Sino-Myanmar Oil & Gas Pipelines and their Implications for India

Ashwini Srinivas

UG Girls Hostel, Pandit Deendayal Petroleum University
Gandhinagar-382007, Gujarat
E-mail: ashwini.srinivas.030@gmail.com

Keywords: Myanmar; China; pipelines; India; oil and natural gas.

1. Introduction
Myanmar represents the changing landscape of energy in the world. It has 50 million barrels proven reserves of Crude oil and 283.2 billion cubic meters proven reserves of Natural Gas.¹ On July 29, 2013, the 793 km Sino-Myanmar gas pipeline began pumping what is expected to be approximately 12 billion cubic meters of natural gas² a year to Kunming in Mainland China. Parallel to this, is another pipeline (still under construction) which is expected to carry 12 million tons of crude oil to China per year. These developments come at such a time when Myanmar has just undergone major political and economic transformation.

The oil and gas industry in Myanmar has recently been opened for foreign investment. In such a scenario, where India and China, major consumers and importers of energy, both neighbors of Myanmar, are vying for a major share in the sector, it was China who claimed the spoils first.

This paper explores the history of the Sino-Myanmar pipelines and how the pipelines benefit China and Myanmar. The paper also reviews how this deal affects India’s relations with the two countries.

2. Oil and Gas in Myanmar
Myanmar is a comparatively unexplored, natural resources rich country. It has proven reserves of natural gas of 0.2 trillion cubic metres (tcm) by 2010, accounting for 0.1 per cent of the total world gas reserves (BP Statistical Review of World Energy June 2013).

¹ (Central Intelligence Agency, 2013)
² (Watt, 2013)
Even though that doesn’t count as a lot, in terms of regional energy security, Myanmar’s gas reserves play a significant role. There has been a scramble between India and China in accessing Myanmar’s natural gas. Myanmar acts as a window to the Indian Ocean region for China, particularly, now, when India is pursuing its Look East Policy, head on.

Since Myanmar’s military coup in 1962, the military government banned all forms of foreign involvement in the production and exploration of oil and gas. When the State Law & Order Restoration Council (SLORC) was set up in 1988, the oil and gas market was opened for exploration by foreign companies. Until 2012, Myanmar exported natural gas to Thailand through a pipeline. Exports to Thailand, which began in 1999, accounted for about 75 percent of Myanmar’s natural gas output. At present, these natural gas exports are produced from the offshore Yadana and Yetagun fields in the Gulf of Martaban. Added production in the Bay of Bengal, including from the potential Shwe fields (which support exports to China) forecasts a rise in the gas production.

Myanmar is among the world’s oldest oil and gas producing countries. However, it does not possess prominent hydrocarbon reserves. Also, Myanmar is a net importer of oil because of the lack of its oil refinery facilities. However, Chinese investment in the oil and gas sector in Myanmar didn’t start until recently. China’s public sector companies such as China National Petroleum Corporation (CNPC), Sinopec and China National Offshore Oil Corporation (CNOOC) as well as Indian, South Korean and other companies are involved in the scramble for access of new potential gas fields off Myanmar’s west coast.

3. Timeline of Pipeline Deal with China

China showed signs of interest in a pipeline deal with Myanmar in 2004, when the countries discussed the feasibility of said pipelines. On January 11, 2006, Burma’s Ministry of Energy signed a Memorandum of Understanding (MoU) with PetroChina for the sale of 6.5 trillion cubic feet (tcf) over a period of 30 years. Based on this agreement, China National Petroleum Corporation (CNPC), the parent company of PetroChina, signed a contract to purchase natural gas from the A-1 and A-3 blocks of from the Shwe fields. In November 2008, China and Burma agreed to build a US$1.5 billion oil pipeline and US$1.04 billion natural gas pipeline. In March 2009, China and Burma signed an agreement to build a natural gas pipeline, and in June 2009 an agreement to build the crude oil pipeline. The inauguration ceremony marking the start of construction was held on 31 October 2009 on Maday Island.

The Myanmar section of the gas pipeline was completed on June 12, 2013 and gas started flowing from the Myanmar end in October 2013. The oil pipeline is jointly

---

4 http://www.shwe.org/chronology/
5 http://www.burmalibrary.org/docs07/SGB03-07.pdf
invested and built by CNPC and Myanmar Oil and Gas Enterprise (MOGE). The gas pipeline is jointly invested and built by CNPC, MOGE, Daewoo International, KOGAS, Indian Oil and GAIL.

4. Advantages for China
When it comes to regional economic development, the pipeline projects between Myanmar and China is said to be a “win-win” situation for the two countries. The pipelines run from Rakhine state in Myanmar, to provinces in the South-western part of China. These provinces, especially Yunnan and Sichuan provinces are very economically underdeveloped. The pipeline projects will benefit China by providing abundant opportunities to the people there. It is expected that the pipelines will not only alleviate Yunnan Province’s oil shortages but also diversify its economic activities. China’s energy security will be further guaranteed by the exploration of the new import route through Myanmar, and the pipelines will be an active agent in fortify bilateral ties and intensifying regional economic integration.

5. Advantages for Myanmar
Myanmar also stands to gain from the project strategically and economically. Firstly, it will help lessen Myanmar’s over-dependence on Thailand for FDI and as an export market. Since the construction of the Yadana gas pipeline to Thailand in the mid-1990s, all of Myanmar’s gas exports have gone to Thailand. The China-Myanmar gas
pipeline will provide Myanmar an alternative export market for its natural gas and other commercial goods. The oil and gas pipeline project is expected to reap enough financial earnings for Myanmar to cover this deficit. Secondly, it will also increase Myanmar’s foreign exchange earnings and reduce Myanmar’s trade deficit. Myanmar lacks international reserves. In accordance with international practice, crude oil transported from Myanmar-China pipeline will be charged a 16% value added tax based on the landed price. The current landed price for crude oil in Myanmar is about US$280 per ton. Calculated on 20 million tons of crude oil transported via this pipeline, Myanmar’s government will be able to obtain foreign exchange earnings of about US$900 million every year, excluding the transport tariff (about US$1 billion annually). In addition, China will purchase natural gas from Myanmar for the next 30 years. If calculated on US$4 per 1000 cubic feet, Myanmar will be able to gain US$900 million from its sale of natural gas to China each year. Therefore, from the oil and gas pipeline project alone, Myanmar will earn approximately US$ 1.8 billion of foreign exchange per year. Thirdly, Myanmar will be able to attract more FDI.

6. Implications for India
India is one of the major external forces affecting Myanmar’s situation. In its strategic thinking, Myanmar’s location is important for strengthening India’s Look East Policy, and energy security. It will also help India in counter-balancing China’s increasing power in South East Asia. In the long-term scenario, India hopes that Myanmar will remain an independent market as well as a conduit between South and Southeast Asia. India had been clearly aware that China’s extensive penetration of Myanmar was not in its national interest. Back in 1993, India overturned its negative policy toward the military regime in Myanmar both to restructure Chinese influence and also to foster through Myanmar transport route bringing economic assistance to support the tranquility and development of its rebellious Northeast India region, bordering Myanmar and parts of which are still disputed with China.

In the face of China’s recent growing influence in Southeast Asia, the major concern of India is that the close relations between Myanmar and China might change Myanmar’s traditional policy of neutrality. Strategically, India is afraid of China’s ‘String of Pearls’ theory and China using Myanmar as one of the ‘pearls’. The Indian government was particularly worried about the China–Myanmar strategic links and the prospects of the Chinese Navy gaining a foothold in the Bay of Bengal. India sees China as a potential threat because of its close relations with Pakistan and Myanmar. China’s involvement in Myanmar could mean that India would be directly surrounded on three sides by Beijing and its area of influence, with a lack of buffer states. India feels that it badly needs to improve its strategic relations with Myanmar so as to break down China’s encircling strategy.

Yet another important concern is energy security. Energy has become a bottleneck restricting India’s economic development. So, Myanmar’s decision to allow CNPC to build a pipeline to import natural gas from blocks A-1 and A-3, in which Indian energy
companies, ONGC & GAIL have equity, dealt a huge blow to India’s efforts to win the race for the same gas through a proposed Myanmar-Bangladesh-India pipeline. Even though Bangladesh was the thorn in the fulfillment of this project, it is India who suffered a blow, in the geo politics sense as well as in the energy security sense.

As two emerging economies, both China and India are making global search for energy as part of their energy strategy. Common needs for energy resources make China–India relations more competitive. Therefore, India has been very concerned over China–Myanmar energy cooperation and the building of China–Myanmar oil and gas pipelines, especially when Myanmar turned to cooperation with China after its negotiations on several projects with India failed. India is working hard to increase its stronger presence in Myanmar.

**Conclusion**

India has lost out a lot in terms of energy from Myanmar to China through pipeline projects. However, India’s loss in the competition does not stop India from entering and staying in Myanmar’s energy sector. In February 2010, the Indian Cabinet Committee on Economic Affairs approved requests by ONGC and GAIL to invest $1.35 billion in Myanmar, and increase their stakes in Blocks A-1 and A-3 of the Shwe fields. Also, the fact that the Myanmar government is allowing India to increase its stakes in the China-bound pipeline projects is proof of the fact that the government is very proficient when it comes to balancing great powers and that the government is not subject to the influence of any foreign power.