

Afghanistan Reconnected

Linking Energy Suppliers to Consumers in Asia

**Abu Dhabi Process Meeting
September 2-4, 2013
Islamabad, Pakistan**



Afghanistan Reconnected

Linking Energy Suppliers to Consumers in Asia

Abu Dhabi Process Meeting

**September 2-4, 2013,
Serena Hotel, Islamabad**

SUMMARY AND RECOMMENDATIONS

I. The Context: Transition in Afghanistan and Regional Potentials

Throughout 2013 and 2014, the EastWest Institute (EWI) is convening a series of meetings on key aspects of economic security for Afghanistan in the framework of its Abu Dhabi Process. These meetings bring together stakeholders from the government, parliament and business communities from Afghanistan and the region.

The EastWest Institute is launching this initiative as Afghanistan has entered a phase of political and economic transition, and its future development will be a vital part of this region at the cross-roads of Asia. As of 2014, Afghanistan will also have to manage transition from a “security economy”, driven by the presence of foreign troops and depending on foreign aid, into a more sustainable peace economy, with sufficient growth and revenue for the government. While Afghanistan’s medium and long-term economic potential with regard to agriculture, oil, gas and minerals is considerable, efforts must be stepped up to avoid an economic depression in 2014, the year of elections and of the draw-down of combat forces.

The first meeting “Afghanistan Reconnected”, which was held in Istanbul from 9 to 11 April, 2013,, focused on regional infrastructure and connectivity. A functioning regional network of roads, air and railway transportation is a prerequisite for further developing trade, energy, and mining in Afghanistan and in the region. Opening the channels of transport and trade will improve the lives of average Afghans and will generate sustainable revenues for the governments of Afghanistan, Pakistan and other adjacent countries, as well as for the business sector..

The second meeting “Afghanistan Reconnected: Linking Energy Suppliers to Costumers in Asia” was held in Islamabad, Pakistan, 2- 4 September, 2013. The conference involving 60 participants from the region and beyond addressed the potential for regional energy trade between suppliers and the energy markets especially in South Asia, with a focus on the potential of Afghanistan as a transit country and as a future producer of energy. Pakistan’s National Security Adviser, Mr. Sartaj Aziz, addressed the conference as well as the Federal Minister for Petroleum and Natural Resources, Mr. Abbasi. Both welcomed the platform the EastWest Institute provided at the conference, as they see regional opportunities for energy trade as well as domestic needs for energy as a prerequisite for economic growth.

II. Summary and Conclusions

As a gateway from South Asia to Central Asia, Afghanistan holds a key position to unlock new economic potentials in the region by providing transit routes for energy supplies from Central Asia to the energy markets of South Asia – a scenario with win-win potentials for all stakeholders. .

While sources of energy (gas, oil, hydropower) are abundant in Central Asia where countries wish to diversify the sale of their commodities at market prices, Afghanistan, Pakistan and India would be obvious markets at reach with significant demand for energy. More external energy supplies will be required in these countries - in addition to domestic reforms of energy markets – to grow the national economies for growing populations. With supplies being available from within the region, effective regional cooperation needs to be promoted and pursued. The role of the economy for the future of the whole region as well as the need for “economic diplomacy” were highlighted throughout the region. It was noted that while Asia is emerging as a new center of gravity and trade between South Asia and the rest of the world is also growing, trade within South Asia has remained stagnant and the proximity in South and Central Asia is not leveraged so far. Likewise, there is a lack of foreign investment in the region. The known ills are distrust, political instability and security concerns, frequent power outages as well as weakness of rule of law.

Participants thanked EWI for taking the initiative of convening this regional meeting on energy as a concrete step to promote regional energy trade as well as trust-building. While doubts were expressed about the effectiveness of existing regional institutions, there is no desire to establish new mechanisms, but rather a preference to move ahead on bilateral agreements as well as to focus on specific small projects which would generate trust. While no time should be lost to engage in “economic diplomacy”, it was stressed that security concerns – in particular in Afghanistan – should not be considered as an impediment to engage in economic cooperation. Participants agreed that security challenges could be overcome as long as there is mutual understanding and interest of all (including local) stakeholders in a given project. Pipeline projects in the 1990s engaging also local power brokers in Afghanistan, and recent engagement of Turkish companies exploring resources in Northern Iraq demonstrate the viability of investment and trade if there is shared interest and local ownership.

Pakistan’s most senior Government representative, Mr. Sartaj Aziz, Advisor to the Prime Minister on Foreign Affairs and National Security, recognized Afghanistan as a vital connector for regional energy, communication and transmission. Referring to President Karzai’s recent visit to Islamabad, he explained recent agreements on the Peshawar-Kabul Road and the Chaman-Kandahar railway line. He noted that these links would not only improve trade relations between Pakistan and Afghanistan, but would also help connect Central Asia with South Asia. He confirmed that the Afghanistan-Pakistan Transit Trade Agreement (APTTA) was an important step ahead and that it would be implemented. In terms of bilateral support for Afghanistan, Pakistan supports Afghanistan on developing the Kunar dam with a capacity of generating 1500 MW of electricity. CASA-1000 electricity grid had now been converted into CASA- 1300 with further addition of 300 MWs.

Mr. Shahid Khaqan Abbasi, Federal Minister for Petroleum and Natural Resources urged Pakistan, Afghanistan and neighboring countries to engage in dialogues to meet common growing energy demands and also to seize the significant economic opportunities that energy trade would provide. He said that the region is at the forefront of a transition towards energy economy as the ‘energy security’ has become a key priority for all the countries. He noted that Pakistan was also committed to achieving the Iran- Pakistan pipeline. In terms of areas of cooperation between Afghanistan and Pakistan, the Minister stated that Pakistan could assist Afghanistan in capacity building through Pakistani universities, help in geological surveys, training to Afghan engineers in hydropower projects and facilitation in engineering consulting services in developing micro and

macro dams. Further areas of assistance would be building infrastructure, transmission lines and an efficient grid system.

Turkmenistan is producing 24 billion cubic meter of natural gas per annum, and Tajikistan has abundant potential for hydroelectricity with installed capacity of 7 billion Kwh. Central Asian countries are well equipped with modern road and rail networks for transportation of resources, the main hindrance being still to connect with South Asia via Afghanistan. However, the TAPI project seems to be coming within reach in late 2013.

A session on “Afghanistan as an Energy Importer and Producer” discussed Afghanistan as a country with tremendous untapped natural resources. According to a US National Renewable Energy Laboratory study, the wind energy potential in Western Afghanistan was estimated at 158,000 MW and hydropower was said to be in excess of 23000 MW. Moreover, US Geological Survey forecasts 1.6 billion barrels of unexplored petroleum reserves with 444 billion cubic meter of probable natural gas and 0.50 billion barrels of probable liquid natural gas. For optimum future use of these resources, participants suggested active dialogue between foreign investors/ private sector and the government and other local stakeholders with a defined goal of common interest. Investment in these natural resources which could turn Afghanistan into an exporter would also require long-term capacity building within Afghanistan.

There was general agreement at the conference that the promotion of Afghanistan’s bilateral energy trade and the Central Asia-South Asia multilateral energy trade would benefit all stakeholders in many ways. It would enable the Central Asian power/gas utilities to make full use of their assets. In medium term, it would enable the States in Central Asia to increase their export revenues, to improve the sector viability and to cover fossil fuel or thermal power imports (needed in winter) from their neighbors. In a longer term perspective energy trade would stimulate their economic growth. As to Afghanistan, energy trade and transit would help stabilize the power system, give more access to electricity to the population and upgrade its power system for transit purposes. Regional energy trade would enable Pakistan and India to close the current supply gap in a cost effective manner.

The possibility of substantial energy exports may also create incentives to solve water/power issues among the Central Asian countries and achieve sustainable water sharing agreements that are required for many attractive large hydroelectric projects.

There was a consensus that enhanced regional energy trade would contribute to the broader objectives of economic cooperation and political stabilization in the region. This will require high level political commitment in the region. Private investors will have to get involved to finance, construct and operate the transnational facilities. International organization and financial institutions offer instruments for risk mitigation.

III. Recommendations

Participants commended EWI for convening the conference as a step towards energy cooperation and trust-building in the region.

It was suggested that EWI focus on the implementation of some specific projects involving the SAARC Energy Center as a regional partner. Tangible progress on specific projects would also promote confidence. A general recommendation for EWI was to launch a public information campaign in the region on key energy projects and their benefits, as there was a need to inform the public at large on opportunities.

Further recommendations included:

- Governments and the private sector should explore the possibility of joint electricity generation in at least two SAARC member countries as a pilot project.
- Electricity exports from Tajikistan to Afghanistan should be extended to Pakistan. The governments of Afghanistan and Pakistan should co-operate with the government of Tajikistan to increase volume by 200 Mw to be transmitted via Afghanistan to Peshawar.
- Renewed efforts should be undertaken by the governments of Turkmenistan, Tajikistan, Afghanistan, Pakistan and India to initiate the construction of CASA-1000 network and the TAPI gas pipeline. The transformative potential of TAPI for the region was highlighted, while other options (use of LNG) could replace TAPI otherwise. It was recommended to involve the Energy Charter Secretariat for projects of regional significance to help ensure transit security, provide investment potentials, assist in dispute settlement and address efficiency and environmental issues.
- In terms of security concerns, special attention should be given to mitigating transit risks throughout Afghanistan. Measures to be taken include : employment of local workforce and local regular access to supply of electricity and gas along the transmission routes, special security measures to protect the routes, deployment of repair crews and maintenance. In terms of funding, an intergovernmental regional trust fund could be set up to cover such costs.
- Energy trade between Pakistan and India: State transmission companies NTDC and PGCIL should conduct a joint feasibility study on grid connectivity.
- Governments should engage in domestic energy sector reforms to enhance efficiency and to attract investment. Reforms should lead to improving infrastructure, financial performance and collection of revenues, governance and regulatory framework, customer services.
- Governments should undertake initiatives to attract foreign and domestic investment in the energy sectors which could develop into very profitable markets. Regional private sector associations could be a tool for business consultation. A regional trust fund set up by governments of the region with the support of IFI's or donors could collect funds for kick-starting regional projects.
- Governments in the region should engage in exploring the energy potential of Afghanistan. Cooperation between Afghanistan and Pakistan on the Kunar river dam is a step into this direction. For sustainable development of capacity building in Afghanistan (training of Afghan experts), regional opportunities for capacity building will be required.