

Kazakhstan and Turkmenistan, Strategic Energy Partners for China

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Kazakhstan and Turkmenistan currently play a significant role as energy suppliers for China, contributing to boosting its energy security through oil and gas deliveries in order to meet the growing domestic demand.

The existent energy partnership is profitable for both Central Asian suppliers and China, granting them several strategic gains:

- For Kazakhstan and Turkmenistan, energy cooperation with China allows them to successfully play a multi-vector energy strategy, aimed at diversifying their export routes, weakening Russian traditional control of Central Asian oil and gas exports, as well as attracting investments and know-how in order to increase domestic hydrocarbons production and develop new fields.
- For China, Kazakh oil and Turkmen gas have a strategic relevance, allowing Beijing to diminish strong reliance on maritime energy routes, which represents the main supply corridors considering that nearly 70% of its energy imports are delivered through oil and LNG tankers.¹ The development of overland energy import routes from Central Asia (and also from Russia – following the realization of the Eastern Siberia-Pacific Ocean Pipeline and the implementation of the Power of Siberia gas pipeline – and Myanmar) will reduce the vulnerability of the Chinese energy security status.

Kazakhstan and China signed a deal on energy cooperation in 2005 – one of the most significant pillars within a bilateral comprehensive partnership – which includes strong political and diplomatic relations as well as deep trade and commercial relations: in 2013 Sino-Kazakh bilateral trade reached \$22.53bn.² The realization of the Atyrau-Alashankou oil pipeline – linking Caspian oil-rich fields with Chinese markets through the energy gateway represented by the Xinjiang region – undoubtedly is the most successful result of the Sino-Kazakh energy cooperation.

¹ U.S. Energy Information Administration, China, Country Analysis Brief, EIA, 4 February 2014, available online at: <http://www.eia.gov/countries/cab.cfm?fips=CH>

² R. Weitz, *Shanghai Summit Marks Deepening China-Kazakhstan Economic Ties*, Central Asian and Caucasus Analyst Institute, June 4, 2014, available online at: <http://www.cacianalyst.org/publications/analytical-articles/item/12989-shanghai-summit-marks-deepening-china-kazakhstan-economic-ties.html>

Currently, this pipeline has a capacity of 250.000 barrels/day (b/d) which is expected to rise to 400.000 b/d by 2014.

For the Kazakh government, this pipeline is a strategic corridor which allows the diversification of export routes: as a matter of fact, the Atyrau-Alashankou pipeline is the only overland oil pipeline that does not transit Russian territory – unlike Atyrau-Samara and CPC (Caspian Pipeline Consortium, from the Tengiz oil field to the Russian Black Sea port of Novorossiysk) pipelines –, while Kazakhstan’s oil exports through the Baku-Tbilisi-Ceyhan pipeline are delivered by tankers across the Caspian Sea from the Kazakh port of Aqtau to the Azerbaijani port of Baku.³

The China National Petroleum Corporation (CNPC) has invested billions of dollars in Kazakhstan’s energy sector, obtaining contracts for exploration in promising blocks and also providing know-how and modern equipment. Moreover, between 1997 and 2003, CNPC acquired an 85% stake in AktobeMunaiGas (the fourth-largest oil company in Kazakhstan) and also holds a 67% stake in PetroKazakhstan (the remaining 33% belongs to KazMunaiGas, the main Kazakh oil company).⁴

After the state visit of Chinese President Xi Jinping to Central Asia in September 2013, CNPC obtained another significant success purchasing 8.33% shares in the North Caspian Operating Company, the international consortium aimed at developing the Kashagan giant oil field. Kashagan holds the fifth largest oil reserves in the world, estimated at 13bn barrels of oil, and its production should reach 1.5m b/d in the following phases of development⁵.

Even if some doubts remain about the final export route – westward to the EU markets through the BTC pipeline, northward to Russia through the CPC pipeline, eastward to the Chinese markets – China and Kazakhstan aim to realize a new oil pipeline – parallel to the existent one – in order to deliver the growing oil production in the Caspian Sea oil fields (potentially including Kashagan) to the Chinese markets, strengthening Chinese energy security.⁶

In addition to the oil sector, China is also interested in completing the Beyneu-Bozoi-Shymkent gas pipeline, which will be connected to the China-Central Asia Gas Pipeline (CAGP), at present fueled with Turkmen and Uzbek gas.⁷ This gas pipeline will have a capacity of 10 bcm/year: a joint venture between CNPC and KazMunaiGas

³ U.S. Energy Information Administration, *Kazakhstan*, EIA, October 28, 2013, available online at: <http://www.eia.gov/countries/cab.cfm?fips=KZ>

⁴ N.Yodogawa, A.M. Peterson, *An Opportunity For Progress: China, Central Asia, And The Energy Charter Treaty*, Texas Journal of Oil, Gas, and Energy Law, Volume 8, Number 1, March 2013, p. 122, available online at: http://www.encharter.org/fileadmin/user_upload/document/China_Central_Asia_and_the_EC_T_-_2013.pdf

⁵ ENI, Kashagan, Eni official website, available online at: http://www.eni.com/it_IT/innovazione-tecnologia/progetti/progetto-kashagan/progetto-kashagan.shtml

⁶ F. Indeo, *The Sino-Russian energy cooperation: a view from Central Asia*, in “Global Energy Monitor”, vol.2, No.7, p.4, available online at: www.egskorea.org

⁷ Weitz, 2014.

is developing the Urikhtau gas field, in the North-Eastern section of the Caspian, which has been designated to supply the Kazakh trunk of the CAGP.⁸

At present, Turkmenistan is one of the most important energy partners for China: in 2013 Beijing satisfied half of its gas imports with Turkmen gas came from Bagtyyarlyk gas field in the Lebap eastern region of Turkmenistan.⁹

In the last years the Chinese government invested \$4bn to develop the Bagtyyarlyk gas field, which represent a clear success in the Chinese foreign energy strategy: as a matter of fact, Chinese national company CNPC is the only foreign company to detain a Production Sharing Contract on the lucrative onshore gas field, where gas reserves are proven, in comparison with Caspian offshore gas fields.

Turkmenistan holds the fourth largest natural gas reserves in the world – after Russia, Iran and Qatar – which British Petroleum estimates at 17.5 tcm.¹⁰ Furthermore, British Auditor Gaffney, Cline & Associates has ranked Galkynysh field as the world's second largest (after North Dome, located in Qatar) with gas reserves of between 13.1 and 21.2 Tcm.¹¹

The launch of the Sino-Turkmen gas pipeline (CAGP) in 2009 has represented an historic change in the regional energy chessboard, ending the Russian monopoly on Turkmen gas exports (even if small volumes of Turkmen gas – 4.7 bcm in 2013 – are exported to Iran). As a matter of fact, Turkmen gas exports to Russia fell from 50 bcm in 2009 to 9.9 bcm in 2013, while Ashgabat re-oriented its export routes to China.¹²

During the visit of Chinese President Xi Jinping in Turkmenistan on September 4, 2013, the Sino-Turkmen strategic energy partnership has been enhanced through the realization of a new additional gas pipeline – Line D, in addition to the existing Lines A and B, and Line C that is under construction – within the China-Central Asia gas pipeline network. Turkmenistan will be able to export 65 bcm to Chinese markets by 2020 thanks to the rise of production ensured by the exploitation of the Galkynysh field.¹³ China granted an \$8bn loan to start the production of the Galkynysh giant gas

⁸ CNPC, *CNPC in Kazakhstan*, available online at:

<http://classic.cnpc.com.cn/en/cnpcworldwide/kazakhstan/>

⁹ M. Sadykov, *Turkmenistan Ups Gas Exports to China Again*, Eurasianet, May 8, 2014, available online at: <http://www.eurasianet.org/node/68354>

¹⁰ British Petroleum, *BP Statistical Review 2014*, June 2014, p. 20, available online at: <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf>

¹¹ T. Rejepova, *Turkmenistan, China Reach New Energy Deals*. Central Asia-Caucasus Analyst Institute, October 16, 2013, available online at: <http://www.cacianalyst.org/publications/field-reports/item/12834-turkmenistan-china-reach-new-energy-deals.html>

¹² British Petroleum, 2014, p.28

¹³ F. Indeo, *Turkmenistan's diversification strategy of energy exports and the role of China*, Global Energy Monitor, Vol.2, No.3, 2014, p.5, available online at: www.egskorea.org

field and in 2013 Beijing's government ensured an additional loan to Turkmenistan for the Galkynysh's second phase of development.¹⁴

Even if at present this energy cooperation between China and Central Asian countries appears profitable for both parties, in the long term the growing role of China in the Turkmen and Kazakh energy sector could hamper a concrete diversification of export energy routes, which is the main stronghold of their national energy strategy.

Mainly Turkmenistan is at this risk, considering that all projects to create alternative routes of energy export – such as Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI) and the participation in the Trans-Caspian gas corridor – are frozen, due to the lack of financial investments and geopolitical issues, namely the Russian opposition to the Trans-Caspian corridor and the permanent condition of instability in Afghanistan, which prevents the realization of TAPI. In this scenario, Ashgabat will become growingly dependent on China, as the main market to deliver gas exports.

¹⁴ M. Sadykov, *Turkmenistan Ups Gas Exports to China Again*, Eurasianet, May 8, 2014, available online at: <http://www.eurasianet.org/node/68354>; Rejepova, *Turkmenistan, China Reach New Energy Deals*. 2013