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Myanmar Pipelines to Benefit China

New Oil, Gas Supply Routes Are Set to Help Slake Nation's Growing Thirst for Energy; Local Tensions Rise

By JACOB GRONHOLT-PEDERSEN



China's \$2.5 billion pipeline project in Myanmar is scheduled to be completed this month. The WSJ's Jacob Pedersen tells us about his travels in Myanmar and how the people there feel about China's quest for energy.

NEAR HSIPAW, Myanmar—Two pipelines in the highlands of northeast Myanmar will soon begin pumping oil and gas into China, representing a major step in Beijing's quest for energy security.

At the end of a bumpy road here, a 45-minute ride from the nearest town, Cheng Chong Zhen, a 40-year-old Chinese electrician working for state-owned energy giant China National Petroleum Corp., or CNPC, points with his cigarette toward a wide trail of red dirt that disappears over a hilltop. The pipelines lie underneath, stretching 800 kilometers, or about 500 miles, from the

Indian Ocean in the south—where the oil and gas will be loaded—to the Chinese border in the north, where they will help fuel China's growing energy needs.



The \$2.5 billion pipeline project, scheduled for completion this month, is part of China's land-based network of import routes that includes completed pipelines from Kazakhstan, Turkmenistan and Russia. In a region increasingly defined by its quest for energy, the new pipelines could help China [tip the geopolitical landscape in its favor](#). But in the process, its thirst for energy has fueled some local anti-China sentiment.

Energy security has been a priority for the Chinese government since the early 1990s, when it began an economic gallop and became a net oil importer. China overtook the U.S. as the world's largest overall energy consumer in 2009, with coal accounting for the biggest share.

However, the share of oil and natural gas in the country's energy mix continues to grow because of

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new cars roll onto China's roads every day. In December, net oil imports exceeded those of the U.S. for the first time, and China's ascent as the world's biggest importer could become permanent as early as next year.

While the country's import dependency has prompted its state-owned energy firms to search for oil in faraway regions such as Africa, South America and the Middle East, it still faces a daunting challenge in getting that oil to its shores. Last year, the lion's share of China's total oil imports—about 4 million barrels a day out of 5.43 million barrels—was shipped through the narrow [Strait of Malacca](#), near Singapore, where the U.S. Navy has a strong presence, and through the South China Sea, where territorial disputes with Southeast Asian neighbors have intensified as China has grown increasingly assertive. The two pipelines through these dusty highlands in Myanmar are crucial to Beijing's efforts to diversify its energy-supply routes.



Jacob Pedersen/The Wall Street Journal

China's twin pipelines stretch 800 kilometers from the Indian Ocean to the Chinese border, where they will supply oil and gas for China's rising energy needs.

"The way the Chinese have been able to develop their energy oil import infrastructure in recent years has been hugely impressive," said Richard Gorry, an analyst at consultancy JBC Energy. "When you're an economic powerhouse like China, you want to make sure you're not held hostage to potential supply disruptions in the Malacca Strait or South China Sea."

But, as has been the story in other places that attract China's big footprint, resentment is growing in Myanmar. Locals say the pipelines—built under agreements made with Myanmar's former ruling military junta—bring little benefit to communities and threaten the environment.

In the wake of similar local protests, Myanmar President [Thein Sein](#) in 2011 stopped an unpopular Chinese-backed \$3.7 billion hydropower dam at Myitsone in the northern part of the country.

Since five decades of military rule came to an end in 2011, Myanmar has opened to the West at a rapid pace, in part to distance itself from China. Its reform process was backed during a visit by President [Barack Obama](#) in November, intensifying speculation Myanmar is trying to get out from under the shadow of its closest ally and trading partner of decades.



Jacob Pedersen/The Wall Street Journal

Cheng Chong Zhen, a Chinese electrician working on the pipelines, takes a lunch break.

China National Petroleum isn't taking chances, donating millions of dollars for new schools and health clinics in communities along the pipelines.

"When the project started, Myanmar was seen as Beijing's close ally, but there are now greater risks for the Chinese in this project," said Michal Meidan, an analyst at Eurasia Group. "They could get caught up in political strife."

The pipelines through Myanmar will mark the third leg of major overland import routes, and will be capable of

supplying 440,000 barrels of oil a day and 12 billion cubic meters of natural gas a year to China's southern Yunnan province.

The gas will come from a new development off the coast of Myanmar, while the oil will be shipped from the Middle East and Africa on tankers. Today, the tankers transport the oil through the Strait of Malacca to China's coast. But as early as September, they will sail around the southern tip of India and head north into the Bay of Bengal to Myanmar's coastal town of Kyaukpyu, where the oil will be loaded into the new pipeline. The shortcut will reduce China's reliance on the Strait of Malacca route.

Myanmar's Energy Minister Than Htay said in an interview that natural gas will start flowing in June, followed by oil in September, though the Chinese have said oil may not start before year-end.

Exports of natural gas have been a cause for controversy in Myanmar, as it struggles to meet its own growing energy needs. Mr. Than Htay said that in addition to China's regular payments of land rental and transit fees, Myanmar will be able to draw 40,000 barrels of crude oil a day from the new pipeline.

"We will have very good access to those pipelines," he said., adding that relations with China remain solid. "This is a very big advantage for our country."

Mr. Cheng, the electrician, and about two dozen other Chinese workers finish a lunch of rice and minced meat in the shade of a wooden canopy. Stretching out before them is a plateau where the pipelines surface to connect at a pumping station—a complicated network of pipes and valves needed to maintain pressure to move the oil and gas.



Jacob Pedersen/The Wall Street Journal

China National Petroleum Corp. has donated \$12.5 million for construction of this school and 44 others, plus 24 health clinics and other projects. The school is part of its soft diplomacy related to the pipelines to reduce the kind of public outcry that has damaged other international projects.

At a pumping station at the site of the pipelines, Min Neing, a Myanmar native, sits not far from his Chinese co-workers. He was hired as an unskilled worker for \$136 a month—less than one-tenth what the Chinese electrician Mr. Cheng earns.

CNPC says that more than half of all workers involved in the pipeline project were recruited locally, but some locals say the project is unlikely to result in many lasting jobs. Mr. Min Neing says his job will end when the gas begins flowing.

"We finish here in May. Then we go back home," Mr. Cheng, his co-worker, says before heading back out under the midday sun.

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