



ENERGY RELATIONS BETWEEN CHINA AND THE CASPIAN LITTORAL STATES

Over the past few years China has been ranked at the top of the world's top energy consumers. China's total energy consumption increased from 1,470 million tons of coal equivalent (Mtce) in 2000 to 4,260 Mtce in 2014. Coal that accounted for about 66% of total energy consumption by the end of 2014 is still the dominant energy resource in China. However, in order to achieve greener and more efficient energy system the government of China has decided to launch a policy of coal replacement by natural gas, oil and non-fossil fuels. For instance, contribution of natural gas to total energy consumption increased from 2.2% in 2000 to 6.2% in 2014. The share of oil in China's total energy consumption was stable over this time period and amounted to 18%-19%. Therefore, rapidly increasing energy demand for petroleum and natural gas has caused the necessity to ensure energy security of the country by actively seeking for overseas energy resources. One of such overseas resource is the region of the Caspian Sea, which hosts significant amount of oil and gas reserves. Despite the fact that China as an energy-hungry country entered the Caspian region later than other players, since then Beijing has progressed significantly in establishing energy cooperation with the Caspian Sea states such as Kazakhstan and Turkmenistan.

Since most of the energy resources extracted from the Caspian Sea region are exported, there is a strong competition among the related countries for the construction of the export pipelines. Moreover, in most cases, the development of the downstream infrastructure is dependent upon the ability of the Caspian littoral states to increase oil and gas production. Therefore, the key elements of the energy strategy of the Chinese government for the Caspian region are both: development and exploration of oil and gas reserves, and maintenance of stable imports via pipelines. It should also be admitted that in China's opinion, developing energy cooperation with the Caspian states is a vital strategy for ensuring economic stability and security in China's western provinces, namely, the Xinjiang region. Furthermore, Beijing is pursuing an energy policy of diversifying the sources and routes of imported oil and gas by overland pipelines.

The energy cooperation between China and Kazakhstan is successful compared to the cooperation with other Caspian littoral states. Nowadays, Chinese companies are

among the most active players in the Kazakh oil and gas sector. China produces over 25% of total amount of oil extracted in Kazakhstan. For instance, the Chinese National Petroleum Company (CNPC) is one of the main oil and gas operators in the country. Holding an 85.42% of shares in AktobeMunaiGas, the CNPC obtained the production license for the Zhanazhol, Kenkiyak Oversalt and Kenkiyak Subsalt oilfields. Moreover, the CNPC possesses a 100% stake of both the MangistauMunaiGaz and the PetroKazakhstan. The Chinese company also possesses 50% of shares in the Konys and the Bektas oilfields (KAM Project), as well as 100% of shares in the Aryss and the Blinov oil deposits (ADM Project). Furthermore, the CNPC purchased 100% of shares of the Chevron Texaco North Buzachi Inc. owning a 100% stake in the North Buzachi Oilfield. However, the most significant deal was initiated by the CNPC in 2013 when the company purchased 8.33% of shares in the Kashagan Caspian offshore project for roughly \$5 billion.

In order to provide reliable supplies of the Kazakh oil China launched its first transnational oil pipeline in 2006. The pipeline, developed by a joint venture between the CNPC and Kazakhstan's state-owned company KazMunayGas (KMG) and financed by Chinese loans, transports oil from the oilfields in western and central Kazakhstan to China connecting Atyrau city on the Kazakh Caspian Sea shore with Alashankou on the Chinese border in Xinjiang. The construction of Kazakhstan-China pipeline took place in two phases. The partners launched the Atasu-Alashankou section in 2006 and the Kenkiyak-Kumkol section in 2009. The initial capacity of the pipeline estimated at 10 million tons per year (mt/y) was increased up to 20 mt/y in 2013. However, due to the delays in the commercial oil production at the Kashagan field, Kazakhstan still has not enough hydrocarbons to ensure full utilization of the pipeline capacity. At the moment Kazakhstan is able to transport over 12 mt/y of oil to China on average. For instance, the Kazakh oil export to China reached 11.8 million tons of oil in 2013. However, Kazakhstan reduced oil sales to China down to 4.8 million tons in 2014. The reduction of oil supplies was caused by launching the swap scheme with Russian company Rosneft, which agreed to supply 7 million tons of its oil to Kazakhstan's Pavlodar Oil Refinery in exchange for

supply of the same amount of oil by the KMG via the Kazakhstan-China pipeline to China.

As for the natural gas issue, Turkmenistan has become a strategic partner of China providing over 81% of total amount of gas supplies imported via pipelines. To date, the CNPC operates the Saman-Depe and the Altyn Asyr gas fields (the Bagtyyiarlyk project) located on the right bank of the Amu Darya River. Moreover, since 2013 the company has been developing the Galkynysh gas field (formerly known as the South Yolotan) under the engineering, procurement and construction contract.

In order to transport the Turkmen gas to China the CNPC signed a gas purchase agreement that envisages annual delivery of 65 billion cubic meters (bcm) of gas until 2021 through the Central Asia-China Gas Pipeline (CACGP), which starts at the Turkmen-Uzbek border city Gedaim and runs through central Uzbekistan and southern Kazakhstan before reaching Horgos in China's Xinjiang province. Currently, the CACGP has three parallel lines, namely, Lines A, B and C which became operational in 2009, 2010 and 2015 respectively. After launching the Line C, the capacity of the CACGP increased from 30 to 55 bcm of gas per year. In 2013 China signed intergovernmental agreements with Uzbekistan, Tajikistan, and Kyrgyzstan on the Line D project, which would increase the annual deliverability of the pipeline to 85 bcm of gas.

According to the CNPC data, the Central Asian gas export to China via the CACGP amounted to about 28.6 bcm in 2014. It should be admitted that Turkmenistan exported over 25.9 bcm of gas and the remaining volumes of gas, namely, 2.7 bcm, were exported by Uzbekistan. Therefore, there is still much work to be done in order to develop the infrastructure of the Turkmen gas transportation.

In conclusion, it should be highlighted that China is still in a disadvantaged position regarding the competition for the energy resources of the Caspian region. China is still facing many difficulties in improving energy cooperation with the Caspian states other than Kazakhstan and Turkmenistan. However, there is no doubt that China will continue to strengthen its position in competition over the energy reserves in the Caspian Basin.

Politics, Foreign Affairs and Security

- The Parliament of Georgia approved Giorgi Kvirikashvili's candidacy to the post of the Prime Minister at a plenary session. 86 out of 114 deputies present at the session voted in favor of Giorgi Kvirikashvili while 28 lawmakers voted against. Before being nominated for the Prime Minister Giorgi Kvirikashvili served as the Minister of Foreign Affairs of Georgia.
- The President of Russia, Vladimir Putin, signed amendments to the federal constitutional law on making the Republic of Crimea and the federal city of Sevastopol part of the Russian Federation, as well as implementation of budgets and formation of the budgetary report for 2016.
- The Normandy Four agreed to extend the validity of the Minsk Agreements to 2016 after consultations between Russian President Vladimir Putin, German Chancellor Angela Merkel, French President Francois Hollande and Ukrainian President Petro Poroshenko.
- During the special session of the Joint Demarcation Commission of Uzbekistan and Kazakhstan held in Tashkent, the parties agreed on final official documents, which stipulate complete and final demarcation of more than 2,000 kilometers long mutual border.
- The National Anti-Terror Committee of Russia announced that the counter-terrorism regime was lifted in the Gunib district in central Dagestan.

Economy, Finance and Energy

- According to the CEO of the Bulgarian Energy Holding EAD, Jacquelin Cohen, Russian company Gazprom Export has stopped supplies of gas to household customers in Bulgaria as of January 1, 2016. The energy shortage could cause problem for about 200,000 household customers who consume 1.5 million cubic meters of the fuel. Bulgaria's average consumption stands at 11 to 13 million cubic meters.
- The National Minister of Economy of Kazakhstan, Yerbolat Dosayev, announced that the Tengizchevroil (TCO) oil production expansion project would be launched in spring 2016. It was also stated that the cost of the TCO expansion project implementation was decreased from

\$40 billion to \$30 billion. The project is designed to bring the TCO production capacity up to 38 million tons per year by 2021 from the current level of 27 million tons annually.

- The Russian gas giant, Gazprom, cancelled the tender worth 2.879 billion rubles (\$39 million) for the construction of an 89.8 km stretch of the Ukhta-Torzhok pipeline, which is crucial for Nord Stream-2 project. Moreover, Gazprom canceled the tender for the construction of 822 km of the Power of Siberia gas pipeline for the sum of 156 billion rubles (\$2.15 billion).
- Turkmenistan's state-owned gas company, Turkmengas, states that Russia's Gazprom Export notified the Turkmen side of a decision to terminate purchase of the Turkmen natural gas in January 2016. According to the Gazprom Export, the decision was made due to the changed situation in the international gas market, as well as certain economic and financial issues.
- The Director of the Atomic Energy Organization of Iran, Ali Akbar Salehi, announced that the country received about 200 tons of yellowcake from Russia as part of a July nuclear deal between Iran and the P5+1 countries. In accordance with the Joint Comprehensive Plan of Action (JCPOA), Iran shipped about 11 tons of enriched uranium in exchange for the Russian yellowcake. Moreover, the Kazakh National Atomic Company, Kazatomprom, supplied Iran with 60 metric tons of natural (unenriched) uranium under commercial terms and conditions as stipulated in the JCPOA.
- The President of Azerbaijan, Ilham Aliyev, approved the budget of the State Oil Fund of Azerbaijan (SOFAZ) for 2016. According to the approved budget, SOFAZ's revenues and expenditures for 2016 were defined at 6.7 billion manats and 8.18 billion manats respectively. It is expected that the revenues from the sale of the Azerbaijani oil and gas will amount to 6.09 billion manats and the income from oil and gas transit through the territory of Azerbaijan will reach 12.6 million manats. The projected total cost (volume weighted average) of the investment portfolio of the fund for 2016 has been set at 51.3 billion

manats as opposed to the forecasted 28.2 billion manats in 2015.

- The President of Russia, Vladimir Putin, signed a law, which extends the amnesty of capitals through June 20, 2016. The Federation Council, the Ministry of Finance and the Ministry of Economic Development launched the capital amnesty in March-June 2014. The campaign to legalize capital was designed to repatriate declared offshore capital, which will subsequently flow into the Russian financial market.
- According to the Chairman of the Azerbaijan Railways CJSC, Javid Gurbanov, the company transported nearly 17 million tons of cargo in 2015. It was noted that the volume of cargo transportation from Turkmenistan and Kazakhstan, as well as transit transportation through the territory of Azerbaijan increased by 10% in 2015.

Society and Culture

- The Ministry of Emergency Situations of Russia sent more than 40 tons of humanitarian aid to Kyrgyzstan to provide humanitarian assistance to the population of the southern region of the country affected by the recent earthquake.
- The Ministry of Emergency Situations of Azerbaijan delivered corpses of two oilmen recently found in the Turkmen sector of the Caspian Sea back to the country. The oilmen went missing after the fire at the Guneshli oil field. According to SOCAR, two Azerbaijani oilmen had already been identified.
- The Deputy Minister of Foreign Affairs of Kazakhstan, Alexey Volkov, announced that the country would simplify its visa system for 34 member-nations of the Organization for Economic Cooperation and Development, the UAE, Singapore, Malaysia and Monaco starting from January 1, 2017.
- After the downwards revision of its budget, the Federal Space Agency of Russia drafted an updated version of the Federal Space Programme for the years from 2016 through 2025, according to which, practically all the projects related to manned flights to the moon were removed from the document.