ENERGY PROJECTS AND ENERGY POLICY

NATIONAL ENERGY SECURITY AND SINO-RUSSIAN-KAZAKH-JAPAN ENERGY COOPERATION

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Over the last decade, the oil demand on the Chinese market has been growing at a vigorous rate, and oil imports have continued to rise on an annual basis. In 2003, with its oil imports exceeding those of Japan, China emerged as the world's second largest oil-importing country behind the United States. Today, imports make up 35% of the total amount of oil consumed in China. In the current composition of China's oil imports, the Middle East accounts for about 50%, Africa for 25%, the Asia-Pacific Region for 15%, and Central Asia and Russia together for about 10%, thus constituting more than 90% of the country's crude oil imports delivered via sea transport corridors. During the first half of 2006, China's crude oil output reached 91.66 million tonnes, an increase of 2.1% over the previous period. And oil imports reached 82.36 million tonnes, an increase of 21.3% over the previous period. It should be added that 70.33 million tonnes of these imports were crude oil, constituting an increase of 17.6%, while the import of petroleum products reached 12.03 million tonnes, i.e. an increase of 48.3%. Thus, China's oil dependence increased to reach 47.3% in the first half year. It is estimated that by 2020, the oil shortage in China will amount to 50-60%, and this deficit will largely have to be compensated by relying on oil imports.

The factors influencing the import and export of oil are becoming increasingly complicated, so much so that oil import is no longer merely

a trade issue, but has become embroiled in politics, diplomacy, and many other issues. World oil trade is largely complicated by the fact that oil energy has become a major resource, the scarcity of which could jeopardize a nation's economic security. More energy reserves mean more staying power for economic growth and greater guarantee of economic security. The worldwide geographical distribution of oil resources means that, in terms of oil demand, most countries and regions are in rivalry with each other. Most countries in need of oil are taking steps to maximize oil imports. As world competition intensifies, international disputes on energy trade will focus on limiting oil exports rather than oil imports.

In order to enhance the situation, National Energy Security Guarantees have been drawn up aimed at accelerating globalization of the energy industry and making the utilization of foreign oil resources a priority. The uneven geographical distribution of oil resources means that oil exploration, development, and sales must be raised to a global level. From the national viewpoint, oil is a strategic material that is indispensable in some cases, and under these circumstances its value cannot be measured in monetary terms. The practice of drilling oil overseas and selling it on the overseas market indisputably affects how countries manage their economies and contributes to drawing up international strategy for the oil industry. China must further improve its management of oil imports and exports and find a more convenient way to import oil from overseas. Seeking new partners for energy development should be urgently placed on the country's agenda in order to meet strategic needs. While continuing to expand oil trade with the Middle East, it is imperative for China to strengthen economic cooperation with Russia and other oil-producing countries in the Caspian Sea, Central Asia, Southeast Asia, and Latin America, as well as reduce the risks by maximizing the geographical distribution of oil import sources,[1] while carrying out a strategy aimed at diversifying energy supplies.

China is setting its sights on Russia and the Central Asian states, which are functioning as energy suppliers for the countries contiguous to them.

[1] See: Dan Shi, "Current Oil Pricing Mechanisms in China: Results, Drawbacks and Remedial Measures," *China Industrial Economy*, No. 9, 2003.

Part One:
Russia: A New Energy Supply Empire for China

I. Energy Export as Russia's National Strategic Target

Russia is the world's third largest oil producer and has the largest reserves of natural gas. Given the similarities the two countries share in their free-market oriented reforms, and even more so in their respective approaches to global affairs, it seems natural for Russia to become China's stable energy supplier.

At present, Russia and China are considering only one substantial energy deal—the extraction and transportation of gas from both Eastern and Western Siberia.

As for oil, the Atasu-Alashankou pipeline currently has a capacity of 10 million metric tonnes a year. Previous studies suggested that the pipeline would need to be loaded with Russian crude oil from Western Siberia via the Omsk-Pavlodar-Shymkent pipeline in order to reach its full capacity of 20 million tonnes by 2010. Nonetheless, Russian executives appear keen to indicate that they are already using an alternative pipeline route to export crude oil eastward. However, the Atasu-Alashankou

pipeline would give Russian oil companies access to the Chinese market years before the Pacific pipeline is built.

The Altai gas project includes plans to build a 3,000-kilometer pipeline through Mongolia all the way to the eastern coast of the Shandong Province of China, and finally reaching Shanghai. The pipeline project was supposed to include Japanese and Korean companies as participating investors, with pipeline terminals located in Japan and Korea. Although no substantial progress regarding investments has been achieved recently, the project is supposed to provide for almost 40% of China's total demand for natural gas. Notwithstanding this substantial share, the plan can be considered strategically safe, given the relatively small proportion of natural gas in China's total energy consumption.

II. Political Relations Make a Good Recourse for Energy Cooperation

During the 11th regular meeting between the Russian and Chinese prime ministers on 9 November, 2006, both were committed to facilitating bilateral gas, oil, and nuclear energy cooperation. The two premiers are determined to encourage and promote mutual investments and cooperation in manufacturing, education, public health, and sports. Trade volume between China and Russia reached 29.1 billion U.S. dollars in 2005. In the first nine months of 2006, the bilateral trade volume totaled 24.64 billion dollars, up 18.8% from the previous year.

An official also said that Russia's power monopoly may attract Chinese investments in the development and renovation of the country's power assets. Chinese oil exports by rail from Russia, the world's second largest oil exporter to China, the world's second largest oil consumer, increased to 10 million tonnes in 2005 and to 15 million tonnes in 2006.[2]

In 2006, China and Russia made "historic breakthroughs" in investments and cooperation in the petroleum industry. So far in the same year, the two countries have signed a series of agreements on setting up two joint venture companies involving oil and gas exploitation and the construction of a pipeline for transporting Russian crude oil to the Chinese border, according to a China National Petroleum Corporation (CNPC) official. It is clear that Sino-Russian cooperation in the oil industry will help stabilize both the regional and global oil markets. According to official figures, Russia is the world's largest gas exporter and second largest oil exporter, while China is the third largest oil importer in the world. During the first nine months of 2006, Russia's oil output was 358 million tonnes, while China's was 140 million tonnes.

III. The East Siberia-Pacific Ocean (ESPO) Pipeline Begins to Emerge

In mid-2006, the long-scheduled project of a Russian oil pipeline from Eastern Siberia to the Pacific Ocean found its final terminal. The East Siberia-Pacific Ocean (ESPO) pipeline terminal is to be built in Kozmino Bay, and a feasibility study is also being completed for an oil terminal in Perevoznaya Bay built by Transneft, Russia's state pipeline monopoly. The ESPO will supply oil to the Asia-Pacific Region, and it met with strong opposition by environmental organizations combating a

[2] See: Liang Qiang, "National Interests in the Energy Game between China and Russia," *Nanfeng Chuang* (China), 8 May, 2006.

government decision of 31 December, 2004 on the construction of the pipeline. Engineers chose the longest alternative for the new ESPO route, whereby the pipe was to pass 200 km from Baikal. The bypass route will be 1,920 km long and will pass through the Irkutsk Region, Yakutia, and the Amur Region. The pipeline is slated to pump up to 80 mm tonnes of crude a year (1.6 mm bpd) from Siberia to Russia's Far East, which will then be exported to the Asia-Pacific Region, and in particular to energy-hungry China. The total investments for this project amount to $11.5 billion.

The first stage of the project of $6.5 billion in investments will connect Taishet in the Irkutsk Region to Skovorodino in the Amur Region in the Far East and will be completed at the end of 2008, thus providing 30 million tonnes of crude oil per year. The second stage of this project from Skovorodino to Kozmino Bay could provide 50 million tonnes of crude oil per year.

Part Two:

Central Asia: Stable and Long-Term Supplies to China

Central Asian oil resources seem more promising than Russian for China. The estimated oil reserves of the Caspian Basin are quite substantial—possibly as much as 200 billion barrels—although most industrial analysts support a more conservative estimate of 90 billion barrels.

China's deal with Kazakhstan—in which the CNPC outbid Russian and U.S. competitors, including Texaco and Amoco—is remarkable in many respects. Under the terms of the contract, China will acquire the right to develop two oilfields (Aktiubinsk and Uzen) in exchange for its commitment to build a 3,000-kilometer pipeline from the oilfields to the Xinjiang-Uighur Autonomous Region of China, and a 250-kilometer pipeline to the border of Iran (via Turkmenistan). Recent information regarding China's plans for this project is rather encouraging. According to the news from CNPC, the 482-kilometer-long domestic section of the Kazakhstan pipeline—from Korla to Shanshan in Xinjiang—has already been completed. The pipeline is expected to transport 25 mt (480 kilo barrels/day) of crude oil from Kazakhstan to China annually.

When viewed from the long-term perspective, it is obvious that China is placing the priority on completing this project with Kazakhstan. First, the projected pipeline to Kazakhstan correlates well with the long-awaited pipeline network to be built inside China. It is hoped that this network will help to resolve the chronic infrastructure bottlenecks in China's energy system, primarily close the distance between the Xinjiang oil and gas bases in western China and the main consumers in the country's eastern and maritime provinces.

China's participation in the Kazakhstan project is aimed at the national development of multiplied oil and gas import. The main geopolitical difficulty with the Central Asian suppliers is establishing a stable transportation system by means of which to deliver energy to the final destinations in the Middle East and Europe. Although currently pursuing different approaches, sooner or later Russia, Turkey, Iran, and the other parties involved will resolve the transportation problem.[3] By connecting to the Central Asian transportation system in the near future, China will eventually gain strategic continental access to the Middle East through the future Central Asian networks.

[3] See: F. William Engdahl, "The Energy Game: China Looking for the Breach Encircled by the U.S.," *Asian Times* (China), 6 January, 2006.

By means of these two pivotal links from the Middle East through the Caspian to Central Asia, and from Central Asia to China, China will be able to connect existing and potential suppliers to Asia (i.e. the Middle East, Central Asia, and Russia) with the key Asian consumers (China, Japan, and Korea).

China could certainly benefit from such a pivotal geostrategic position. First and foremost, with all the potential suppliers interlinked on a continental base, the stability and diversity of China's oil supplies will be enhanced. Second, China is reasonably confident that its involvement in an international pipeline network will facilitate Japanese and Korean investments in China's domestic pipelines. These pipelines, while connecting Xinjiang with the eastern provinces, would eventually become an important link in the overall chain. Third, China would provide a very important advantage in the refining process, jointly working with Russia and Central Asia, with China's coastal regions serving as the refining link between the Middle Eastern and Central Asian crude oil and the Asian Pacific markets.

Part Three:

Sino-Russian-Kazakhstan Energy Cooperation and Its Impact on Japan

Russia is the only energy-exporting state in Northeast Asia. China and Japan are energy-importing countries. In recent years, China and Japan have been trying to use the import of Russian oil as a strategy for multiplying their oil import channels. In the mid-1990s, Japanese companies were involved in oil and gas development on the Sakhalin continental shelf, and there were immense gains at that time.[4] Japan signed the Law on Maintaining Oil Reserves, which means that oil-related enterprises must have 70 days of crude oil reserves. But at present, Japan's state and civilian oil reserves together are enough to last for 171 days. Even an oil shortage can do no harm to Japan's oil supply.

However, during the two oil crises in the 1970s, the Japanese recognized that oil security is much more important than anything else. Right now Japan is only 47% dependent on oil. The Japan government believes that the Russian Far East oil pipeline will require too much time and effort to accomplish. On the one hand, they hope that the Russian oil pipeline will reach the Sea of Japan coast; on the other hand, they also hope that more Japanese companies will be involved in Russian oil exploration, even mining areas. In mid-June, Japan adopted a new national energy strategy, which proposes accelerating investments in overseas oilfields. By 2030, Japan plans to raise overseas oil imports by involving domestic companies to bring the independent oil extraction ratio up from the current 15% to 40%.

However, Japan still feels that the entire energy supply system is too fragile. It hopes to acquire East Siberian oil reserves in order to change the situation, in which it is relying on an almost single source of energy supply, by using these huge resources. Oil import prices from the Middle East are high, but the price will be much lower if oil is transited directly from Eastern Siberia. Strategically

[4] Prof. Koichi Iwama, a Wako University professor and a governmental adviser on energy issues, suggested that Japan should pay more attention to the Sakhalin continental shelf and "rethink its long-term energy strategy" (see: Yuka Hayashi, "Japan Hits Big Setbacks in Push to Expand Its Access to Energy," *The Wall Street* journal, 25 October, 2006).

speaking, Japan's involvement in the Siberian oil exploration would be crucial in pushing China out of the pipeline competition. From Japan's perspective, it will become the number one country rich in energy resources once it takes control of the Siberian oil resources.

I: Pipeline Competition between China and Japan

Japan's energized diplomatic drive in Central Asia comes at a time when Tokyo is implementing its new energy strategy aimed at ensuring stable oil, gas, and other resource supplies in the long term to feed the world's second-largest economy.

1. Winning the Taishet to Nakhodka Pipeline Project Would Help to Protect Japan's Oil Supply Security

This will mitigate Japan's oil dependence on the Middle East, so that the current ratio of 88% can be cut back to 60%. As everyone knows, Japan's economy has been highly dependent on oil imports. Japan's oil consumption in 2003 reached 260 million tonnes, while domestic oil production was only 680,000 tonnes. Domestic crude oil reserves amounted to only 8.1 million tonnes, thus more than 99% of crude oil needs to be imported. Japan imports 85% of its crude oil from the Middle East region. Given its concerns for its energy security strategy, the country needs to import energy sources through diversified channels. Therefore, the expansion of oil and gas imports from Russia to Japan has become a national priority.

2. Weakening China's Energy Security Following High-Speed Development of the Chinese Economy

China has currently surpassed Japan to become the world's second largest energy consumer. According to the forecast, China's oil import demand in the next 10 years will grow at an average annual rate of 10%. By 2010, it will reach 150 million tonnes. As China's demand for oil grows, ensuring a stable energy supply is of strategic significance for China's economic development. China and Japan are two major oil consumers. In the early 21st century, China and Japan's oil consumption could account for 13% of the total world oil consumption, and in 2025, it could account for 15%, mainly because of the rapid increase in China's oil consumption.

It is a well-known fact that if the Angarsk-Daqin pipeline between China and Russia is completed, it will be very beneficial for China's oil demand and for achieving diversification of China's oil imports.

3. Thinking from the Position of a Power State

The completion of the Sino-Russian strategic oil pipelines not only means China's involvement in resource development in Eastern Siberia, it will further consolidate China's strategic presence in

Northeast Asia. More importantly, these pipelines will be viewed as an enormous strategic link, filling Sino-Russian strategic partnership with substantial content, and the Korean Peninsula could also be eventually incorporated. In this respect, Japan has been pushing Russia to build the Taishet-Nakhodka pipeline instead of the Angarsk-Daqin route. This is to weaken the Sino-Russian strategic partnership of cooperation and development, and mainly to enhance energy cooperation between Japan and Russia and raise Japan's influence in the Far East region.

4. "Win-Win" or Even "Zero Sum"

In recent years, the scramble between these two large energy-resource-consuming countries for oil and gas resources overseas, especially in Russia, has become more noticeable. From the viewpoint of the geopolitical economy of the two countries and their dependence on the outside world for resources, it is inevitable that they will contend for oil and gas resources on the world arena. If the two sides can avoid the traditional game result of antagonistic and exclusive "zero sum" or even a "negative" result and strive for cooperation in a constructive "non-zero sum" competition, they could respectively achieve a "win-win" situation to ensure their own resource security. Furthermore, this will help to stabilize the global oil and gas market and achieve a fair and reasonable configuration for global resources.

II: Energy Cooperation Difficulties between Japan and Russia

Although the Japanese government has increased the range of business benefits, such as petroleum-metal-mineral-resource agencies, and the Ministry of Economics and Industry has tentatively agreed to participate and contribute to the business benefits in the East Siberian oil field, whereby this contribution may rise from the current 50% to 70%, in reality, it will still be very difficult for Japanese enterprises to gain access to Eastern Siberia.[5]

- First of all, due to the political environment of recent years, Japan and Russia are not showing too much enthusiasm about establishing either political or economic ties. This is mainly because Japan is occupying a too rigid and unreasonable position with respect to the four northern islands. If Japan does not lighten up some, Vladimir Putin is unlikely to show significant interest in Japan. This means it will be difficult to gain Russia's confidence no matter how much Japan has to pay Russia.
- Second, Russia is a country focused on independence and upholding its own judgment. As for the oil pipeline, Russia has not met Japan's demand and insists on carrying out its intentions in 2008 despite Japan's diplomatic efforts as well as the financial lure it provides. It is obvious that East Siberian oil field development issues involving tripartite interests among Russia, China, and Japan, and the more closely related benefits of the oil pipelines, should make Russia very cautious about this issue.
- Third, from the commercial negotiations' viewpoint, Japan and Russia are not in an equal position since Japan is now making greater demand on Russia. As for negotiations, Japan is al-

[5] See: "Japan Launches a New Foreign Policy on the Silk Road," *World News* (China), 23 March, 2006.

ways more anxious, while Russia is never impatient for results. Therefore, Japan and Russia should continue discussing and negotiating on certain commercial issues, which is unlikely to make substantial progress in the short term.

III: Russia's Energy Cooperation with China and Japan

In accordance with Russia's energy development strategy in the Asia Pacific Region, China and Japan are important partners of Russian energy exports and energy cooperation. In Russia's energy strategy, identifying the strengthening of energy strategy cooperation with China and Japan are of top priority. After the Taishet-Angarsk pipeline was built, Russia drew up a balanced long-term strategy. On the one hand, by making use of the geographical advantage with China, leading to the oil pipeline extension to China, Russia could ensure its niche on the Chinese oil market, and Russian oil companies could greatly improve their efficiency. On the other hand, by laying pipelines to the Pacific ports, Russia will actively attract investments for surveying and developing energy resources to be delivered from the Russian Siberian Far East to the Asia Pacific Region, and increase its energy exports to the APR market. Therefore, the Taishet-Nakhodka pipeline to ESPO ultimately coincides with Russia's national interests.

1. Reflecting on the Geo-Advantages: Geopolitical and Geo-Economic Interests between China and Russia

Strengthening Sino-Russian energy cooperation is a top priority for both Russia and China. Since China and Russia are neighbors, Sino-Russian energy cooperation has obvious geographical advantages. In May 2003, a Sino-Russian Joint Statement pointed out: "The field of energy cooperation between the two countries has great significance. It consists of implementing large oil and gas projects, including Chinese and Russian oil pipeline construction, as well as a gas pipeline between China and Russia, and making efforts to implement natural gas projects and research projects with the necessary energy equipment possibilities. The development of a Russian petroleum company (Rosneft) in oil exploration cooperation should become the basis for strengthening bilateral energy cooperation." In addition to laying pipelines, on 19 July, 2006, CNPC announced the successful purchase of 66,225,200 shares out of the total distributed by the Russian Rosneft Petroleum Company. Not long ago, the Russian Petroleum company planned to carry out initial public offering (IPO), and the China National Petroleum Corporation International (CNPCI) invested 500 million U.S. dollars to purchase the stocks of the successful Russian petroleum company at 7.55 dollars per share. This is a good measure for China's multi-channel buying overseas energy strategy.

2. The Development of Sino-Russian Energy Cooperation with Bilateral Interests between China and Russia has Acquired Geostrategic Significance

In any case, this oil route decision identified by the Russian government should fully regard China as the world's largest oil export market. On 27 August, 2005, Russian Prime Minister Mikhail Frad-

kov said that Russia will continue to supply oil to China by rail. He told the press that Russia will provide China with enough oil without discontinuing its oil and gas deliveries. Between 2005 and 2006, China planned to increase its import of oil from Russia from 10 million to 15 million tonnes, with rail being the main mode of transport. The Siberian Region is the main source of oil supply.

Energy cooperation with Japan has always included the long-term development of Russia's Siberia and Far East as a priority, which is helping to resolve the territorial disputes.

- First, this is in Russia's interests, since oil exploration and development of the oil and natural gas industry are very backward in Russia's Eastern Siberia and Far East because of the cold weather conditions, coupled with historical reasons and the sluggish economic development in Russia. Russia has always wanted to use foreign investments for developing and operating new oil fields, as well as for encouraging new oil production. Investments in this area will lead to the region's economic upswing; and Japan is regarded as an indispensable factor. Japanese investments in the exploration and development of Eastern Siberia could become the first step in this direction, which would be in Russia's long-term strategic interests.
- Second, another factor concerning the pipeline referred to prevents the worsening of Russia and Japan's territorial disputes. V. Putin tried to use the Joint Declaration issued between Japan and the Soviet Union in 1956 to resolve the territorial dispute between the two parties. However, Russian public opinion is extremely against making the construction of the pipeline conducive to Japan's program. But it was hoped that Japanese investments in the Far East Region might change public opinion with respect to the territorial dispute and help it to reach a positive settlement. At the same time, this implies that in order to resolve the territorial dispute based on the peace treaty negotiations, Japan should offer a compromise that does not insist on the hard-line return of all four islands. Such aspirations may become a reality. Bilateral political relations did not slow down in 2004 and 2005 as we thought. The oil pipeline project may help to improve the plight of the territorial dispute, as has been the case in the territorial disputes over the last few years, by finding a compromise path.

IV: Prospects for Energy Cooperation among China, Russia, Japan, and Central Asia

Russia's interest in China's oil strategy is rather ambivalent. Moscow's main motivation is to orient China toward the Russian energy base and thus "energetically" cement their "trusting strategic partnership." Moscow is increasingly interested in such a partnership, given its ever weakening military-security position and the obvious direct and indirect pressure it feels from the West, with NATO's enlargement and the Yugoslavian crises serving as a clear sign of this pressure. Moscow's secondary motivation stems from the very narrow spectrum of economic ties it maintains with China. Russia is interested in expanding this spectrum in both the political and commercial sense.

Russia is also politicking on Japan's anxieties about China tapping Russia's energy resources. Although Japan is currently only slightly interested in the energy options in Eastern Siberia, Tokyo is anxious to avoid marginalization by China on the Russian energy market, in which case it would potentially face a comprehensively bonded Russian-Chinese alliance. The Russians are interested in attracting Japanese capital to the Siberian energy project in an effort to open up the deeply depressed

Russian Far Eastern territories, thus substantially enhancing the overall climate of Russian-Japanese relations. This climate remains unsatisfactory as a result of the unresolved territorial dispute over the so-called northern territories. Russia's long-term priority is to involve both China and Japan in the economic development of the Far Eastern territories without completely losing its political and administrative clout with the two.

However, Russia's ability to satisfy China's growing appetite for oil is limited. As such, Moscow must face the reality of China's current economic and eventual political penetration of Russia's former zone of domination in Central Asia. Commercially, any progress in the exploitation of Central Asian resources will damage Russia's interests. Every barrel of oil that is extracted from the oil fields of the Caspian Basin will be in direct competition with Russia's oil on the world market, keeping prices low. Because oil trade remains a dominant part of its foreign trade revenues, the low prices mentioned above will cause Russia to continuously lose a great deal of badly needed currency. The economic threat posed by Central Asian oil markets is prompting Russia to make efforts to hinder any pipeline solutions unfavorable to its commercial and security interests.

Russia also possesses effective leverage with respect to both Beijing and Astana, which makes it impossible for either capital to ignore Moscow when discussing Central Asian affairs. Russia's influence on China is based on the broad scope of their shared interests within the framework of a "trusting strategic partnership." The friendly border, intense military rapprochement, and consistent and unconditional support of China on the Taiwan issue, which Moscow is offering Beijing, are very valuable aspects of the Russo-Chinese relationship.

Russian and Chinese behavior toward one another in Central Asia will most probably be compromising in nature and characterized by a set of visible constraints. It is not in the interest of either regional giant to create a new sphere of geopolitical confrontation in Central Asia.

V: The SCO is the Arena for Sino-Russian Energy Cooperation with Kazakhstan

The SCO, Shanghai Cooperation Organization, will promote cooperation among the member states to further develop and diversify cooperation by employing its member countries' potential in mutually beneficial economic and trade cooperation as well as broad opportunities, the prospects for which are clearly set forth in the SCO's founding charter.

On the global energy map, the four Central Asian countries and energy-rich countries such as Russia and Iran are playing very important roles on the world energy market. India, a country with a crude oil import dependence of 70%, has turned to Russia, Central Asia, and even Latin America in search of oil supplies, while China's GDP and energy demands are rapidly growing.

In 2004, the SCO adopted an action plan for the program consisting of 127 clauses, 19 of which are related to energy cooperation. Energy production, the development of new hydrocarbon fields, and the construction of oil and gas pipelines are a priority area of cooperation within the SCO, which plans to develop a new energy network in the Asian region.

Given the global growth in energy consumption and oil prices, energy partnership is becoming the key area of international cooperation. SCO members can become a stable source of energy for China. SCO energy cooperation promises to be lucrative; there is the prospect of organizing joint geological exploration and, in this way, beginning joint development of Central Asian resources. The SCO's joint projects include the construction of an oil pipeline from Atasu (Kazakhstan) to Alashankou in China, resumed pumping of oil along the Omsk-Pavlodar-Shymkent-Chardzhou pipeline, cooperation on Central Asian and Russian gas transit, gas supply to China, and joint exploitation of the Kyrgyz sec-

tion of the pipeline from the Bukhara gas-bearing area to Tashkent and on to Bishkek and Almaty. It is clear that the pipeline is not the only transportation project that requires joint efforts and coordination of the parties' interests.

In the future pattern of China's oil imports, the Shanghai Cooperation Organization may have the same status as the African region and even the Middle East. As the data shows, Russia and Kazakhstan as energy-importing countries have significantly advanced to the forefront of China's oil imports. In China's international energy cooperation, the SCO is one of the most promising development vectors. The SCO includes not only a large energy producer, but also energy consumption states. The energy issue is becoming the basic structure for complementary energy cooperation.