

China Lays Down Gauntlet in Energy War: the geopolitics of oil, Central Asia and the United States

By F William Engdahl

On December 15, the state-owned China National Petroleum Corp (CNPC) inaugurated an oil pipeline running from Kazakhstan to northwest China. The pipeline will undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan (BTC) oil pipeline which opened this past summer amid big fanfare and support from Washington.

The geopolitical chess game for the control of the energy flows of Central Asia and overall of Eurasia from the Atlantic to the China Sea is sharply evident in the latest developments.



Making the Kazakh-China oil pipeline link even more politically interesting, from the standpoint of an emerging Eurasian move towards some form of greater energy independence from Washington, is the fact that China is reportedly considering asking Russian companies to help it fill the pipeline with oil, until Kazakh supply is sufficient.

Initially, half the oil pumped through the new 200,000 barrel-a-day pipeline will come from Russia because of insufficient output from nearby Kazakh fields, Kazakhstan's Vice Energy Minister Musabek Isayev said on November 30 in Beijing. That means closer China-Kazakhstan-Russia energy cooperation - the nightmare scenario of Washington.

Simply put, the United States stands to lose major leverage over the entire strategic Eurasian region with the latest developments. The Kazakh developments also have more than a little to do with the fact that the Washington war drums are beating loudly against Iran.

The new China pipeline runs 962 kilometers (598 miles) and will take China a third of the way to Kashagan in the Caspian Sea, one of the world's largest accessible oil reserves. Kashagan is the largest new oil discovery in decades and exceeds the size of the North Sea. This is a major reason Washington has such a strong interest in supporting democratic regime change in the Central Asia region of late.

In the next 10 years, Kazakhstan plans to almost triple oil production, prompting the landlocked nation to seek new export routes because the country wants to avoid pipelines through Russia and excessive Russian dependence. China is now among Kazakhstan's major target markets.

Best public estimates are that Kazakhstan has 35 billion barrels of discovered oil reserves, twice the amount in the North Sea, and may hold about three times more, according to a Kazakh government report released on November 18 in London. German oil engineers have privately reported that recent drilling by Italy's AGIP, the current oil consortium leader for Kashagan, a huge field offshore Kazakhstan southwest of Tengiz, has confirmed enormous oil deposits there.

The government of President Nursultan Nazarbayev plans to produce 3.6 million barrels a day of oil from all fields in Kazakhstan, onshore and off, by 2015. For 2005, they expect to average about 1.3 million barrels a day, making Kazakhstan far larger than Azerbaijan, and second in oil production of the former Soviet states only to Russia.

The December 15 opening of the new Kazakh-China pipeline was a major event for Beijing. Zhang Guobao, vice chairman of the National Development and Reform Commission, China's top economic planning agency, attended the opening. CNPC has invested more than \$2.6 billion in Kazakhstan since 1997.

Beijing takes the geopolitical prize

In October, Beijing scored a second major geopolitical coup when China completed a \$4.18 billion takeover of PetroKazakhstan Inc. It was, in a sense, revenge on Washington for the blocking of the China acquisition of Unocal. US oil majors had made major efforts to lock up Kazakhstan oil after discovery of major oil offshore in the Kashagan field. They failed. ExxonMobil was charged with bribery of Kazakh officials to win a presence in the Kazakh oil business, and a senior Mobil executive was later jailed on US tax evasion in New York tied to the Kazakh bribery payments.

Nazarbayev enjoys good relations with Russia's President Vladimir Putin. He was general secretary of the Communist Party when Kazakhstan was part of the USSR, and is regarded as a sly fox in terms of dealing with Moscow, while also keeping a clear

distance from Moscow.

In October, Russia's Lukoil failed in its bid to buy up the Kazakh state oil company, PetroKazakhstan, in a privatization. Nazarbayev indicated a major geopolitical shift in strategy, compared with a decade or more ago, when it appeared that Washington was to be the major foreign ally of Nazarbayev. At that time Secretary of State Condoleezza Rice's company, Chevron, became the lead oil contractor and operator in the Kazakh Tengiz oil field. That was just after the breakup of the Soviet Union and the US oil presence in Kazakhstan was a major US political priority supported by the Bill Clinton administration.

The Chevron Tengizchevoil consortium formed the Caspian Pipeline Consortium (CPC) in 1993 amid great fanfare. After years of haggling with the Kazakh government, Chevron finally constructed a pipeline from Tengiz on the Caspian's northeastern shore to the Russian port of Novorossiysk on the Black Sea. Following years of pressure, most members of the CPC group, including Chevron and Oman Oil Co, decided to not pursue future expansions of the CPC line.

Now, a decade later and with the scope of Kazakh oil deposits dwarfing any in the region, with its recent confirmed drillings in the Kashagan field, Nazarbayev has scored a political balance of power coup by turning to Beijing.

In October, Nazarbayev announced that CNPC had won the bid to buy PetroKazakhstan. What will be important to watch, now that Nazarbayev won re-election on December 4, further extending his 14-year reign, is to what extent Washington begins to play up "human rights abuses" by Nazarbayev.

A fledgling "Orange" revolution a la Ukraine has sprung up behind opposition candidate Zharmakhan Tuyakbai and his party, For a Just Kazakhstan. He came in second with 6.6% of the vote and cried fraud, but Washington's and the US media response were muted this time. Rice, in a major trip to shore up sagging US influence in Central Asia on October 10-13, held a private meeting with Tuyakbai. He is clearly being groomed for a possible future role, but clearly not yet.

Washington suffers strategic setback

A major setback for Washington's Eurasian encirclement strategy vis-a-vis China and Russia came several months ago when Uzbekistan's autocratic president Islam Karimov told Washington it could no longer use the Karshi-Khanabad military air base in southeast Uzbekistan, a major piece in Washington's Eurasian chess board play, put into place after September 11, 2001.

Since strong US protest over the government's bloody suppression of protests against a state trial of alleged Islamic fundamentalists in Andijan last May, Karimov's relations with Washington have deteriorated. Karimov's decision to move so aggressively was no doubt influenced by the successful March "Tulip" revolution which toppled Askar

Akayev in neighboring Kyrgystan and set the stage for the July election of opposition and US-backed candidate Kurmanbek Bakiev.

On July 29, Karimov announced he was evicting the US entirely from the airbase with a January 2006 exit date. In October, the US Senate, as retaliation, voted not to pay \$23 million in base user fees to Uzbekistan for past use. Moscow and Beijing have both moved into the vacuum. A look at the map will indicate why. Uzbekistan is strategic for control or to prevent control by foreign powers such as Washington, of Central Asia and pipeline routes linking Russia, China and Kazakhstan. In October 2004, Moscow secured a long-term military base agreement to station troops in Dushanbe, the capital of nearby Tajikistan, a move by Russia to limit the spread of Washington-backed "color revolutions" in the region.

That appeared to redraw the Eurasian geostrategic map in Moscow's favor, with the recent US loss of Uzbekistan. Uzbekistan is now effectively Russia's main ally in Central Asia.

Washington's position in Eurasia and its future relations with Kazakhstan suddenly assumed high priority. Clearly, the Bush administration decided the time was not ripe to try a full-blown "Orange" revolution in Kazakhstan this month, at least not until Washington's position in the region was stronger. That was a clear purpose of the October Rice visit.

But now with the strong geopolitical turn of Nazarbayev toward playing Beijing to offset potential Washington domination in the region, the situation has begun to change dramatically. A year ago, China attempted to buy out a 16% share in the Kashagan consortium from British Gas, which was willing to sell. That sale was blocked by US consortium member ExxonMobil, the company subsequently charged with bribery and convicted. Now China has opened an oil flow out of Kazakhstan to the East, not the West. This has major strategic implications for the future of the Washington-backed BTC oil pipeline. That pipeline was built by the Caspian Oil Consortium headed by British Petroleum, and was backed by both Clinton and George W Bush, despite the fact that it was the most costly and least viable oil route out of the Caspian.

Former US national security advisor Zbigniew Brzezinski had been the chief Washington lobbyist advocating the BTC route to circumvent Russia. Its construction was undertaken on the assumption that it would carry not only Baku oil, but also a major share of Kazakh oil from Tengiz and offshore Kashagan oil fields. Oops!

A larger China energy strategy

The December China-Kazakhstan pipeline opening is one part of a massive Chinese plan to secure as much Kazakh oil riches as possible.

The Chinese plan to connect several pieces of infrastructure - part Soviet-built, part Chinese-built - then reverse the flow of some of them and forge a new export corridor

stretching from Kazakhstan's oil-rich Caspian basin, including Kashagan, through a series of western and central-Kazakh oil zones, and ultimately into China. With completion of this major project, China will for the first time have secured a source of imported energy not vulnerable to US aircraft carrier battle groups, as is the case with present oil deliveries from the Persian Gulf and Sudan.

Before opening the new pipeline, China imported only 25,000 bpd from Kazakhstan. Once the link between Kenkiyak and Kumkol is finished, connecting existing infrastructure near the Caspian with the portion inaugurated on December 15, the project will pump 1 million bpd. That would be about 15% of China's crude oil needs.

China then plans to tap into production from dozens of Kazakh sites it has acquired during the past several years. This is oil that currently goes west, or north through Russia.

Beijing-Tehran-Moscow

At the end of 2004, Beijing signed a \$70 billion energy agreement with Tehran, China's largest Organization of Petroleum Exporting Countries energy deal to date. China's state Sinopec agreed to buy 250 million tons of LNG over 30 years from Iran, as well as to develop the giant Yadavaran field. That agreement covered the comprehensive development by Sinopec of the giant Yadavaran gas field, construction of a related petrochemical and gas industry including pipelines.

As part of the huge Iran-China economic cooperation agreement, China's state-run military construction company, NORINCO, will expand the Tehran Metro underground.

A second phase in the Iran-China strategic energy cooperation will involve constructing a pipeline in Iran to take oil some 386 kilometers to the Caspian Sea, there to link up with the planned pipeline from China into Kazakhstan.

On signing the deal, Iran's Petroleum Minister announced that Tehran would like to see China replace Japan as Iran's largest oil importer. As well, Iran has what are estimated to be the world's second largest reserves of natural gas after Russia. Iran is a place of enormous strategic importance to China, to Japan, to Russia, to the European Union, and for all these reasons, to Washington as well.

Iran supplies about 14% of China's oil. Along with Russia, China has been involved since the late 1990s in supplying nuclear technology to Tehran. In 1997, Beijing, under Washington pressure, nominally agreed to stop nuclear-related shipments to Iran, but the flows are believed continuing as the Iran relation is strategic and critical to China's energy security.

China, a veto member of the UN Security Council, has repeatedly called for the issue of Iranian nuclear development to be dealt with by the International Atomic Energy Agency (IAEA). The IAEA's chief, Nobel Peace Prize awardee, Mohamed ElBaradei, has earned the enmity of Washington war hawks for his open declarations of lack of evidence in

both Iraq and now of Iranian atomic bomb capability.

Given the nature of the Bush administration's rush to war in Iraq in 2003, where China had a major stake in oil development, and the subsequent US blocking of other Chinese attempts at securing energy independence, including Unocal, it is not surprising that Beijing is taking extraordinary measures to secure its long-term oil and gas supply.

Energy is the Achilles' heel of China's economic growth. Beijing knows that only too well. So does Washington. A decision by Washington to take military action against Iran now would pull a far larger cast of actors into the fray than Iraq.

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