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China's CNPC begins oil production in Afghanistan

By Hamid Shalizi

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A Chinese firm has started extracting oil from the Amu Darya basin in northern Afghanistan, mining officials said, a key moment in the country's quest to pay its own way.

Afghanistan signed a 25-year contract with National Petroleum Corp (CNPC) last December covering drilling and a planned refinery in the northern provinces of Faryab and Sar-e-Pul. It is the first major oil production in the country.

"The company will extract 1,950 barrels per day, which will crucially help Afghanistan towards self-sustainability and economic independence," mining minister Wahidullah Shahrani told Reuters on Sunday as huge machines started drilling next to mud houses in remote Sar-e-Pul.

The venture with CNPC, which has invested hundreds of millions of dollars, was expected to produce billions of dollars over the next two decades - CNPC will pay a 15 percent royalty on oil, 20 percent corporate tax and give 50-70 percent of its profit from the project to the government.

From January 1, CNPC will extract 1.5 million barrels of oil annually, Shahrani said. Up to 87 million barrels of crude are estimated to be in Amu Darya.

Its inauguration on Sunday should lend confidence to nervous Chinese investors who have halted work on the \$3 billion Aynak copper mine project in eastern Logar province, where insurgents

trying to wreck the project have stepped up attacks. Afghan officials have been trying to convince the investors to restart.

As the end-2014 deadline looms for most foreign troops to leave, billions of dollars in aid is expected to dry up, leading Afghanistan to look for ways to become financially independent.

The Amu Darya basin should be able to supply Afghanistan with all its domestic oil needs eventually, said Weis Sherdel, director of the three Amu Darya oil blocks for the mining ministry.

The country imports around \$3.5 billion of oil a year from Russia, Turkmenistan, the United Arab Emirates and Uzbekistan.

CNPC's Amu Darya crude will be sent to Turkmenistan where it will be refined and then sold to Afghan clients or abroad, Sherdel said. CNPC should complete work on an Afghan refinery in 2-3 years, officials said.

Shahrani said the development of the Amu Darya basin had provided Afghans with 2,100 jobs in the Sar-e-Pul province of 500,000 where unemployment is more than twice the national average, at 18 percent.

The venture was disrupted in June when men loyal to army chief of staff and Uzbek warlord General Abdul Rashid Dostum intimidated Chinese engineers in the area, demanding a share in proceeds, government officials in Kabul said.

Posters of Dostum, originally from nearby Jawzjan province, were hung around the surrounding villages and towns of the Amu Darya basin.

Chinese and Indian bidders have been frontrunners for deals to develop Afghan mineral deposits valued at up to \$3 trillion, worrying Western firms that have hesitated to invest because of security concerns.

The country is now bracing for the end-October bid closure for oil deposits in the Afghan Tajik basin, also in the north and which, at an estimated 1.9 billion barrels, is the biggest ever oil project in Afghanistan.

Interest shown by Exxon Mobil in July lent credence to hopes the government may be making progress in efforts to lessen its reliance on aid, though Shahrani told Reuters last month the U.S. group had not come to look at it.