Gas Politics:
Shwe Gas Development in Burma

By Matthew Smith and Naing Htoo

In recent months, both China and India have signed agreements with the Burmese military junta indicating their willingness to buy gas from the proposed Shwe gas project in western Burma, with Thailand also expressing interest. If built, the Shwe project would be Burma's largest gas development project ever. *Matthew Smith* and *Naing Htoo* analyse the events surrounding the recent agreements and the inevitable consequences if the project were to proceed.

Natural gas development in Burma is evolving in unexpected but unsurprising ways, fuelling a bidding war between India, China, and now Thailand. In late 2005, Burma's military junta reportedly signed a Memorandum of Understanding (MoU) to sell 6.5 trillion cubic feet (tcf) of natural gas to PetroChina, setting the stage for a pipeline from the prized A-1 gas block in western Burma to Yunnan province, China. Just months later, in March 2006, a more expected MoU was also signed with India regarding the same gas deposit, with plans for an overland pipeline to India. Not to be left out, Thailand's PTTEP International Ltd. just recently expressed interest in the same offshore natural gas reserves. All of these unfolding negotiations share one similarity: They represent a callous drive for energy security that disregards the severe social and environmental consequences of gas development in Burma.

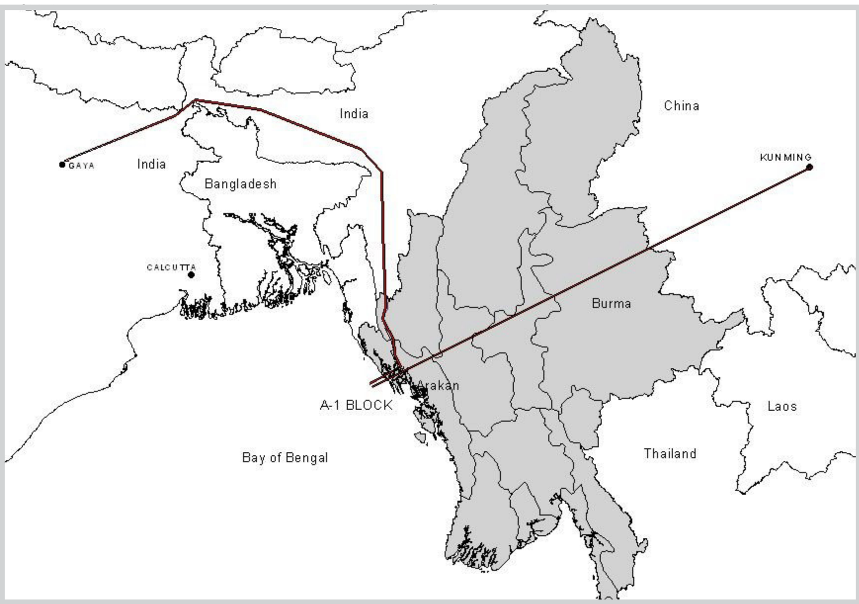
The gas block on everyone's radar (A-1) sits just off the western coast of Burma and comprises three confirmed deposits – *Shwe* (Gold), *Shwe Pyu* (Platinum), *Ngwe* (Silver) – and a fourth unconfirmed well known as *Nila* (Sapphire). These deposits are collectively one of the world's largest, holding an estimated 12 tcf of gas.

The Shwe gas project is a project of the Myanmar Oil and Gas Enterprise (MOGE) – a company 100 per cent owned by Burma's military junta – and an international consortium of private and state-owned companies from South Korea and India. South Korea-based Daewoo International is the largest stakeholder in the consortium (60 per cent) while the remaining 40 per cent is divided between the state-owned Korean Gas Corporation (10 per cent), India's state-owned Oil and Natural Gas Corporation (ONGC) (20 per cent) and the Gas Authority of India Ltd. (GAIL) (10 per cent).

In Burma, major development projects aimed to exploit natural resources are directed by the ruling junta and overseen by the *Tatmadaw* (military). Projects proceed with no public participation and often result in large-scale environmental degradation, as well as human rights violations such as land confiscation, forced relocation, forced labour on project infrastructure, and forced portering for the military. The Shwe gas project will be Burma's largest gas development project ever in terms of gas reserves, potential revenue, and the number of people that could be adversely affected.[1] *Supply and Command*, a recent report by the Shwe Gas Movement, estimates that the Shwe gas project will increase the junta's income by 150 per cent, bringing in US$580-824 million per year, or US$12-17 billion over the life of the project.[2] With the help of companies from South Korea, India, China, and possibly Thailand, the project is unfolding with no local participation and no Environmental Impact Assessment (EIA), and it will undoubtedly involve serious human rights violations.

Matthew Smith is a Project Coordinator of EarthRights International's Burma Project. He has a MA from Columbia University and focuses on mining and pipeline issues.
Haing Htoo is a Programme Coordinator of EarthRights International's Burma Project. He has worked with ERI since 1998 coordinating documentation of human rights abuses suroounding development projects in Burma.
EarthRights International (ERI) is a non-profit, nongovernmental organisation that combines the power of law and the power of people in defence of human rights and the environment. ERI is based in Washington, DC and Thailand, and can be reached at infoasia@earthrights.org. See ERI on the web at www.earthrights.org

For over two years, it was presumed that gas from Burma's A-1 natural gas block was destined exclusively to India via a proposed overland pipeline through Burma's Arakan and Chin states, and through Bangladesh, for consumption in Kolkata, India.



The Shwe project, however, reached a diplomatic stalemate when India refused a bilateral agreement proposed by the government of Bangladesh. Using India's growing demand for natural gas as a leverage point, Dhaka set forth the following bilateral conditions in order for any pipeline to pass Bangladeshi territory: trade routes for commodities from Bangladesh to Nepal and Bhutan through Indian territory; the transmission of hydro-electricity from Nepal and Bhutan to Bangladesh through Indian territory; and pursuing measures to reduce Bangladesh's trade imbalance with India. India found these conditions disagreeable and the project was stalled.

In December 2005, while India and Bangladesh deliberated to a standstill, the junta indiscriminately signed the MoU with PetroChina, which is one of China's largest privately owned companies in terms of sales, and it is one of the largest oil and gas companies in the world, playing an integral role in China's status as the world's second largest power generator. Though distribution methods are not finalised, the MoU indicates preliminary plans for the construction of an overland pipeline through Burma to Kunming in China's Yunnan province. This long pipeline will traverse central Burma's "dry zone," where over 25 per cent of Burma's ailing population resides; an area already home to some of Burma's most pressing humanitarian needs.

China's involvement was unexpected but not surprising for several reasons: Burma's junta had no incentive to set aside the gas exclusively for India and patiently await the outcome of stalled bilateral negotiations with Bangladesh. PetroChina was ready to buy. Also, the MoU with PetroChina represents the growing economic and trade relationship between Burma and China, coinciding with recent diplomatic visits between high level officials from each country. Furthermore, Burma's military junta is politically and economically unstable and insecure, wrought with corruption and deceit.[3] This politico-economic military climate arguably contributes to a sense of urgency to all of the junta's undertakings, particularly when those undertakings secure needed revenue, as the Shwe project does on an unprecedented scale.

Like China, Thailand's potential involvement is also unsurprising. Thailand's PTTEP International Ltd already pipes approximately one billion cubic feet of gas per day from Burma's offshore reserves in the Andaman Sea, and Thailand maintains its status as Burma's largest trading partner and third largest investor in the country, behind Singapore and Britain.

Unlike China and Thailand, India is in the unique position to be both a consortium partner as well as an end user. In a move that could make up for time lost in bilateral negotiations with Bangladesh, the government of India is poised to pipe the Shwe gas overland, avoiding Bangladesh. In May, India presented pre-feasibility findings from Brussels-based consulting firm Suez Tractebel at a consortium meeting in Burma, detailing eight potential pipeline routes from Burma to India. In July, it became clear that Dhaka's bilateral demands of India were indeed too strict for their own good, as India presented a detailed feasibility report to Burma's military showing its plans for one overland pipeline that bypasses Bangladesh.

This proposed pipeline will pass through the northeast Indian states of Mizoram, Assam, and North Bengal en route to Gaya in Bihur (see map). It is estimated this route will double the cost of the pipeline through Bangladesh – an indication of the lengths India will consider to avoid Bangladesh, even risking on-land opposition in India's northeast states.

China's advent as an end-user of the gas was seemingly awkward considering India – as a Shwe gas consortium partner – would then effectively supply gas to China, their biggest competitor for oil and gas; but there is no indication of such tensions. It appears energy security in Southeast Asia is perhaps less about a dramatic, geopolitical race between adversaries to secure non-renewable natural resources, and more about shrewd cooperation. Alas, environmental and social costs have still yet to be discussed.

Aside from the devastating human rights abuses associated with natural gas development in Burma, natural gas *per se* poses a range of serious environmental and human health risks.

Widely believed to be better for the environment than other fossil fuels, the process of gas extraction causes massive carbon dioxide emissions and is a major contributor to global climate change. Toxic bi-products from the offshore natural gas extraction process contribute to marine habitat pollution, threatening the quality of fisheries. This is demonstrated at every offshore natural gas extraction operation.

While natural gas is cheaper for consumers and considered "cleaner" than petroleum, it poses a range of lesser known health impacts. *The Lancet*, a renowned British medical journal, published research findings linking household use of natural gas to asthma and other serious respiratory health problems.[4]

Natural gas is a non-renewable resource and its development and use is unsustainable. The world's natural gas reserves will eventually run out, and some suggest we can expect depletion in as soon as 80 years. Regardless, affordable renewable and sustainable energy alternatives including solar, wind, and biomass do exist, and must be used. Recent studies indicate that the use of biomass in India could meet the energy needs of 20 million households, provide employment for 10 million people, and reduce harmful CO_2 emissions by 36 million tonnes.[5]

All of the state actors in Shwe gas development – Burma, China, Bangladesh, India, Korea, and possibly Thailand – possess significant untapped capacity for alternative energy generation. These capacities must be urgently developed.

Engaging the Junta

Companies like Daewoo International, ONGC, GAIL, and PetroChina could not always invest recklessly in Burma as they do now. In 1988 Burma's junta not only renamed the country "Myanmar," they also redesigned the country's macroeconomic policy. The generals in power shifted from the tragic, unsuccessful, and heavy-handed "Burmese Way to Socialism" to their own disastrous brand of economic liberalism. By law, Burma's open-market economy now encourages and channels foreign investment through the ruling generals, enabling and entrenching them by design.[6] Despite the junta's growing personal economic prowess, the country is in a protracted mess, branded by the United Nations a Least Developed Country (LDC), with no signs of improvement.[7] While Burma's energy sector will contribute to a rise in GDP, this will be misleading, the result of unitary lucrative projects like the Shwe project rather than any real, balanced and sustainable development.[8]

When Daewoo International and the junta's partners from South Korea, India, and China invest in Burma, they do not invest in the country's development, they invest in the junta.[9] Of all foreign direct investment (FDI) into Burma, the oil and gas sector is the junta's most lucrative, accounting for approximately US$2.494 billion since 1988, or roughly 33 per cent of all FDI since 1988. These figures do not reflect the investment that will be generated by the billions of gas dollars awaiting extraction in the Shwe gas blocks.

From the Shwe gas project, Daewoo International projects net profits of US$86 million annually for 20 years, while the junta could take in up to US$17 billion over the life of the deposit. If anyone questions the relative economic vitality of the brutal junta, question no further.

Endnotes:

1 The Yadana and Yetagun pipelines in Burma adversely affected approximately 35,000 people. The Shwe gas project potentially involves construction of two pipelines considerably longer than previous pipelines in Burma, covering wider terrain, thus affecting a greater number of people.

2 *Supply and Command* by the Shwe Gas Movement, July 2006, available online at www.shwe.org and www.earthrights.org

3 See Kyaw Yin Hlaing, "Myanmar in 2004: Why Military Rule Continues" in *Southeast Asian Affairs 2005*, Institute of South East Asia Studies Publications, Singapore (2005). p231-256.

4 The *Lancet,* Vol. 347, 17 February 1996, pp. 412, 426-431. Research indicates that even everyday natural gas exposure increases asthma attacks, causing waking with shortness of breath, reduced lung function, and increased airway obstruction. It is an often ignored threat as affects can be asymptomatic, with causes easily misdiagnosed.

5 "Biomass Can Generate 30 Thousand MW and Offer Jobs to 10 mm in India." 10 February 2006. Available at www.webindia123.com.

6 Shareholding capacity is reserved for the military and military families. See *The EU and Burma: The Case for Targeted Sanctions,* available at www.burmacampaign.org.uk/reports/targeted_sanctions.htm.

7 See the United Nations Conference on Trade and Development (UNCTAD), Least Developed Countries (LDC) http://www.unctad.org/Templates/Page.asp?intItemID=3641&lang=1

8 Based on a February 2006 interview with an undisclosed economist. Notes on file with author.

9 See Tyler Giannini "Destructive Engagement: A Decade of Foreign Investment in Burma" EarthRights International issue paper (1999). Available at http://www.earthrights.org/pubs/destructive.shtml [accessed 28 February 2006].