China Shale Gas Strategy a Fiasco

Two years ago the government of the Peoples’ Republic of China staked a major hope for their energy future on the exploitation of domestic natural gas from its large shale rock formations, so-called shale gas. Today, after hundreds of millions of dollars investment and significant drilling, the dream has evaporated like the ephemeral shale gas they counted on.

Wu Xinxiong, head of the National Energy Administration of China, announced in a speech the surprising news that China’s official target for domestic natural gas production in 2020 was now 30 billion cubic meters for shale gas and another 30 billion cubic meters for coal seam gas. Just two years ago, the Chinese National Energy Administration estimated that China would produce 60 billion to 100 billion cubic meters only of shale gas by 2020. If Wu's forecast comes true, shale gas and coal field gas would each supply only 1 per cent of China’s electricity generation needs in 2020. Realistic prospects are it will not even reach that level.

The admission by the government has major geopolitical implications. First, it is a major reason why Beijing, after years of indecision, this May signed the 30-year $400 billion “Gas deal of the Century” with Russia for Gazprom gas to be delivered to China. That deal moved China and Russia a giant step closer in terms of strategic cooperation. The reason Beijing finally agreed after years of dickering over price was the realization that the US Government and oil company hype about China holding the world’s largest reserves of shale gas was just that—politically-motivated hype.

Even if shale gas were a possible solution to the huge future energy needs of the world’s second largest economy, which it isn’t, the geology of shale rock formations in China is vastly different and less suitable than in the USA. Shale gas deposits lie much deeper in China than in the US. That greatly adds to drilling costs. The cost for each new well in China is roughly three times the cost in the United States. Chinese shale rocks are also packed with clay and is much wetter than American shale, making it harder to crack the shale and release the gas through pumping liquids and sand underground, the process known as hydraulic fracturing, or fracking.

China’s shale rocks ae concentrated in Sechuan Province near Tibet in the far West of China. That is precisely where China’s greatest earthquake zone is concentrated.

As I detailed in my recent book, China in Gefahr, which in Chinese translation has become a leading bestseller and read by leading policy circles according to reports, the shale gas illusion was a geopolitical ploy by leading Washington circles to divert China’s energy pursuits from the Middle East and Africa and lead them down a dead end. In 2011, the United States Energy Information Administration of the government estimated that China had “technically recoverable” reserves of 1.3 quadrillion cubic feet, nearly 50 percent more than the United States. That report, done by a private Washington consulting company that was in many cases based apparently on pure conjecture, created a major illusion in China that shale gas was their magic wand to energy security.
Even more dangerous for China, shale gas fracking techniques have been proven to induce earthquakes and to use staggering volumes of water. The last thing China needs is more earthquakes in the growing industrial center of Sechuan which also has significant water problems. Now, with realization that US oil companies and the US Department of Energy misled China, the door is open to explore realistic alternatives less destructive to the country.

**Shale energy being rejected**

Not just China is experiencing a reassessment of the riches of shale gas and oil. In country after country, the dreams of shale are being abandoned or downsized as in China. France and Bulgaria have banned the development of shale sources in response to local fears that fracking could cause earthquakes. In Russia, industry reports are that giant energy firms such as Lukoil, who have tested shale gas extraction have concluded it is a dead end. The rate of depletion of shale formations is dramatically faster than for conventional gas and Russia holds the world’s largest reserves of conventional gas.

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