

Central Asia opens up to oil multinationals

by Adam East

Since the end of World War I, oil has been one of the most common sources of energy in the world, and it continues to be the case today, thanks in large part to the international oil cartel. The collapse of the Soviet Union has deprived the Central Asian republics of Moscow's centrally planned energy policy. The defunct ruble, which is exploring ever new depths on the currency market, has left most of the member states of the Community of Independent States (CIS) in dire need of foreign exchange. So, in search for a reliable source of energy and a valuable source of commodity, some of the newly independent republics have pinned their hopes on oil.

International oil companies have been invited to take part in joint ventures for development of Central Asia's gas and oil reserves, and in their efforts to attract the oil companies, the countries have offered various incentives and tax breaks to make their offers more appealing. The oil multinationals are not wasting any time and have already entered the region, and several joint-venture accords have been signed. British Petroleum and Chevron top the list of close to a dozen oil companies which are seeking agreements with the region's oil-rich republics.

Thus, against the backdrop of growing political instability in the region, the oil multinationals are quietly moving in to take advantage of the region's currently most precious commodity.

Kazakhstan is a target

Among the newly independent Central Asian republics, Kazakhstan, with its enormous gas and oil deposits, is the country most sought after by the international oil companies. Kazakhstan's oil reserves are believed to be as big as Kuwait's. Its crude reserves are estimated at about 100 billion barrels, and the country's gas reserves are said to be around 2.4 trillion cubic meters.

British Petroleum, AGIP, Elf, and Chevron are the major western companies involved in the country. France's Elf Aquitaine has completed a production-sharing agreement with the government on about 20,000 square kilometers in central Kazakhstan.

Italy's AGIP and British Gas have secured an agreement with the Kazakh government which will allow them to ex-

plore one of the largest proven gas fields in the world, in the Ural Mountains. It is estimated that these fields could contain up to 20 trillion cubic meters of gas.

The biggest agreement so far by the Kazakh government has been signed with Chevron, the third largest U.S. oil company. The \$20 billion accord gives Chevron the right to develop the 4,000-square kilometer Tenghiz fields, whose reserves are estimated at 25 billion barrels. Although the agreement is based on a 50-50 partnership, Kazakhstan is to receive 80% of the revenue.

Kazakhstan has also managed to secure the seal of approval from the International Monetary Fund and the World Bank, a precondition for many foreign investors. Former U.S. Secretary of State James Baker gave President Nursultan Nazarbayev the services of several American economists. With the United States itself in the midst of a depression, one cannot help but wonder about what the future might hold for Kazakhstan if it comes to rely on the advice of these "American economists."

Not too far from Central Asia is the tiny republic of newly independent Azerbaijan, which is also very rich in oil. The State Oil Company of Azerbaijan (SOCAR) claims that the country's oil reserves are as large as those in the Middle East. According to SOCAR's estimates, there are about 5 billion barrels of oil alone in just three Caspian Sea fields.

Just recently the state oil company signed a multimillion-dollar pact with a U.S.-based firm, McDermott Inc. The U.S. firm, in its preliminary accords with SOCAR, has agreed to modernize a fleet of ships which will be used to drill for oil in the Caspian Sea. Other oil companies such as Unocol Corp., Amoco, Pennzoil, and British Petroleum are also in the process of reaching agreements with SOCAR.

Azerbaijan is also thinking about a pipeline which would transport Azeri oil to the Mediterranean. The pipeline would either run through Georgia, Iran, or Armenia—that is, if a peace settlement is reached between the two Caucasian republics, which are at war with each other.

China opens up

The oil cartel's presence in the Central Asian region was further bolstered when Beijing announced in February that it would open up the Tarim Basin of western China for foreign exploitation.

China's cheap labor-based, high-flying economy, with its disproportionate and uneven rate of growth that has spelled prosperity only for a handful of the country's enormous population, could run aground for lack of oil, as oil production is dwindling.

Currently, China's oil production is running at 2.8 million barrels per day, and it is exporting 400,000 bpd, which is a major drop compared to the peak export volume of 600,000 bpd in 1985. Most existing wells that were drilled in the 1950s and 1960s are now running dry, and keeping them operational is very costly.

According to international oil industry reports, China may become a net importer of oil by 1995, and this will no doubt have a significant impact on China's foreign policy in the coming years. The Chinese economy, which not too long ago was self-sufficient in the production of its main source of energy, will probably be forced to import about one-third of its total present production. This new foreign dependence will greatly affect China's foreign policy, especially toward the oil-producing countries of the Middle East, and Washington is reportedly concerned about a possible arms-for-oil trade arrangement between China and the oil-producing states of the Middle East.

'The next Saudi Arabia'

Forced to compete with the former Soviet republics, the Chinese government is offering huge incentives to western oil companies to develop its vast onshore reserves. The oil-rich Tarim Basin in the far western region of Xinjiang is found by many foreign companies to be the most attractive area for exploration. Tarim is believed to be the world's largest unexplored basin. "We hope it will be the next Saudi Arabia," Xinjiang's vice governor Wang Leguquan told a foreign news service recently. According to China National Petroleum Corp. estimates, the total potential reserves in the 158,565 square miles to be opened are 8.2 billion tons of oil and 2.5 trillion cubic meters of gas. Foreign oil companies are allowed to assume the entire risk of drilling. If successful, they will either develop the oil themselves or in joint ventures with the Chinese firms. Either way, a portion of the profit will go to the state.

Altogether, some 62 oil companies from 17 countries have rushed to bid for rights to drill in the 28,080-mile rim of the Tarim Basin. British Petroleum, which seems to be ahead of the pack, is already in Xinjiang, exchanging data with China National Petroleum Corp. on the Tarim Basin.

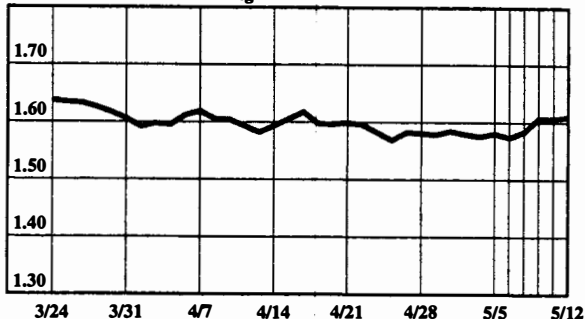
The biggest problem, however, is the lack of efficient means of transporting the oil out of the Tarim. "Infrastructure" is not a very familiar term in the region. Taklamakan, the huge desert which is home of the Tarim Basin oil fields, translated from the local Turkic language means: "You go in, but you don't come out." Sand dunes as high as 50 meters are likely to block progress in the road which China is building to its biggest prospective oil field in the center of the desert.

The province of Xinjiang, with its vast oil reserves, however, is most likely to miss the "prosperity wagon," which so far has only passed through coastal China. Xinjiang, which is also known as Chinese Turkestan, is mostly populated by Uighur Muslims, who are actually ethnic Turks. The work forces in Xinjiang's oil fields are mostly Han Chinese, all coming from other oil fields in China. While Xinjiang's oil may bring China billions of dollars, its inhabitants will most likely continue to live in subhuman conditions.

Currency Rates

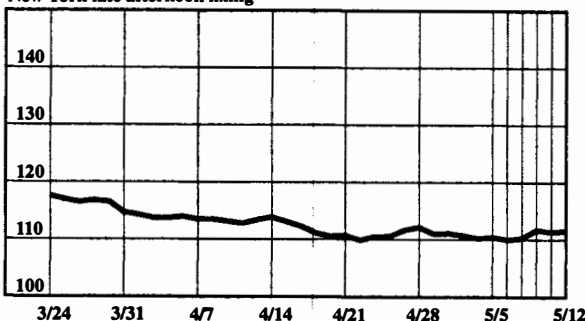
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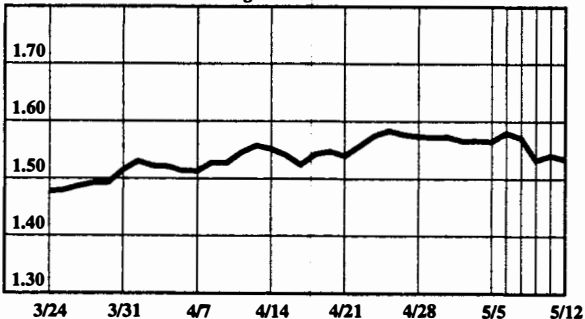
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