



Strategic Advisors in Global Energy

China Makes Its Mark in Central Asia

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Central Asians Tapping Advantages



- **Central Asian producers are capitalizing on high oil prices (translating to higher gas prices) to shape their geopolitical environment and creating options for the future**
- **Manipulating the advantages gained from playing Russia, China, Iran, the US/EU off against each other while establishing greater cooperation with each other**
- **Russia remains their main benefactor, holding sway over their ability to make money since most oil and gas export routes still run south to north – but in the future, this could change**
- **Iran, which earlier this decade looked like it could become a balancing force to Russia in the region, has been sidelined for now but will play a more important role in the longer term**
- **China is chipping away at Russia's prime position and has leapt over Iran to become a critical factor in shaping developments in Central Asia today**
- **Higher oil and gas prices are buying Central Asian producers greater freedom to maneuver, but without the counterweight of China, they would not be as well placed now to reduce their reliance on Russia**

Regional Gas Production

- Turkmenistan is the most important gas producer in the region (other than Russia) with output of about 72 bcm in 2007
- Uzbekistan with about 56 bcm of production in 2006 has the potential to be another Turkmenistan in terms of output but because of its large population, it consumes about 44 bcm/y and exports the rest to Russia
- Kazakhstan's 2007 gas production exceeded 25 bcm. Long-term plan calls for the production of over 40 bcm/y by 2020 and gas exports to China and possibly through a TransCaspian pipeline, but as Kazakhstan uses more volumes for its domestic needs and develops a domestic petrochemicals industry, it will use more gas domestically
- In December 2007, Russia agreed with Turkmenistan, Uzbekistan and Kazakhstan to move growing volumes of their gas to the north and to pay “European” level prices by 2009 – China may have to match this

Central Asian Exports

- **Kazakhstan, Turkmenistan and Uzbekistan's gas resources are targeted by Russia and China for pipelines north and east, and the EU/US for the TransCaspian Gas Pipeline to the west**
- **The US goal is to create an oil and gas export network from Kazakhstan and Turkmenistan to link with BTC and the SCP**
- **A pipeline project has been agreed between Turkmenistan and China to carry 30 bcm/y of Turkmen gas to Xinjiang, China. The target fields are new fields on the eastern bank of the Amu Darya river but other Turkmen fields will be needed as a back up**
- **Russia is most concerned about gas pipeline connections west and east**

Gas Pipelines to China From Central Asia



Competition For Central Asian Resources

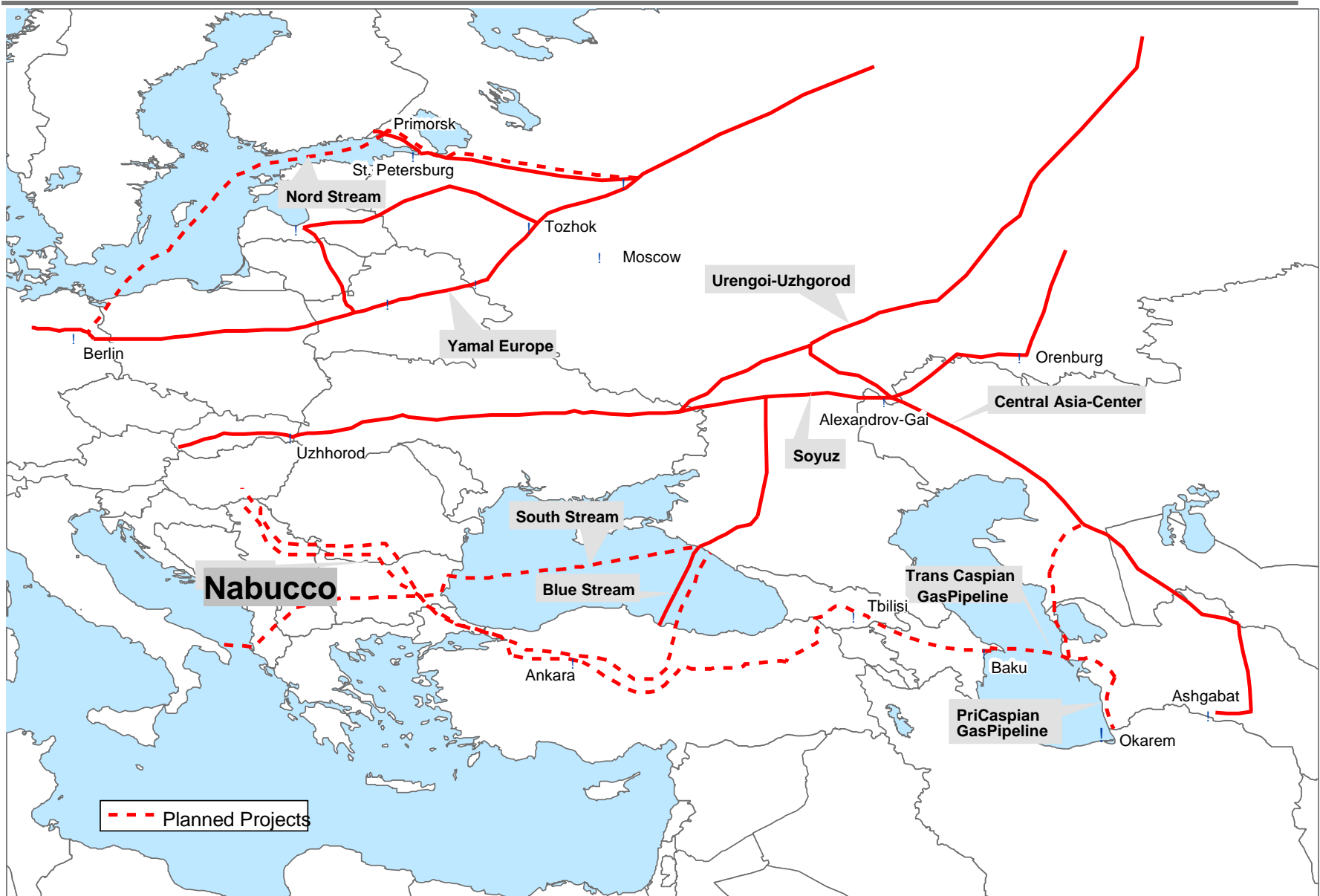


- **By providing Central Asians a safety valve, China is giving them leverage to gain greater independence from Russia**
- **But over time, energy resources that are being oriented to China are resources that could be shipped out across the Caspian for export to western markets**
- **Today, China has become a competitor to Russia for Central Asian resources but in the future, it could pose competition for the West**
- **The U.S./EU are trying to influence the direction of future Central Asian gas exports by promoting a TransCaspian gas pipeline from Turkmenistan and linking Central Asian and Azeri gas exports to the Nabucco pipeline**

Azerbaijan-Turkey & Russia-Turkey Pipeline Links



Linking Central Asia to Nabucco

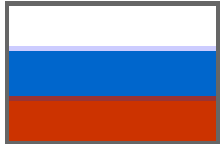


Factors Shaping Regional Relations



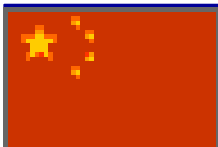
Activist foreign policy

- US strategic goal: contain China, isolate Iran, bypass Russia and Iran for energy exports
- Rely on Turkey as oil and gas corridor
- BTC and SCP achieve key strategic goals



Assertive foreign policy

- After “Color” Revolutions in Georgia, Ukraine and Kyrgyzstan, Russia is determined to regain influence in the Caspian region
- Leadership changes complicate Russia’s work, particularly when countries like Azerbaijan & Georgia have oil/gas supplies/pipes bypassing Russia
- Russia has been reluctant to supply energy to China



Energy Diversification Islamic Terror

- China looks to Central Asia to diversify energy sources and preempt Islamic secessionists in Western China
- Russia seen as reluctant energy supplier
- West to East oil pipeline from Kazakhstan has started up, with gas pipeline from Turkmenistan, thru Uzbekistan and Kazakhstan next
- Talk of Russian oil and gas pipelines remain just talk

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