

Afghanistan signs oil contract with Chinese giant

By John Chan
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China's state-owned National Petroleum Corporation (CNPC) signed a \$700 million oil exploration contract with the Afghan government last week, the first foreign company to do so in many decades. Mining Minister Wahidullah Shahrani hailed the deal as "historic," saying it was "the first time that Afghanistan has signed a great contract for the country's oil exploration."

The agreement will intensify geopolitical rivalries in Central Asia as the major powers compete for access to vast mineral and energy resources. It will draw Beijing closer into conflict with the ongoing US-led occupation of Afghanistan, as well as with China's regional rival, India.

The CNPC will form a joint venture with Afghan partner Watan Group in the northern provinces of Sar-e Pul and Faryab to drill three oil blocks in the Amu Darya Basin. First surveyed by Soviet geologists in the 1960s, the basin has proven reserves of 87 million barrels of oil, although both the Chinese and Afghan sides believe that the actual deposits are much larger. In total, Afghanistan is estimated to have some 1.6 billion barrels of oil.

The project is expected to pay Kabul \$5 billion over 10 years, with 70 percent of profits from oil and gas sales going to the Afghan government. In addition, the CNPC will pay 15 percent royalties, 30 percent corporate taxes and rents for using Afghan land.

The CNPC's terms were considerably more generous than rival bidders such as British Tethys Petroleum, which said it was unable to compete with the Chinese corporation, because "it is the representative of a government and it was able to offer terms that were non-commercial."

The CNPC's primary aim is to ensure oil supplies to China. The three oil blocks are only 640 kilometres

from the border of China's western Xinjiang Uyghur Autonomous Region, a staging base for Chinese companies to build pipelines throughout Central Asia.

With the backing of cash-rich state banks, other Chinese companies are pushing into Afghanistan, which according to a survey by Pentagon in 2010, holds mineral resources worth \$1 trillion, including oil, copper, gold and lithium.

In 2007, the 44 percent state-owned China Metallurgical Group (CMG) paid \$2.9 billion—the largest foreign investment in Afghan history—for the Mes Aynak copper mine, in Logar Province. The price was 70 percent higher than that offered by the second-placed bidder, Canada's Hunter Dickinson Inc. Moreover, the CMG offered a 400-megawatt power plant, a coal mine to fuel it and a smelter for the copper, plus an 800-kilometre rail line, bringing the total investment to \$3.5 billion. The Afghan government allocated 1,500 National Police officers to guard the mine.

The US has tacitly allowed China to establish a presence in Afghanistan, largely because such investments could improve the country's financial self-sufficiency. At present, 90 percent of Afghan government spending depends on foreign aid. After the Aynak copper mine deal, Taliban insurgents stepped up their activities in Logar province, prompting the US to send 2,000 troops to the region.

Because of the unstable security situation, progress on Chinese investment projects has been slow over the past few years. As a result, China is completely dependent on the US and allied forces to provide protection, which could change if relations with Washington worsen.

In 2001, China implicitly supported the US invasion of Afghanistan in the name of the "war on terror," in

the hope that it would stifle the Islamic fundamentalists connected to separatist tendencies among Xinjiang's Muslim minorities. However, China and Russia oppose a protracted US military presence in their "backyard"—a key strategic energy-rich region in the Eurasian heartland. In 2001, Beijing and Moscow also formed the Shanghai Cooperation Organisation (SCO) with four Central Asian republics, purportedly to combat "terrorism, extremism and separatism," while in fact seeking to counter the US. The SCO has conducted joint military exercises in recent years.

A section of the US ruling elite has been critical of allowing Chinese corporations to "freeload" in Afghanistan, relying on American military protection. Strategic commentator Robert D. Kaplan wrote in 2009: "The problem is that while America is sacrificing its blood and treasure, the Chinese will reap the benefits. The whole direction of America's military and diplomatic effort is toward an exit strategy, whereas the Chinese hope to stay and profit."

Kaplan also argues for US dominance over the Indian Ocean, so as to be able to cut off China's shipping lanes for oil and raw materials from the Middle East and Africa. In order to respond to the threat of such a US naval blockade, China is seeking to expand access to oil and gas in Central Asia and the Middle East via land routes

China's "construction" assistance to Kabul of \$200 million since 2001 is dwarfed by India's \$1.3 billion in aid, making New Delhi the biggest donor. Washington has backed India's growing influence in Afghanistan, because India occupies an increasingly crucial position in Washington's strategic calculations as a counterweight to China.

With Washington's backing, India and Afghanistan signed a strategic partnership agreement last October. The pact will ensure that New Delhi plays a major role in safeguarding American interests in Afghanistan after the formal NATO withdrawal in 2014, paving the way for India to train and equip Afghan security forces.

Within weeks of signing the security agreement, Kabul granted rights to an Indian government-backed steel consortium to develop the Hajigak iron ore deposit between the Bamyan and Wardak provinces. With 1.8 billion metric tonnes of reserves, it is Asia's largest untapped iron ore deposit. The consortium plans to spend \$11 billion to develop the mine, including the

construction of a steel mill, power plant and transport links. The group also proposes to build a 900-kilometre railway line from Bamyan to Zahedan, across the border in Iran, at a cost of \$4.3 billion, from where ore will be transported back to India.

India's growing presence in Afghanistan is fuelling tensions with its neighbouring rival Pakistan, as well as with China. India's press last week revealed a supposedly "secret" intelligence report warning that China, Islamabad's key ally, plans to use or build military bases in northern Pakistan.

China's quest to secure access to Afghanistan's untapped oil resources will intensify the scramble for control over Central Asia. Given the reckless US escalation of what has become the AfPak war, the rivalry could evolve into a far more dangerous conflagration.

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