China, Kazakhstan sign oil pipeline agreement

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NICOSIA, June 3 -- China's President Hu Jintao and Kazakh President Nursultan Nazarbayev Tuesday signed agreements to revitalize work on an oil pipeline from western Kazakhstan to China as well as to boost Chinese participation more generally in the Kazakh energy sector.

The agreements were signed in the Kazakh capital of Astana after talks between Nazarbayev and Hu. At a later news conference with Nazarbayev, Hu said the agreements are "an important sign that China places great attention and importance on developing friendly relations between China and Kazakhstan."

As the leaders pledged to resume the pipeline project, Hu emphasized that Kazakhstan—the largest geographically and most economically strong country in Central Asia—could be a vital player in helping China meet its energy needs. Hu said China "is experiencing a relative of shortage of energy resources" while Kazakhstan is petroleum rich and can supply "tens" of millions of tonnes of oil to world markets.

Agreement details Under terms of the agreements, China National Petroleum Corp. (CNPC) and Kazakhstan's national petroleum company KazMunaiGaz will research construction of the pipeline, while CNPC will increase existing investments in Kazakhstan's oil and gas sector.

CNPC received more than 60% of Aktobemunaigaz Oil Co. in 1997, and now holds 75% of CNPC-Aktobemunaigaz, which is developing fields in Aktyubinsk region. The company produced more than 4.3 million tonnes of oil in 2002, and expects to see production of 5.5 million tonnes by 2005. In March, CNPC Vice-Pres. Wu Yaowen said the Chinese firm would invest $400 million in Kazakhstan during 2003, added to more than $600 million invested in the last 5 years.

Last month, KazMunaiGas and CNPC also began working on plans for the 1,010 km oil pipeline from Atasu in Karaganda region of Kazakhstan to the border with China at the railroad terminal Druzhba-Alashankou. The cost of the line has been estimated at $850 million.

Feasibility study discussed During a recent meeting, CNPC and KazMunaiGaz discussed the feasibility study of the Atasu-Alashankou pipeline, including the resource base, structures, and legal aspects of the project.

"During the meeting the partners determined that it is necessary to study and make adjustments to the earlier-designed feasibility study for the project for building the Western Kazakhstan-China pipeline. This will make it possible to prepare the foundations for investment in the future construction," said a KazMunaiGaz spokesman.

The Kazakh and Chinese companies plan to sign an agreement on joint development of the basis for investment and then sign a framework agreement that outlines the principles of joint operations under the project. A special design company will select a contractor to design, supply, and build the line. The Kazakh and Chinese sides agreed to set up three working subgroups under the Atasu-Alashankou project. One will prepare the technical designs and recommendations on use of investment. The second will conduct analyses and determine the minimum amount of oil needed to loan the pipeline, and the third will be in charge of legal matters.

Kazakhstan and China in 1997 agreed to build a 3,000 km pipeline from western oil-rich regions of Kazakhstan to China that would be financed mainly by China. The pipeline was to be built and opened by 2005.

Under a feasibility study made in 1999-2000, the $2.5-$3 billion project was considered economically viable only if at least 20 million tonnes of oil would be transported each year. But the project stalled when the oil production fell short of the target figure.

The Atasu-Alashankou pipeline is the second stage of a project to build a pipeline from western Kazakhstan to China. The first phase, the Atyrau- Kenkiyak pipeline in northwestern Kazakhstan, was opened in March. The feasibility study, financing, and construction of the pipeline was implemented by MunaiTas, a 51:49 joint venture of KazMunaiGas and CNPC, respectively, who will jointly operate the line. Russia's Stroitransgaz was the general contractor for the project, while the subcontractor was Kazakhstan's Kazstroiservis.

Pipeline specifics Connecting Kazakhstan's northwestern oil fields with the oil hub of Atyrau, the 450 km pipeline links the Kenkiyak wells with the two major pipelines from Kazakhstan to Russia, Atyrau-Samara, and the Caspian Pipeline Consortium, which ship crude from the Caspian to Baltic and Black sea export outlets. "We have laid a solid steel line which now links a bigger number of Kazakh oil deposits with world markets," Kazakh Prime Minister Imangali Tasmagambetov said, opening the pipeline's first operation facility, which cost some $160 million. Tasmagambetov said CNPC had invested $100 million in Atyrau-Kenkiyak.

In line with government estimates, the new pipeline will transport 6 million tonnes of crude this year, while capacity will gradually rise to 12 million tonnes/year in 2006.

Although the line currently pumps oil westward, the Kenkiyak-Atyrau line forms a key element in the western Kazakhstan-China global export project. In 2005 MunaiTas plans to use the pipeline in reverse as the main section of the Kazakh-Chinese transcontinental oil pipeline.

Bilateral trade Bilateral trade between the two nations has reached almost $2 billion/year and China is vying with Western and Russian investors for pieces of the Kazakh oil industry, especially those emerging on Kazakhstan's Caspian shelf. When he announced the start-up of the new pipeline, Tasmagambetov told a news conference that CNPC was seeking to buy the state's 25% stake in Aktobemunaigaz. "We will consider this issue pretty soon," he said. "I can't rule out that the minority stake would be tendered. Everyone, including CNPC, will be welcome to bid. This will be an open and transparent tender."

Tasmagambetov, nonetheless, said it would be "natural" if CNPC, which currently owns 75% of the shares, wanted to buy the remaining 25%. In March, China National Offshore Oil Co. (CNOOC) and China Petroleum & Chemical Group (Sinopec) said they each agreed to pay $615 million to BG PLC for 8.3% stakes in the Kashagan field in the Caspian Sea off Kazakhstan. CNOOC Chairman Wei Liucheng said that joining the Kashagan consortium would allow "the company to gain a firm foothold in one of the world's most prolific oil and gas basins." But the investment did not proceed because BG's partners decided to buy the stakes, according to a later statement by Wei. The Kashagan project partners are ENI SPA, Exxon Mobil Corp., Royal Dutch/Shell Group, and Total SA each with a 16.67% interest. ConocoPhillips and INPEX Corp. each own 8.33%. Eni in 2001 won rights to operate the project.

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