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India and China: An Team? India and China: An Energy Team?

The two giants' alliance is part of a possible pan-Asian oil and gas grid. India's Oil Minister calls the concept a "21st century silk route"

From [Platts Oilgram News](#)

India's globe-trotting Oil Minister Mani Shankar Aiyar is paving the way for what could become the cornerstone of his unique brand of oil diplomacy during a trip to Beijing in January, 2006. Aiyar plans to sign a broad memorandum of understanding with Ma Kai, chairman of China's state energy policy planner, the National Development Reform Commission, that would have the competing Asian giants join hands in their quest for energy resources.

Aiyar's trip has been tentatively scheduled for Jan. 10-16. It will begin symbolically at Kunming, the southeastern Chinese city that received an oil pipeline laid from Ledo in India's northeastern Assam state across northern Myanmar more than six decades ago -- which fueled China's liberation from Japanese occupation in World War II.

"I believe that China and India can cooperate across a range of matters relating to the hydrocarbons value chain," Aiyar told [Platts](#) in an interview conducted over two separate sessions around a ministerial roundtable of Asian oil consumers and producers he had organized in New Delhi Nov. 25.

"A MONOPSONY." Significantly, one of four to five pacts that will be signed at the corporate level under the umbrella ministerial MoU will call for Indian and Chinese state companies to bid jointly for oil and gas assets. "This won't be possible on every occasion," Aiyar conceded. "Market circumstances might dictate that we end up competing. But we will keep each other posted as far as possible and discuss possible joint bids on a case-by-case basis."

"The theoretical proposition is that it is better for two principal buyers to join hands and present a monopsony, if you like, to the monopoly of the seller," Aiyar said.

The Indian Oil Minister cites the \$600 million he says China National Petroleum "simply kissed away" to trump a rival bid by an Indian consortium and acquire Canadian independent PetroKazakhstan. CNPC upped its cash bid for the Kazakhstan producer to \$4.18 billion in August, to top the original best offer from India's OMEL, a joint venture of state-owned ONGC Videsh Ltd. and the private Mittal Group.

BETTER TO COLLABORATE. Chinese state oil giants have so far had an edge over their Indian counterparts in the search for energy resources because of a head start and deeper pockets. They've beaten Indian rivals in the race for some blocks in Angola, Myanmar, and Indonesia. But the Chinese see the importance of collaboration over confrontation, Aiyar asserts, citing a string of discussions between his ministry and authorities in Beijing since early 2005.

"If I hadn't had it confirmed through several conversations that I've had -- let's take it one-by-one: with the vice-chairman of NDRC who came [to India] in January, then the team that accompanied the Premier who came in April, then the delegation I sent under Talmiz Ahmed [additional secretary in the Oil Ministry] in August, and then the conversations we had with the Chinese in Johannesburg at the World Petroleum Congress -- if all of this had not been put together, then I wouldn't be going to China," Aiyar said.

But it seems Indian and Chinese outfits aren't waiting for the formalities of Aiyar's January trip. News emerged last week that India's OVL and CNPC have submitted a groundbreaking, 50-50 joint bid for PetroCanada's ([PCZ](#)) stake in Syrian oil-producing assets, held in a consortium with Royal Dutch Shell ([RDS.B](#)) and Syrian Petroleum and valued around \$1 billion.

AUCTION COMPLAINTS. India hasn't given up on PetroKazakhstan either. Aiyar last month lashed out against the company's Canadian management and adviser Goldman Sachs ([GS](#)) for what he termed as a "lack of propriety and transparency" in the auction. He says he also lodged his complaint with Kazakh Oil Minister Vladimir Shkolnik during a visit to the Central Asian republic in early October.

"I told Mr. Shkolnik that I thought it was extremely unfair.... He said he was unaware, but since the company was Canadian, that's where I should take my complaint," Aiyar said. Ultimately, it was up to OMEL, which decided not to pursue the case, the minister said.

A more "constructive" way going forward, and one that should yield "some conclusion" in February, was for India to take a stake in PetroKazakhstan assets to be acquired by the Kazakh government, according to Aiyar. "Since it was the intention of the Kazakhstan government to obtain 50% control over PetroKazakh and PetroKazakh assets, it is clear that on the day it all comes together, there will be an opportunity for India to farm in to at least the Kazakh-owned assets of PetroKazakh. And so I put in my expression of interest and it will take a while for things to get sorted out," he said.

FLEXING MUSCLE. CNPC has agreed to sell 33% of PetroKazakhstan and 50% of the latter's Shymkent refinery to state KazMunaiGaz.

"We are going to have a major opportunity in February to come to some conclusion, when the India-Kazakh joint mission [Joint Business Council] meets here, in our country," Aiyar said. "Mr. Shkolnik is my counterpart and co-chairman. He has time between now and then." Aiyar also will use the opportunity to discuss OVL's interest in two Kazakh exploration blocks in the Caspian Sea, "unless the agreements are already tied up."

The 64-year-old minister, who had built a long career in India's foreign diplomatic corps before joining politics, emerged optimistic from the Nov. 25 roundtable concerning cooperation between North and Central Asian producers and the main regional consumers China, Japan, South Korea, and India. He used the occasion to reiterate his call to former Soviet bloc producers and the vital transit country of Turkey to pay adequate attention to Eastern markets, instead of focusing solely on Europe.

SECURITY IS KEY. While the message went down well with the producers -- Russia, Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan -- Aiyar found an especially strong ally in Turkish counterpart Mehmet Hilmi Guler. "Hilmi Guler belongs to an Islamic conservative party and therefore has some sense of discomfort with a purely Western orientation," Aiyar told reporters in a post-event briefing. "He has become a great advocate," said Aiyar, referring to a "north-south" oil and gas supply relationship he has championed with Turkey in the past few months.

At the roundtable, Aiyar flagged India's interest in joining the proposed 1,700-km Turkmenistan-Afghanistan-Pakistan, or TAP, gas-pipeline project as the final destination. New Delhi has until now been noncommittal to receiving the 3 billion-cubic-feet-per-day pipeline amid doubts expressed by

Afghanistan and Pakistan that Turkmenistan has enough gas to make the venture viable, apart from security issues posed by the passage through Afghanistan. Aiyar said the visiting Turkmen delegation had presented him gas reserve estimates that could provide supplies into TAP "for years...decades." But he conceded it wasn't clear how the figures had been arrived at or how much gas was already pledged on a term basis to Russia.

A way out could be for Azerbaijan, Russia, Kazakhstan, and Uzbekistan to pool gas resources and make it an "ARUKUTAPI" pipeline, he told the roundtable. In that event, Turkmenistan's Dauletabad field wouldn't be just a supply source, but "a junction that will collect gas from the east and west and export it." The concept is at the heart of a pan-Asian oil and gas grid mooted at the roundtable to afford security of supply and of markets to the region's buyers and sellers, a "21st century silk route," in Aiyar's words.