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Energy Security of People's Republic of China – Western dimension

Bezpieczeństwo energetyczne Chin – wymiar zachodni

Summary:

Central Asia is becoming more significant politically and economically because of its geopolitical position in Eurasia. It probably contains some of the largest undeveloped oil and gas reserves in the world. After the collapse of the Soviet Union, the newly-independent Central Asian states became open to foreign investments. The region can play an important role in the diversification of oil and gas supplies and consequently in global energy security. There are many external actors that want to be active and influential in Central Asia's energy geopolitics. China is one of the most prominent players. Its growing energy needs have given it a strong interest in developing ties with the energy-producing states in the region. It participates in energy infrastructure projects to find opportunities to get access to oil and gas resources.

Keywords: energy security, China, energy policy of China.

Streszczenie:

Upadek Związku Radzieckiego diametralnie zmienił sytuację geopolityczną w Eurazji. Nowopowstałe państwa Azji Centralnej to rejon o największych potencjalnie zasobach ropy naftowej i gazu ziemnego. Jest to zarówno szansa, jak i wyzwania dla istniejącego ładu międzynarodowego. Region stał się polem działania nie tylko dotychczasowych graczy – Federacji Rosyjskiej i Stanów Zjednoczonych Ameryki, lecz również wschodzącego mocarstwa – Chińskiej Republiki Ludowej. Zapewnienie bezpieczeństwa energetycznego Chin jest warunkiem *sine qua non* dla kontynuowania wzrostu na płaszczyźnie ekonomicznej i militarnej. Działania ChRL w regionie zakładają maksymalizację współpracy wydobywczej, zwiększanie stabilności regionu oraz zdobywanie nowych rynków dla chińskich przedsiębiorstw.

Słowa kluczowe: bezpieczeństwo energetyczne, Chiny, polityka energetyczna Chińskiej Republiki Ludowej

1. Introduction.

China's rise as a global power is likely to be the most significant event in international relations in the 21st century. China is rapidly emerging as a major force in both world energy markets and global energy geopolitics. China has developed comprehensive bilateral and multilateral cooperation with Central Asia states. Especially in the past several years, when its economy has developed rapidly and it needs much more energy than ever before¹. China's dependency on energy imports has been increasing. The twenty-first century are deemed a "period of strategic opportunities in peaceful development of China"². It was a time of industrialization and urbanization. Since then, the priority strategy of China was creating energy cooperation with neighboring countries in order to establish a stable and reliable energy supply infrastructure.

China's interests in the Central Asia are part of its overall Silk Road strategy to diversify energy dependence on the unstable Gulf region and to build overland routes to hedge against maritime supply disruptions from the Gulf. The idea of the Silk Road has connected China and Central Asia for a long time³. This route of trade and culture lost its prior meaning with the change in patterns of trade and the specifics of regional relations. Nowadays, the ancient Silk Road could be interpreted as an energy trade between China and Central Asian states, which has become a source of great competition between global powers. Both global and regional actors want to be influential in the energy policy creation in the region⁴. China is one of the main actors there because of its domestic energy needs as well as geopolitical calculations⁵. Energy security is a key aspect of China's economic and political modernization strategy.

China appears to have three main goals in the Central Asia: provide security to the region, gain access to natural resources, and become a regional power using the Shanghai Cooperation Organization framework⁶. This region is located in the center

¹ C. Xiaoqin, *Central Asian Factors In energy Relationship between China and Russia*, "Asian Social Science", 2012 vol. 8, no. 7, p. 33.

² Ibidem, p. 34.

³ I. Demir, *Revival of the Silk Road in terms of Energy Trade*, "Sosyal Bilimler Dergisi", 2010 no. 9(3), p. 514.

⁴ Ibidem, p. 515.

⁵ See: J. P. Pham, *Beijing's Great Game: Understanding Chinese Strategy in Central Asia*, "American Foreign Policy Interests", 2006 no. 28, p. 57; K. Sheives, *China Turns West: Beijing's Contemporary Strategy Towards Central Asia*, "Pacific Affairs", 2006 no. 2, p. 218.

⁶ G. Xuetao, *Energy Security in Central Eurasia*, "China and Eurasia Forum Quarterly", 2006 vol. 4, no. 4, p.130.

of the Eurasia, so it is an important strategic area for China to realize the stable development of its western region.

2. Energy security policy of China.

Nowadays, China is regarded as one of the major players shaping the global economy. It is currently the world's second largest consumer of crude oil after the United States. PRC has experienced oil and gas demand growth that has accounted for nearly one third of the world's total oil demand growth during the past decade, and is adding the equivalent of a medium-size country to world oil demand each year⁷. Its strong economy needs secure energy sources for uninterrupted development. Thus, the security of energy supplies is a principal issue for policymakers. China enjoyed adequate domestic reserves to satisfy energy needs prior to the 1990s⁸. It exported oil and coal until the early 1990s, when the booming economy inspired by Deng Xiaoping's reforms transformed this country into an energy importer⁹.

Coal occupies the most important place in China's energy consumption (see figure 1). However, the real energy security problem is providing adequate amounts of crude oil and natural gas¹⁰. Like other consuming states, China is concerned about maintaining "the reliable and affordable supply of energy on a continuing, uninterrupted basis"¹¹. It is also very important to diversify sources of supplies. Being addicted to only one energy producer is very dangerous from the economic point of view and also makes it vulnerable to political pressure. Therefore, energy security also incorporates a foreign policy dimension in terms of maintaining good relations with various energy producing states¹². Another important energy security strategy is to concentrate on maximizing the development of domestic sources (see table 1) and creating strategic reserves. As a result, Chinese policy makers have to create an investment climate in order to get maximum profit from existing domestic resources and establish reliable oil and gas trading channels¹³. China has bought large amounts

⁷ "NBR Analysis" April 2006, vol. 17, no. 1, p.7, <http://www.nbr.org/publications/nbranalysis/pdf/vol17no1.pdf> [last viewed: 12.10.2013].

⁸ I. Demir, *Revival of the Silk Road...*, p. 522.

⁹ S. Howell, *Jia You! (Add Oil!): Chinese Energy Security Strategy*, in: *Energy Security Challenges for 21st Century*, edited by G. Luft, A. Korin, Santa Barbara 2009, p. 191.

¹⁰ I. Demir, *Revival of the Silk Road...*, p. 522.

¹¹ M. T. Klare, *Energy Security*, in: *Security Studies: an Introduction*, edited by P. D. Williams, London, New York 2008, p. 485.

¹² J. Misiągiewicz, *Energy security in the Caspian region*, in: *Globalization and Security in Black Sea and Caspian Seas Region*, IBSU, Tbilisi-Batumi 2012, pp. 102 – 117.

¹³ I. Demir, *Revival of the Silk Road...*, p. 523.

of oil and gas from Saudi Arabia, Iran, Oman, Angola, Yemen, Sudan, Congo, Russia and Kazakhstan¹⁴.

Beginning in the 1990s, China faced deficits in energy sources. There are two key reasons for its increased energy consumption: the rise in living standards and increased industrialization. In 1971, China's share of global energy demand was 5% and its share of global population was 23%, but by 1995 the Chinese share of world population had decreased to 21%, while its energy demand had reached 11%¹⁵. Since 1980, energy consumption in China has increased by approximately 250%¹⁶. The year 1993 was a turning point, when the crude oil consumption surpassed domestic production and China started to become import dependent¹⁷. This trend continues (see table 2, 3) and the level of imports is expected to be even higher in the coming years. Current oil import dependency at over 50%, causes alarm in China¹⁸. The leader of the Energy Bureau, Zhang Guobao declared, that "the oil shortage is in fact a problem of price"¹⁹. In order to maintain "social harmony", China ensures very low fuel and electricity prices²⁰. China's long-term strategy of economic growth through artificially low energy prices was a huge waste and created a very unstable situation. It requires seven times more the energy to produce the same value of GDP as the United States²¹. In such circumstances, the government increased fuel prices by 17% and electricity prices by 4% in June 2008²². This move was a sign of a more efficient functioning of the energy sector. According to E. S. Downs, crude oil is no longer an instrument in the Beijing hands, but rather a weakness that could be used as an instrument of pressure by others²³.

China also continues to increase its natural gas power generation capacity. It started a program in the 1990s to ship gas across the country and to build natural gas terminals to import it from overseas. Moreover, China demonstrated a commitment to increased use of nuclear power. It has commissioned eight new nuclear power plants. Today, China's eleven nuclear power plants are located in coastal areas and produce

¹⁴ Ibidem, p. 524.

¹⁵ Ibidem, p. 523.

¹⁶ G. Hall, T. Grant, *Russia, China and the Energy – Security Politics of the Caspian Sea Region after the Cold War*, "Mediterranean Quarterly", 2009, no. 2, p. 124.

¹⁷ I. Demir, *Revival of the Silk Road...*, p. 523.

¹⁸ S. Howell, *Jia You...*, p. 191.

¹⁹ Ibidem, p. 206.

²⁰ Ibidem.

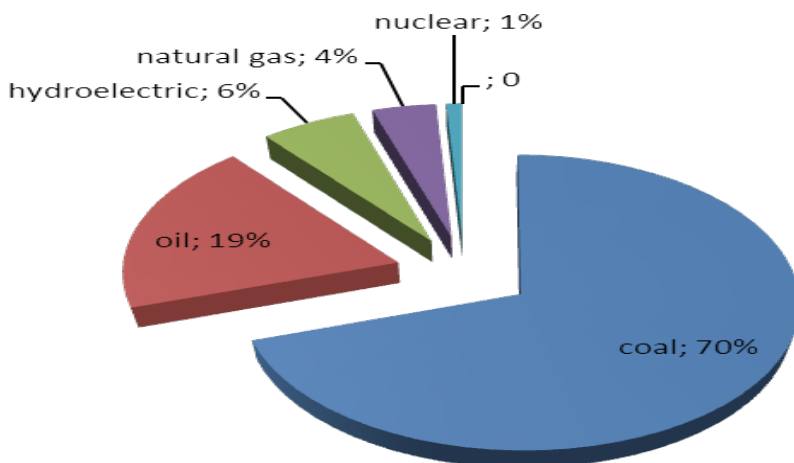
²¹ Ibidem.

²² Ibidem.

²³ E. S. Downs, *China's Quest for Energy Security*, Santa Monica 2000, p. 12.

only 1% of its country energy mix, but there is a plan to increase this volume to 4% by 2020²⁴. Chinese energy strategy also targets renewable energy sources. It has invested mostly in hydroelectric power²⁵. Its long-term aim is to reach 15% in energy mix by 2020²⁶.

Figure 1. China – total energy consumption by type.



Source: IEA, <http://www.cia.gov/countries/cab.cfm?fips=ch> [last viewed:12.12.2011].

Table 1. China – oil and natural gas proved reserves.

oil	1992	2002	2011	2012	Share of total
thousand million barrels	15,2	15,5	17,3	17,3	1,0%
Natural gas	1992	2002	2011	2012	Share of total
Trillion cubic meters	1,4	1,3	3,1	3,1	1,7%

Source: BP Statistical Review of World Energy June 2013, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf [last viewed:01.07.2013].

²⁴ S. Howell, *Jia You...*, p. 207.

²⁵ China has around half the world's number of dams. Three Gorges Dam, at its full capacity will be the largest producer of hydroelectricity in the global scale.

²⁶ S. Howell, *Jia You...*, p. 207.

Table 2. China – oil production and consumption.

		2002	2010	2012	Share of total
Oil production	Thousand barrels daily	3351	4077	4155	5,0%
	Million tones	166,9	203,0	207,5	5,0%
Oil consumption	Thousand barrels daily	5262	9272	10221	11,7%
	Million tones	247,5	437,7	483,7	11,7%

Source: BP Statistical Review of World Energy June 2013, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf [last viewed:01.07.2013].

Table 3. China – natural gas production and consumption.

		2002	2010	2012	Share of total
Natural gas production	Billion cubic meters	32,7	94,8	107,2	3,2%
	Million tones oil equivalent	29,4	85,4	95,5	3,2%
Natural gas consumption	Billion cubic meters	29,2	106,9	143,8	4,3%
	Million tones oil equivalent	26,3	96,2	129,5	4,3%

Source: BP Statistical Review of World Energy June 2013, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf [last viewed:01.07.2013].

S. Howell identifies the main vulnerabilities of Chinese energy policy:

- a) China is located far from its petroleum suppliers;
- b) it suffers from a poor geologic endowment;
- c) demand is increasing faster than supply;
- d) the Chinese Communist Party is committed to continued improvements in the Chinese standard of living, which is necessary to the regime's survival²⁷.

China's political leaders are being proactive in their energy policy. They guide the National Development and Reform Commission (NDRC), established in 2003²⁸. One of its departments—the National Energy Administration (NEA)—is responsible for “formulating and implementing energy development plans and industrial policies;

²⁷ Ibidem, p. 192.

²⁸ Ibidem.

promoting institutional reform in the energy sector; administering energy sectors including coal, oil, natural gas, power (including nuclear power), new and renewable energy and etc.; taking charge of energy conservation, comprehensive utilization of resources in the energy sector; guiding scientific and technological advancement; (...) formulating and implementing national oil reserve plans and policies; taking the lead in launching international energy cooperation; participating in the formulation of policies related to energy such as resources, finance and taxation, environment protection, and addressing climate change; making recommendations on energy price adjustment and imports and exports aggregate; and undertaking the daily work of the National Energy Commission”²⁹.

The first Chinese energy policy document using the term “energy security” was “Twenty – First Century Oil Strategy,” published in 2003³⁰. It was a part of the 2004 State Council report “National Energy Strategy and Policy” and the Tenth Five – Year Plan (2001 – 2005)³¹. Several elements of the Tenth Five – Year Plan underlined the importance of China’s energy strategy for its overall economic development:

- a) diversification of energy supplies;
- b) enhance overseas energy investments by state oil companies;
- c) increase investments in energy infrastructure;
- d) established state-controlled strategic petroleum reserves;
- e) reduce dependence on oil by using coal and nuclear power;
- f) establish a regional energy-security system³².

The Eleventh Five – Year Plan (2006 – 2010) called for reducing the energy intensity of GDP by 20%³³. The Twelfth Five-Year Plan (2011-2015) adopted in March 2011 devoted considerable attention to energy and climate change. While some of the targets had not changed, others represent more effective moves to reduce fossil energy consumption, promote low-carbon energy sources, and restructure China’s economy. Among the goals is to “gradually establish a carbon trade market”³⁴. Its main targets include:

²⁹ *National Development and Reform Commission People's Republic of China, National Energy Administration*, http://en.ndrc.gov.cn/mfod/t20081218_252224.htm [last viewed:12.07.2013].

³⁰ S. Howell, *Jia You...*, p. 193.

³¹ *Ibidem*, p. 193.

³² G. Hall, T. Grant, *Russia, China and the Energy – Security...*, p. 125.

³³ *The 11th Five Year Plan*, http://english.gov.cn/special/115y_index.htm [last viewed: 11.06.2013].

³⁴ J. Levis, *Energy and Climate Goals of China's 12th Five-Year Plan*, “Centre of Climate and Energy Solutions” 2011, <http://www.c2es.org/international/key-country-policies/china/energy-climate-goals-twelfth-five-year-plan> [last viewed:12.07.2013].

- a) 16% reduction in energy intensity per unit of GDP;
- b) increasing non-fossil energy to 11,4% of total energy use;
- c) 17% reduction in carbon intensity (carbon emissions per unit of GDP)³⁵.

China's energy security strategy priority is having direct access to global hydrocarbon resources. Chinese energy policy and business ventures abroad exist at the nexus of political, economic and security agendas³⁶. Chinese government directed its oil companies to acquire interests abroad³⁷. Chinese oil companies, especially the China National Petroleum Company (CNPC), have been involved in energy projects in more than 20 countries³⁸. Other companies, such as China National Offshore Oil Corporation, are also doing businesses around the world. Ma Fucai, the former president of CNPC said, that "our country must prioritize saving energy, diversification, environment protection and global cooperation in order to have harmonious economic, social and energy development"³⁹.

3. Pipeline infrastructure.

As a major importer of hydrocarbon resources, China is becoming a much more active player in the Central Asia energy market. Geography is one of China's crucial advantages in strengthening its influence over the region. China is going to be "the next door neighbor" of the Central Asian states⁴⁰. According to the V. Paramov, Chinese economic strategy in the region have some features:

- a) economic cooperation between China and Kazakhstan is about 86,4% of its dealings with all Central Asian states;
- b) natural resources constitute 85% of export from Central Asia to China;
- c) the export volume depends on the natural resources prices, so it is unstable and unpredictable⁴¹.

In 1996, China pursued the "Pan - Asia Continental Oil Bridge" project, a network of oil and natural gas stretching from the Middle East, Central Asia, Russia and China⁴².

³⁵ Ibidem.

³⁶ S. Howell, *Jia You...*, p. 194.

³⁷ G. Hall, T. Grant, *Russia, China and the Energy – Security...*, p. 124.

³⁸ I. Demir, *Revival of the Silk Road...*, p. 524.

³⁹ S. Howell, *Jia You...*, p. 208.

⁴⁰ I. Demir, *Revival of the Silk Road ...*, p. 527.

⁴¹ V. Paramov, *China & Central Asia: Present & Future of Economic Relations*, "Central Asian Series", 2005, p. 7.

⁴² B. D. Cole, *Oil for the Lamps of China*: *Beijing's 21st-Century Search for Energy*, "McNair Paper", 2003 no. 67, p. 28.

Over the past few years, China has poured investments into Kazakhstan and Turkmenistan with two main projects: the Kazakhstan - China oil pipeline and the Turkmenistan - China gas pipeline (also known as Central Asia - China gas pipeline)⁴³. Moreover, Chinese capital is positively flowing into economy of Central Asia states⁴⁴. In April 2009, China and Kazakhstan signed a loan assistance agreement in which China offered a 10 billion USD, and in June of the same year China and Turkmenistan signed a loan agreement in which China offered a 4 billion USD⁴⁵. That is why those Caspian states regard China as a major trade partner and strategic investing country. It helps them to maintain and enlarge the development of hydrocarbon resources, and creates favorable conditions for the long-term supply of oil and gas to China⁴⁶.

Kazakhstan, with its large hydrocarbon reserves is one of China's most important trade partners for China. They signed an agreement in 1997 that started Chinese investments in the Kazakh petroleum sector⁴⁷. China National Petroleum Corporation (CNPC) became the owner of 60% shares of Aktubinsk munaigaz, which controls main oil fields in northwestern Kazakhstan: Zhanazhol and Kenkiyak⁴⁸. Moreover, CNPC purchased shares in Uzen oilfields. China first proposed a pipeline infrastructure through Kazakhstan in 1996⁴⁹. Some Western analysts declared that this project would not be feasible in the long term, because of its extreme length, the engineering challenge, and the complicated politics of the region⁵⁰. Both Russia and the United States opposed the pipeline. Russia wanted to be the only transit area for the Kazakh crude oil, and US supported the trans-Caspian pipeline project to supply the European market⁵¹. Nonetheless, China pushed ahead with construction of this infrastructure project. Nowadays, China is able to import a volume of 10 to 20 million tons of crude oil from Kazakhstan each year. The Kazakhstan – China pipeline (map 1), was built by a joint venture between China National Petroleum Corporation and Kaz-

⁴³ C. Lin, *The Caspian Sea: China's Silk Road Strategy Converges with Damascus*, "China Brief", 2010 vol.10, no.17, p. 9.

⁴⁴ C. Xiaoqin, *Central Asian Factors...*, p. 34.

⁴⁵ Ibidem, p. 34.

⁴⁶ Ibidem, p. 35.

⁴⁷ M. Misiągiewicz, A. Ziętek, *Działania Chińskiej Republiki Ludowej w regionie*, in: *Region Azji Centralnej jako obszar wpływów międzynarodowych*, Lublin 2008, p. 118.

⁴⁸ Ibidem, p. 128.

⁴⁹ S. Howell, *Jia You...*, p. 195.

⁵⁰ Ibidem, p. 195.

⁵¹ See more: J. Misiągiewicz, *European Union and the energy security challenges*, in: *European Integration. Models, Challenges, Perspectives*, edited by H. Chałupczak, J. Misiągiewicz, P. Tosiek, Zamość 2012.

MunaiGaz. The pipeline's annual capacity is 10 million tons, which will be doubled in the future⁵². The Atasu – Alashankou part of the project was initiated in 1997. In May 2002, CNPC and KazMunaiGaz started to build the first 449 km part of the pipeline from Kenkiyak (central Kazakhstan) to Atyrau (at the Caspian Sea shore). It was completed in 2003⁵³. At the same time, China National Offshore Oil Corporation Ltd (CNOOC Ltd) and one of the Sinopec group companies purchased 8,33% of the shares in the North Caspian Sea Project. It is estimated, that those reserves are about 13 billion barrels⁵⁴. During Hu Jintao's visit in June 2003 it was decided to invest more in the common energy projects. In May 2004 the presidents of China and Kazakhstan signed the final agreement in Beijing to build the Atasu – Alashankou pipeline⁵⁵. In December 2005, cross-border 962 kilometers portion of the pipeline was completed⁵⁶. In May 2006, Kazakh oil was sent to China. Then, the pipeline carried about 200,000 barrels per day to China's Dushanzi refinery⁵⁷. In June 2010, CNPC signed an agreement with KazMunaiGaz to build the second phase of the Kazakhstan-China Gas Pipeline in a bid to tap Kazakh gas reserves⁵⁸. "The pipeline will be implemented in five stages with the final stage scheduled for completion by 2013", said Sauat Mynbayev, Kazakhstan's energy minister⁵⁹. It will reach a full capacity of 40 bcm by 2013 when the final stage will be completed⁶⁰. This transit route is part of a larger project to build pipelines connecting China with Central Asia's natural gas reserves. It will stretch from Turkmenistan, through Uzbekistan and Kazakhstan, and enter China's northwestern Xinjiang region⁶¹. This project is a part of China's attempts to secure more energy sources worldwide. This is also an element of China's overall Silk Road strategy to diversify energy dependence on the unstable Gulf region and build overland routes to hedge against maritime supply disruptions from the Gulf.

⁵² *Global Times*, <http://business.globaltimes.cn/industries/2009-07/447413.html> [last viewed: 02.02.2011].

⁵³ M. Misiągiewicz, A. Ziętek, *Działania Chińskiej Republiki Ludowej...*, p. 129.

⁵⁴ *Ibidem*, p. 129.

⁵⁵ *Ibidem*.

⁵⁶ I. Demir, *Revival of the Silk Road...*, p. 528.

⁵⁷ S. Howell, *Jia You...*, p. 195.

⁵⁸ C. Lin, *The Caspian Sea...*, p. 9.

⁵⁹ *Kazakhstan starts building gas pipeline to China*
<http://uk.reuters.com/article/2008/07/09/kazakhstan-china-pipeline-idUKL0939802620080709>
[last viewed: 02.02.2011].

⁶⁰ *Construction of Kazakhstan-China gas pipeline started*
<http://silkroadintelligence.com/2008/07/09/construction-of-kazakhstan-china-gas-pipeline-started/>
[last viewed: 02.02.2011].

⁶¹ *Ibidem*.

Map 1.



Source: http://www.stratfor.com/memberships/106573/analysis/china_kazakhstan_pipelines_and_balance_power [last viewed: 02.02.2011].

China also cooperates with Turkmenistan in the energy field. Beijing's main economic interest there is gaining access to natural gas in the Caspian largest gas producer. Jiang Zemin, during his visit in Turkmenistan in July 2000, discussed the building of an 8,000 km natural gas pipeline worth 12 billion USD. The Turkmen gas was to be transported to the Chinese Pacific shore⁶². On 3 April 2006, China and Turkmenistan signed an agreement on pipeline construction and a long-term gas supply. According to the bilateral agreement, Turkmenistan supplies China with 30 bcm of natural gas annually, beginning in 2009⁶³. Turkmenistan also granted China National Petroleum Corporation a license to develop the Bagtiyarlyk fields, situated near the Uzbek border⁶⁴. The pipeline from Turkmenistan to China is the first leg of a wider system, gathering gas from Uzbekistan and also from Kazakhstan⁶⁵. The Central Asia-China Gas Pipeline, linking gas fields South Yolotan in Turkmenistan to the Xinjiang region was inaugurated in December 2009. The 1,833 km pipeline is ex-

⁶² M. Misiągiewicz, A. Ziętek, *Działania Chińskiej Republiki Ludowej...*, p. 129.

⁶³ R. Kandiyoti, *What price access to the open seas? The geopolitics of oil and gas transmission from the Trans-Caspian republics*, "Central Asian Survey", 2008 vol. 27, no. 1, p. 88.

⁶⁴ Ibidem, p. 88.

⁶⁵ Ibidem.

pected to reach full annual capacity for 40 bcm by 2012-13⁶⁶. In June 2010, Turkmen President Gurbanguly Berdimuhamedov announced a trans-Turkmen pipeline project to connect the Central Asia-China pipeline in eastern Turkmenistan to the country's western resources⁶⁷. Moreover, in 1999, China Oil and Building Corporation invested 14 million USD in crude oil development in Turkmenistan⁶⁸.

Russia is the world's largest source of gas and has the eighth largest oil reserves⁶⁹. Its existing oil pipeline network is a unique technological system, comprising 46,800 km of pipelines, 395 oil pumping stations, and 868 storage facilities. The average length of transcontinental routes is 3,500 - 4,000 km. According to long-range development plans, the length of new oil pipelines in Russia may reach 9,000 km⁷⁰. In 2011, work was completed on laying the China – Russia oil pipeline. It starts in the Russian village of Skovorodino, passes through Xinjiang province in China and ends in the city of Daqing⁷¹. This pipeline infrastructure extends 70 kilometers into Russia and almost 900 kilometers in China. It will have enough capacity to supply China with 15 million tons of crude oil annually. Both countries have concluded a contract for the supply of 300 million tons of oil over twenty years⁷². President Xi Jinping's state visit to Russia in March 2013 brought advances that could end nine years of tough talks between China and Russia over natural gas transmission⁷³. China National Petroleum Corporation signed a memorandum of understanding with Russian energy giant Gazprom. They agreed that from 2018 to 2048 Gazprom would send 38 billion cubic meters of natural gas annually through a pipeline into China. The pipeline will run from the Russia's East Siberia and Far East regions to eastern China. CNPC Chairman Zhou Jiping said, that the negotiations over natural gas transmission "have made big progress"⁷⁴. The two companies will also conduct research into building a pipeline that runs from the West Siberia to China's Xinjiang region.

⁶⁶ C. Lin, *The Caspian Sea...*, p. 9.

⁶⁷ A. Petersen, *Did China Just Win the Caspian Gas War?*, "Foreign Policy", 2010 July 7.

⁶⁸ M. Misiągiewicz, A. Ziętek, *Działania Chińskiej Republiki Ludowej...*, p. 129.

⁶⁹ *CIA The World Factbook, Russia, Oil, natural gas - proved reserves*, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> [last viewed: 12.09.2011].

⁷⁰ I. O. Akdemir, *Global energy circulation, Turkey's geographical location and petropolitics*, "Procedia Social and Behavioral Sciences", 2011 no.19, p.74.

⁷¹ G. A. Movkebaeva, *Energy Cooperation Among Kazakhstan, Russia, and China Within the Shanghai Cooperation Organization*, "Russian Politics and Law", 2013 vol. 51, no. 1, p. 82.

⁷² *Ibidem*, p. 82.

⁷³ *How China and Russia Came Together on Natural Gas Deal*, <http://english.caixin.com/2013-05-07/100524719.html> [last viewed: 12.07.2013].

⁷⁴ *Ibidem*.

The pipeline would connect to the West-East Gas Pipeline and transmit 30 billion cubic meters of gas per year⁷⁵. If all these developments come to reality, China would replace Germany as Russia's largest destination for natural gas export.

China is also interested in energy cooperation with Azerbaijan, a country that is becoming a very important element of the energy security not only in Eastern Europe but globally. This Caucasian state has always been able to play a more independent international role because of its energy wealth and a very experienced political leadership⁷⁶. However, nowadays Azerbaijan is engaged in the western energy projects, like Baku–Tbilisi–Ceyhan oil pipeline, Baku–Tbilisi–Erzurum gas pipeline, Turkey–Greece–Italy Interconnector and the future Nabucco gas transportation project⁷⁷. The economic attaché at the Chinese embassy in Baku, Li Talun, noted “if necessary infrastructure were in place, we would, of course, be interested in buying Azerbaijani gas.(...) If, for example, Turkmenistan and Azerbaijan conclude an agreement on laying a trans-Caspian gas pipeline, this will make the job easier”⁷⁸.

In September 2013 President of PRC Xi Jinping visited four countries in Central Asia -Turkmenistan, Kazakhstan, Uzbekistan, and Kyrgyzstan. He also participated in Shanghai Cooperation Organization (SCO) summit in Bishkek. Xi's travel agenda shows importance of Central Asia in China's grand strategy. James Reardon-Anderson, a professor of Chinese studies at Georgetown University's School of Foreign Service said “He's visiting four out of the five capitals [of Central Asia's former Soviet republics]. That is unprecedented. That's an enormous investment of the time and presence of the Chinese chief of state in that region. So it really underlines how important that region is to China's future”⁷⁹. On September 3rd Chinese delegations signed a natural - gas agreement with Turkmenistan. It will boost annual gas deliveries to China to about 65 billion cubic meters by 2020. Xi joined Turkmen President Gurbanguly Berdimukhammedov in pushing the button to start operations at the second largest gas field in production in the world, Galkynysh. In Kazakhstan President Nursultan Nazarbayev and Xi agreed to the CNPC's purchase of an 8,33 percent share of the giant Kashagan oil field. They opened The Beineu-Bozoi pipeline, originally

⁷⁵ Ibidem.

⁷⁶ E. Nuriyev, *Azerbaijan and the European Union: new landmarks of strategic partnership in the South Caucasus–Caspian basin*, “Southeast European and Black Sea Studies” 2008, no. 8-2, p. 157.

⁷⁷ See more: J. Misiagiewicz, *Turkey as an energy hub in the Mediterranean Region*, “Spectrum: Journal of Global Studies” 2012, vol. 4, no. 1 pp. 107-126.

⁷⁸ China “interested” in energy cooperation with Azerbaijan, “TODAY.AZ / Business” 2011, 06 January, <http://www.today.az/news/business/79081.html> [last viewed: 12.07.2013].

⁷⁹ <http://www.rferl.org/content/central-asia-china-energy-security/25095769.html> [last viewed: 10.10.2013]

supposed to come on line in 2014, will begin sending gas to China in 2015. China's strategy towards Central Asia, outlining a 'silk road economic belt' that would 'open up the transportation channel from the Pacific to the Baltic Sea.

Despite the political and economic obstacles, Chinese academics regarded transport from Central Asia as the "first choice for solving the energy transport security and bottleneck issues"⁸⁰.

4. Institutional cooperation.

China is initiating and pursuing political ties with the states in Central Asia and the Caspian region. The Shanghai Cooperation Organization is a platform that China can use in promoting energy cooperation and it has provided a political framework for China to become a major player in the region. Firstly, the Shanghai Five was created in 1996 by Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan. These five partners concluded the Treaty on the Reduction of Military Forces in Border Regions in 1997, and with the inclusion of Uzbekistan, signed the Declaration of Shanghai Cooperation Organization (SCO) in 2001⁸¹. At the beginning, the SCO was focused on border security and military cooperation. The idea of establishing an Energy Club was first introduced in 2004, although SCO members have had diverging opinions on it⁸². In 2006, Vladimir Putin proposed the establishment of an SCO Energy Club "to expand discussion of the prospects and coordination of energy cooperation and to balance the interests of energy suppliers, transporters, and consumers"⁸³. Kazakhstan suggested that it be called an "Asian energy strategy"⁸⁴. In June 2007 meeting in Moscow, energy ministers of the SCO member countries discussed the energy issues, particularly oil. Russian President Dmitry Medvedev put forward "The Conceptual Approach to a New Legal Foundation for International Cooperation on Energy" in April 2009⁸⁵. National Energy Administration of China official Wei Xiaowei said that the Energy Club would support all-round energy cooperation. He declared that it would allow Shanghai Cooperation Organization members and observers to expand energy cooperation and provide guidance for enterprises⁸⁶. In such a way, SCO can become

⁸⁰ S. Howell, *Jia You...*, p. 197.

⁸¹ I. Demir, *Revival of the Silk Road...*, p. 529.

⁸² *China pushes for regional energy club*, http://www.chinadaily.com.cn/business/2012-09/04/content_15733050.htm [last viewed: 12.09.2011].

⁸³ G. A. Movkebaeva, *Energy Cooperation...*, p. 81.

⁸⁴ *Ibidem*, p. 81.

⁸⁵ *Ibidem*, p. 80.

⁸⁶ *China pushes for regional energy club...*

an effective instrument in coordinating China's strategic policies in various areas, including energy, with the states of Central Asia and Russia⁸⁷. Nowadays, the most important partners in this institutional cooperation are China, Russia and Kazakhstan. China wants to expand its energy cooperation with Russia and Kazakhstan. It is part of Chinese geopolitical strategy with regard to Eurasia. The leaders of China believe that in the future over half of China's oil imports will come from those states⁸⁸. Beijing has an interest in trying to accelerate regional integration which will enable Chinese access to those resources. Through the SCO mechanism, China is able to pursue two of its principal strategic goals. First, China is effectively creating the security and stability on its western borders and in Xinjiang province. This region is playing a role as an energy corridor for Western China. Secondly, it has crafted economic and trade ties with former soviet republics. China will probably continue to support the organization as long as it provides economic benefits and facilitates cooperation between its members⁸⁹.

On 23 September 2011, the energy ministers of China, Russia, Tajikistan and Kyrgyzstan met in Xian and adopted the Xian Initiative to start the development of the SCO Energy Club. The SCO members established a special working group; its first session took place on 28 October 2011 in Moscow⁹⁰. Next, during the session of the Council of Heads of State of Shanghai Cooperation Organization in St. Petersburg on 7 November, the Prime Minister of Russia, Vladimir Putin strongly supported the concept of creating the Energy Club. He declared, that "it is necessary to take into account the interests of both energy producers and energy consumers. Therefore, we support the idea of forming an Energy Club that would include SCO members as well as our partners"⁹¹.

Cooperation within the SCO Energy Club will enable its members to tackle such problems as:

- a) coordination of long-term energy strategies of SCO members and states with observer status;
- b) establishing common mechanisms for implementing members' energy policies;
- c) creating the "collective energy security" measures;
- d) forming a "common energy diplomacy";
- e) developing a common transport infrastructure⁹².

⁸⁷ G. A. Movkebaeva, *Energy Cooperation...*, p. 81.

⁸⁸ Ibidem, p. 84.

⁸⁹ G. Hall, T. Grant, *Russia, China and the Energy – Security...*, p. 132.

⁹⁰ G. A. Movkebaeva, *Energy Cooperation...*, p. 85.

⁹¹ Ibidem, p. 86.

⁹² Ibidem.

The energy cooperation between China, Russia and Kazakhstan is developing very fast. It mainly consists of bilateral agreements. However, the Shanghai Cooperation Organization provides a favorable diplomatic context for future cooperation between those partners. Effective using of the SCO potential depends on the political will of all participating states and the stability of the global energy market.

5. Conclusions.

China's national oil companies are latecomers to the world oil exploration and production scene. They are competing not only with the major global oil companies from the United States and Europe but also with the major great powers. Other players in great oil game are participating in it over decades. They have developed the long-term relationships, exploration and production expertise, and strong investment positions in all the most accessible and promising countries offering petroleum investment opportunities. CNPC, Sinopec, and CNOOC are finding fewer new opportunities to access sizable reserves. Usually they have to overpay for a new oil fields located in unstable and sharply limited countries.

China, with its rapidly expanding economy, is the second largest energy consumer in the world. Energy security, and the availability of oil in particular, has become an increasingly important concern since the 1990s. China has assigned increased geopolitical attention to the Central Asia and the Caspian region, looking for ways to build pipeline infrastructure to export hydrocarbon reserves eastwards and competing with the United States and the European Union which are looking to export energy resources westwards⁹³. "As the US established a military presence in Central Asia and (...) carried out preventive military activities against China in East and South Asia by strengthening the US-Japan alliance, deploying more strategic submarines and other deterrent weapons, and ingratiating with the Indians to counterbalance China's rising power, China's leadership has faced tougher geopolitical competition over Central Asia"⁹⁴.

⁹³ M. Labban, *The Struggle for the Heartland: Hybrid Geopolitics in the Transcaspian*, "Geopolitics", 2009 no. 14, p. 42.

⁹⁴ G. Xutang, *The Energy Security in Central Eurasia...*, p.123.