tonnes of oil a year with a subsequent increase.

On 1 April, Kazakhstan President Nursultan Nazarbaev met with first vice president of CNPC, who is also chairman of the board of OAO CNPC-Aktobemunaigaz, Wu Yaowen. The latter informed the Kazakhstan president of completion of the planning and exploration work on construction of the Atasu-Alashankou section with a capacity of up to 50 million tonnes of oil a year. But in April, Sinopec bought up the head company of the American First International Oil Corporation group. This shows that the Chinese "have got at" Caspian oil, since the subsidiary companies of the mentioned company own several fields located in the Caspian Region. And on 13 April, talks were held in Beijing between RK Minister of Energy and Mineral Resources V. Shkolnik and Chairman of the PRC State Committee on Development and Reform Ma Kai, during which it was stated that the project for building the straight part of the Atasu-Alashankou oil pipeline will be ready by 15 May. Then during the visit by President Nursultan Nazarbaev to China (17 June), several important documents were signed, including a Framework Agreement between the RK and PRC governments on the development of comprehensive cooperation in the oil and gas sphere, as well as an agreement on the main principles for building the Atasu – Alashankou oil pipeline. In October, U. Karabalin made a sensational statement about plans to build a Kazakhstan-China gas pipeline. As can be seen from the above-mentioned, the second period of cooperation is characterized by intense activity of the Chinese oil and gas companies in Kazakhstan.

The latest events in the Middle East are sounding new notes of anxiety in Beijing's activity in this sphere. "The U.S.'s current policy in the Middle East is arousing concern about ensuring China's energy, primarily oil, security," said employee of the Research Center of International Energy Strategy Professor Fang Zhangping in a speech at the international forum on questions of China's economic strategy. In particular, he noted: "...events in Iraq clearly show that the U.S., as the first oil importer in the world, is trying to ensure its direct presence in the regions where oil is produced, which could pose a threat to China's increase in oil import."⁵

Now the Celestial Kingdom is looking at ways to prevent this threat. For example, along with activity to attract foreign capital into its economy announced at the beginning of the reforms, the PRC government has adopted "a strategy of entering the world" (or "go abroad"). This strategy is part of the country's policy of integration into the world economy, which is also being applied in the energy sphere. So China has begun to invest in the oil and gas industries of the Sudan, Venezuela, Indonesia, Burma, Kazakhstan,

⁵ See: Interfax-China, 21 May, 2003.

and other states, including purchasing shares in their oil and gas companies. For example, the Sinopec Company was able to penetrate into Iran and Saudi Arabia. But the steps taken by the PRC are being complicated by the fact that many oil-bearing regions of the sphere of influence have already been divided among the U.S., the EU countries, and Canada. So China is perceptibly activating its energy diplomacy. In particular, to resolve its energy supply problems, it is trying to make maximum use of regional cooperation organizations, such as the SCO.

Beijing's energy policy in the Central Asian countries differs from similar activity in other regions. Of course, the PRC is worried about providing industry with energy resources, and Central Asia occupies third place in the world in terms of oil supplies. But the political aspect stands side by side with the economic component here. It is very important for China to be able to wield its clout in the region, which directly borders on the Celestial Kingdom. The looming presence of the U.S. on the Central Asian energy market is a noticeable thorn in the side for the Celestial Kingdom, which is gaining in significance and is used to calling this region its "backyard." But "...Western monopolies, using their capital and technological advantages, are carrying out an active battle for the oil resource markets in the states of the former Soviet Union surrounding our territory, creating forceful pressure in the process."⁶ The steps taken by the Chinese in Kazakhstan show that China intends to oppose this. Its decision to take full responsibility for financing construction of the Atasu-Alashankou section of the pipeline speaks volumes. Investing funds in this very expensive and risky project confirms that Beijing has long-term and serious plans in Kazakhstan, and it is unlikely going to be happy taking the back seat. All the same, the Celestial Kingdom will try to expand its energy cooperation with the Central Asian countries within the SCO and, in so doing, reduce any threat to its energy security from the United States to the minimum. The energy market of the region's republics will become a kind of unofficial battle ground between the U.S. and the PRC. Nor can we forget about Russia, since it is used to considering Central Asia a traditional zone of its "legal" interests. But the RF's careless and inconsistent energy policy and incessant redistribution of property on its own oil and gas market makes us think that Moscow's position in this battle could be perceptibly shaken. As for the EU countries, they do not have an integrated energy policy in the region and will most likely act on the side of the United States.

⁶ Xia Yishan, "Zhongguo nenyuan xingshi ji qi fazhan zhanliue (Situation in China's Energy Sphere and its Development Strategy)," *Renmin ribao*, 1 February, 2004. Ya. Berger refers to this in his article "On China's Energy Strategy."