

Regional competition for energy resources *

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Let me begin with three news items. *Xinhua* put out a brief story confirming that a crude oil pipeline between Russia and China was now operational. It originates from the Russian town of Skovorodino, runs for 72 kms in Russia, reaches Mohe in China and continues for 927 kms in China before ending at Daqing in northeast China. Years of speculation that the terrain would make it very difficult to connect eastern Siberia to the Chinese system are put paid to as this new pipeline (ESPO pipeline) carries 42,000 metric tons of crude within a day of its inauguration. Industry analysts quickly note that it “overturns decades of Russian dependence on European markets”. This path-breaking pipeline is the first of a series to connect the two giants: one awash with hydrocarbons and the other insatiably hungry for them

The second news item of a somewhat earlier date has the Russian energy minister saying that Moscow and Beijing will discuss joint energy ventures in third countries and will likely reach agreement on the price of natural gas that Moscow wants to sell to its Asian neighbour. This is an important development because negotiations on the supply of natural gas from Russia were stalemated by the wide gap in price demanded by Moscow and the one Beijing was willing to pay. The natural gas market has changed recently adversely for Russia. The demand in Europe has gone down because of European diversification. The American market has been greatly affected by increasing reliance on Shale gas. It is believed that China has acquired the much guarded American technology for Shale gas in one of the recent (November 2010) Sino-US deals. If so, China can start exploiting the estimated 4,500 billion cubic metres shale gas deposits and eventually obtain 25 per cent of its total natural gas output from them. In the present market conditions Russia should be expected to lower its price in return for substantial Chinese investment in Russia, especially eastern Siberia.

A third news item notes that China has commenced the construction of two 1100-km gas and oil pipelines to the Kyaukpyu port on Myanmar’s west coast reviving the historic link with Yunan in China. This enterprise through a terrain that was the stuff of legends during the Second World War and later during the revolutionary struggle in China would not only provide China with access to Myanmar’s own resources but also with a much shorter route for the Chinese imports of oil from the Gulf and South West Asia in general as it would enable

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China to avoid the much longer and vulnerable route through the Straits of Malacca.

The new energy nexus between China and Russia militates against the United States' preference that Russian energy resources should remain dedicated to the West. The new link between China and Myanmar frustrates years of Indian diplomacy aimed at keeping Myanmar out of the reported arrangement with China. The competitive approaches in these examples illustrate the rivalries that characterise an unprecedented era of multi-state participation in the opportunities for exploitation of natural resources since the collapse of the rather rigid structures of the Cold War era.

A map of existing and proposed oil and gas pipelines drawn today would present an almost bewildering view of webs and counter-webs reflecting an intensifying competition for power and influence over every stage of the exploitation of energy resources, a competition that will shape strategic decisions of major powers – old and new – for decades to come. These decisions will determine the proposed routes that actually materialise, the patterns of states included or bypassed for political reasons and the terms of economic and strategic engagement applicable in the successful streams and grids.

Nowhere is this competition so fraught with political and economic consequences as between two energy-related arcs that I would draw your attention to. On the western side, there is a crescent of energy-rich lands that begins in Sakhalin islands, runs through Russia to Central Asia, the Caspian Basin, Iran and on to the Persian Gulf. Arrayed against it is an arc of energy-hungry nations that begins in Japan, traverses China and stretches to India and Pakistan. On both sides these imagined arcs have important spurs either as prolific producers like Saudi Arabia or smaller energy deficit countries like Bangladesh and Thailand.

The regional energy discourse today is dominated by the quest for energy resources by China, which has already overtaken Japan to become the world's second largest economy, and India which is seeking to sustain the gains of its rapid economic growth by taking advantage of a highly favourable international climate. But we should remind ourselves that by far the most seminal event that opened up entirely new vistas of energy supplies was the dissolution of the Soviet Union.

Even today the diminished Russian Federation has estimated oil reserves of 44 billion tonnes, about 20 per cent of the global total. The events of December 1991 deprived it of monolithic control over 15 constituent republics including the energy-rich new independent republics of Central Asia. The Caspian Sea was a matter exclusively between the Soviet Union and Iran. Now Azerbaijan, Kazakhstan and Turkmenistan were added to the changed littoral and an entirely new game of national claims began. The new states were landlocked and ruled by

senior members of the erstwhile Soviet Communist Party. Each one of them depended very heavily on oil and gas when it came to re-constructing post-Soviet economies and realign them with the capitalist markets.

Initially, Moscow tried hard to keep the new sovereign republics within a closed system as their energy flows were entirely dependent on the northward Soviet era pipelines. It also hoped to leverage its military presence in nearly all the new republics to maintain an energy exploitation status quo. It could not, however, even remotely match the huge investment that became available to the new republics from the U.S.-led West and the multinationals. Washington also lost little time in establishing its own military presence in them. At one time the United States had the use of three bases in Uzbekistan which together could handle up to 230 fighter planes. It has Kurgan Tyube and Kulyab in Tajikistan and the Manas base in Kyrgyzstan. It is able to project strong air power even when you do not consider the formidable deployment of American air force in Afghanistan. After some early setbacks Moscow has been able to partially re-balance influence in these states and the ruling elites there remain divided between a preference for Russia and a desire to cast aside its historical influence and align more closely with the West.

Two western projects that successfully dramatised the challenge to Russian monopoly are the Baku-Tblisi-Ceyhan oil pipeline completed in 2005 and the Baku-Erzurum gas pipeline which is still not operational. Azerbaijan maintains the pipeline to Novorussisk in Russia; it also has now fully operational 120-km Baku-Tengiz pipeline that feeds into Kazakhstan's outreach to many destinations including China.

Kazakhstan retains high connectivity to Russia but at the same time has been connected with China with the impressive Atasu-Alashankul pipeline. Turkmenistan too has ambitious projects to link up with China and Japan.

Despite determined American opposition, Iran has continued to pursue a vigorous Caspian Sea and Central Asian policy. In the Caspian Sea it demands that its share of 13 per cent in the Soviet era be raised to 20 per cent, a demand which the contending littoral states of the Caspian Sea contest. However, it has improved infrastructure links with the region, especially through a railway to Turkmenistan. The first phase of the 1,024-km gas pipeline from Turkmenistan's Dowlatabad field to Iran's Khangiran refinery came on-stream in January 2010 while the second phase was inaugurated in November 2010. Iran has the second largest reserves of natural gas in the world and aspires to be the region's gas hub with supplies to neighbouring countries including Pakistan and India and also to the planned NABUCCO pipeline from Turkey to Austria.

India has emerged as a keen competitor of China in Central and South West Asia. It is willing to make large investments in Iran and in Central Asia to ensure guaranteed long-term supplies. The Indian economy has been growing at a rate of

six+ per cent for more than a decade and yet its per capita consumption of energy is only seven per cent of the world average. Its present energy availability profile, according to Professor Dash, is 56.2 per cent coal, 28.4 per cent oil, 8.5 per cent gas, 6 per cent hydro and 0.9 per cent nuclear power. It needs to import energy to sustain its present national growth rate and substantially accelerate the development in the states that have a significantly lower rate of growth than the fast developing Indian states. According to one estimate, it requires additional power generation capacity to the tune of 100,000 MW by 2020.

A noticeable feature of India's energy diplomacy is to keep trying for routes that avoid transit through Pakistan even as it evinces fluctuating support for the Iran-Pakistan-India gas pipeline (IPI) and now a reawakened interest in Turkmenistan-Afghanistan-Pakistan-India gas pipeline (TAPI). India strongly supports the so-called North-South transport corridor through Iran and across the Caspian Sea to Russia and beyond. Similarly, it has been exploring the option of Kazakh oil and Turkmen gas to flow to India via Iran. The Indian susceptibility to mix their strategic ambitions with a trade-oriented approach to the procurement of energy causes avoidable problems and is certainly an issue insofar as it impinges on Pakistan-Iran relations.

The Iran-Pakistan gas pipeline is by far the most feasible project. If extended to India, it will become a factor of stability in India-Pakistan relations. Unfortunately, this project continues to attract American hostility which goes beyond the provisions of the Iran-Libya sanctions Act of the United States. If overland connectivity problems for transportation of oil and gas from Pakistan to the western regions of China are amenable to technical solutions, Pakistan can be an important energy corridor utilising both IPI and TAPI. Apart from hydrocarbons, Tajikistan and Kyrgyzstan are potentially major suppliers of hydro power to Pakistan and India.

Nuclear Power

Competition in nuclear power generation does not follow the contours of oil and gas rivalry as the major suppliers tightly control the market in the name of nuclear nonproliferation regimes. India's aspirations in this regard have received a highly favourable response following the civil nuclear deal with the United States and it may soon have a double-digit nuclear power component in its total energy profile. Iran is equally keen but remains hedged in by U.S.-led international opposition. Russia has delivered on the Bushehr nuclear power reactor, a facility that remains vulnerable to a wanton Israeli attack or a general breakdown of peace between Iran and the United States. The Iranian plans have had a ripple effect in the neighbouring Arab states that are ready to make huge capital outlays in nuclear power reactors, should the West, South Korea and Japan be willing to become reliable partners. Pakistan's plans for more power reactors are perfectly logical as an energy-starved nation as well as a legitimate nuclear power with a complete and secure mastery over the full nuclear cycle.

Nonetheless, it will continue to attract negative attention from states like India and, of course, the United States. Combine this factor with Pakistan's limited financial means, nuclear power will account for only a small percentage of output even if Sino-Pakistan cooperation in the field can be sustained.

Sea lanes of communication

ISSI will present a paper on maritime security in the Indian Ocean during this conference. I will, therefore, only marginally make a couple of points.

International law visualises freedom of the seas as a global system that ensures 'law and order at sea with free and safe movement of shipping, and nations able to pursue their maritime interests and manage their resources in a manner which is agreed and accepted by other nations'. In recent years the main threat has come from non-state actors, the pirates, that have been active near Somalia and in the vicinity of the Straits of Malacca. But there are areas of competition and tension that can seriously impact on inter-state relations and, as such, have potential for conflict. I will mention only two of them.

India and Pakistan have not settled their maritime boundary even after 63 years of their independence. India is also spending billions of dollars on building a powerful blue water Navy. It has commissioned a large naval and air base near Goa from which it can project power far and wide, including the Persian Gulf and the Sea of Oman. Pakistan's preference for overland access to energy resources in Iran and Central Asia is partly dictated by the coming asymmetry in naval power. A major question in India's rise as a regional power is the relative opacity as to how it would conduct itself in the new role assumed by it and facilitated by the United States.

The other area that I have in mind is the Pacific where the United States has had a hegemonic presence since the Second World War. Japan also possesses a strong Navy and has maritime disputes with Russia, Korea and China. Inexorably, China will build a strong blue water Navy, now that it has embarked upon this task. A number of islands are hotly disputed by several Pacific nations and some of them – the Philippines, Vietnam, Malaysia, Brunei and Indonesia – have sovereignty issues with China. The Sino-Japanese differences over Diaoyutai (Senkaku islands for Japan) are complex and have not so far been resolved through negotiations. In a recent book, Bernard Cole has observed that the islands appear to lie on the Asian (Chinese) continental shelf, separated from the Ryukyus by a deep water trench some 200 nautical miles east of the Chinese mainland. These are eight uninhabited islands and rocks that have a land area of only 6.3 square kilometres. One can hope that future talks will produce a solution.

The situation in South China Sea is, however, more hazardous. A book published in 1911 (Julian c. Corbett; *Principles of Maritime Strategy*) identified

the Paracel islands, the Spratly islands, and the delimitation of maritime boundaries as potential problems. Paracel islands have been firmly in Chinese hands since 1974 and the rhetoric over other islands has also got lowered. This large body of water has abundant fish stocks and may have energy resources perhaps deliberately understated by Western experts but estimated by the Chinese experts at “25 billion cubic metres of gas and 105 billion barrels of oil around the Spratly islands.” Sitting astride sea lanes that are vital to Chinese security and economy, the Spratly islands have great military and strategic importance for Beijing. The coastline and the continental shelf make it a natural area of assertion by China which has focused sharply on it in its maritime security policy. The United States was almost indifferent to it for a long time but very recently, Secretary of State Hillary Clinton has described South China Sea as an area of U.S. national interest. This new rivalry is what makes this sea hazardous. It is no longer a question of Washington’s commitments to Taiwan; Washington is casting a wider net.

The major stakeholders in the energy game have ambitious plans for augmenting their power-generation capacity from traditional and alternative sources. But in foreseeable future transnational pipelines of oil and gas will remain their strategic concern. At the same time there will be undiminished quest for sea-borne oil imports. There are tentative ideas on how to bring procurement into a peaceful system that reduces rivalry and dangers of conflict. This will require a reduced emphasis on dominance and monopolies which the emerging political trends make unsustainable. How soon the Great Powers accept the new realities will have an important bearing on the emergence of a more stable world order.