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China-U.S. Oil Rivalry in Africa

Zhao Hong

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China-U.S. Oil Rivalry in Africa

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ABSTRACT

China is now the world's second largest oil-consuming country after the U.S.. Its global efforts to secure oil imports to meet increasing domestic demand have profound implications for international relations in the Asia-Pacific region. China's rising oil demand and its external quest for oil have thus generated much attention. As China's overseas oil quest intensifies, will China clash with the U.S. and other western countries' interests in Africa, and how does it look at this rivalry? Will China disrupt the U.S. and its allies' foreign policy and the world order?

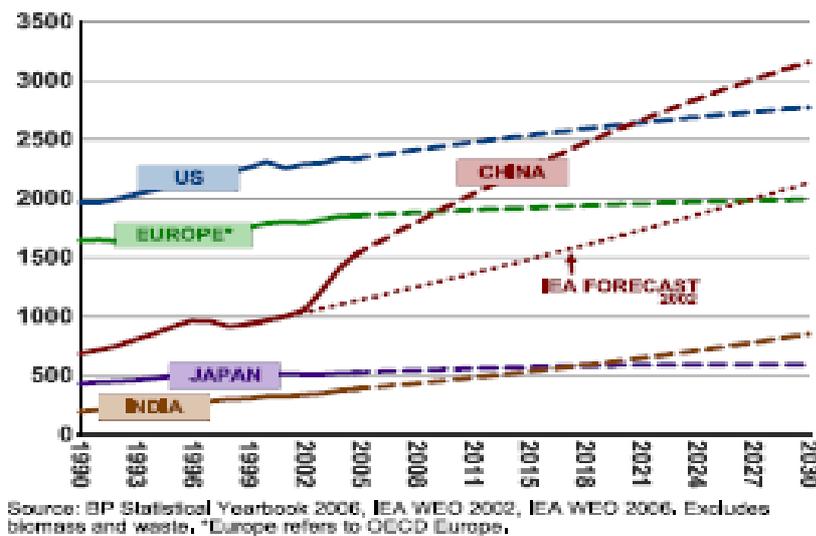
Key words: *China, oil strategy, African oil, U.S., energy rivalry*

The changing pattern of China's oil supply and demand

China was an oil-importing country after its founding in 1949. From 1950 to 1959, China's annual import of oil increased from 0.33 million tons (mts)/year to 3.33 mts/year (Wang 2001). In the early 1960s when the Soviet Union ceased to provide assistance and oil to China, China experienced a serious oil shortage. This led to the exploration of Daqing oil field, and production began in 1963. In 1965, the output of China's crude oil reached 10 mts/year or 97% of the country's oil needs (Wang 2001); China became self-sufficient in oil.

1993 was the turning-point of China's oil import and export situation, as it became a net oil-importing country. China's demand for oil doubled over the past decade, increasing from 3.3 million barrels per day (bpd) in 1995 to 6.6 million bpd in 2005, almost one third of U.S. demand (International Energy Agency 2006). From 2000 to 2005, China's energy consumption rose by 60%, accounting for almost half of the growth in world energy consumption. This upside surprise has prompted a fundamental reassessment of China's, and thus the world's energy future. The IEA (International Energy Agency) has raised their China 2030 forecast by 1.2 billion tons of oil equivalent (a 63 percent upward revision)—more than India's total projected demand for that year (Figure 1). Under this scenario, China will account for 20 percent of global energy demand, more than Europe and Japan combined, and will easily surpass the U.S. as the world's largest energy consumer.

Figure 1: Forecasts of China's Energy Demand (mtoe)

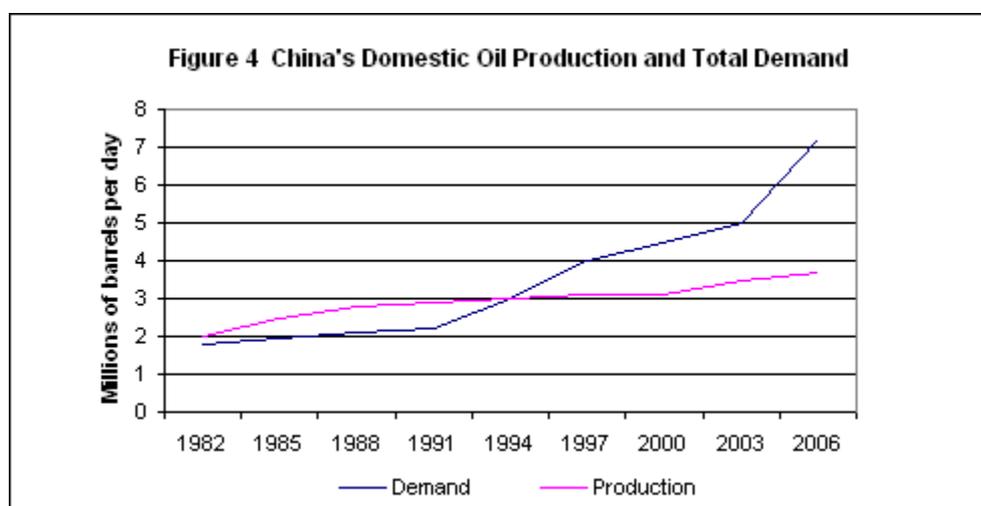


Yet, China's domestic oil supply has failed to keep pace with this increasing demand, and the outlook for substantially increasing it is grim. Most of China's oil fields have reached production plateaus or will soon decline in output (Gillboy 2002). Increased output from fields in western China and offshore is likely to only slightly offset production declines in China's oldest and largest oil fields in the northeast, including Daqing (Xu 2002).

The widening scissors gap between China's domestic oil demand and supply indicates that it will be increasingly dependent on imported oil (Figure 2). Based on the demand and supply projections aforesaid, China's oil imports are expected to increase from about 3 million bpd in 2005 to between 6 million and 11 million bpd in 2020, or some 60-80 percent of the country's total oil consumption (Downs 2006). Yet, today's oil market is characterized by

increasing state ownership and rising resource nationalism. Approximately 85% of the oil traded is controlled by state oil companies owned by host governments. Concession agreements, which used to be common, are now rare. Instead, producing states prefer to work with foreign oil companies for the expertise, technical services and investment capital that they offer.

Figure 2: China's Oil Demand and Domestic Supply



China's "going out" strategy

The dramatic increase in oil import and increasing difficulties in securing oil supply aroused concerns and attention from China's academic and policy-making fields. Chinese leaders realized that China needs to secure oil supply and build its capacity to participate in the global oil market. As early as 1992, the central government put forward the strategic policy of developing China's oil industry by "using two sorts of resources (domestic and overseas) and

markets”. On January 1, 2001, Mr. Chen Jin Hua, former director of Chinese National Planning Committee, advocated “establishing oil fields abroad” (Chen 2001), or the “going out” strategy.

China hopes to achieve two objectives with this “going out” strategy. One is to encourage China’s oil companies to follow the footsteps of international oil companies in the developing of equity oil,¹ and to look for income and rent from the upstream sector (exploration and production). The other one is to create internationally competitive firms—especially in “pillar industries”—which can compete with the world’s leading corporations, both in China and abroad. The Chinese leadership believed that China’s future oil strategy will be influenced by the growing strength of its oil companies. To be more competitive globally, Chinese oil companies need to vie with international firms in the world markets. Meanwhile, the “going out” strategy will facilitate the export of oil-exploration equipment and other goods, thus creating and promoting bilateral trade between China and host countries.

Actually, the decision to invest in oil exploration and production abroad was initiated by the companies themselves. Among the three biggest Chinese oil companies,² CNPC (China National Petroleum Corporation) was the first to venture overseas. CNPC began to set its sights beyond China’s borders in the late 1980s, and in 1991, CNPC announced that internationalizing its operations

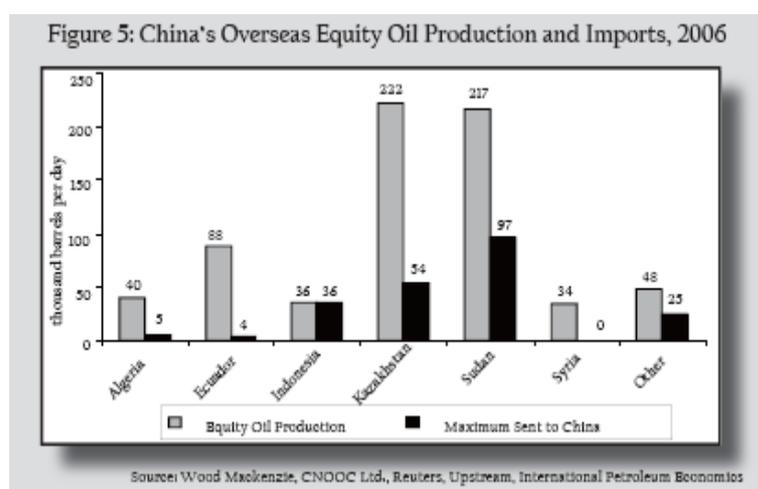
was one of its long-term strategies. It made its first overseas investment with the purchase of a stake in a United Nations sponsored oil sands development project in Alberta, Canada. In 1993, CNPC acquired the exploration right of Peru's Talara oil field at US\$25 million (Zha 2005). From the later 1990s, CNPC tilted its "going out strategy" to Africa.

Since the late 1990s, China's policies towards Africa have been closely linked to the objectives of its major state-owned company, CNPC, in its attempt to access African oil and gas. China had invested in 27 major oil and natural gas projects in 14 African countries by the end of 2005. Today, China's oil imports from Africa have been increasing at an annual rate of 30%, slightly higher than that from the rest of the world (26%). Among African oil-producing countries, China imports oil mainly from Angola, Sudan, Republic of Congo, and Equatorial Guinea, with Angola being the leading supplier of oil from Africa. In 2006, Angola accounted for 50% of China's oil imports from the continent and narrowly overtook Saudi Arabia to become China's top crude oil supplier (Reuters News 2006).

China has also benefited from its experience in Sudan. About 50% of China's equity oil comes from Sudan, and 65% of Sudan's oil exports go to China (Petroleum Intelligence 2006). The number of Chinese workers working in Sudan has tripled since the early 1990s, reaching 24,000 in 2006. Chinese

non-oil investments are significant as well, including hydro-electric facilities, a new airport for Khartoum, and several textile plants. China also operates the vast bulk of Sudan's oil production and has a 50% stake in the nation's only major refinery in Khartoum (Lee 2007).

Figure 3: China's Overseas Equity Oil Production and Imports, 2006

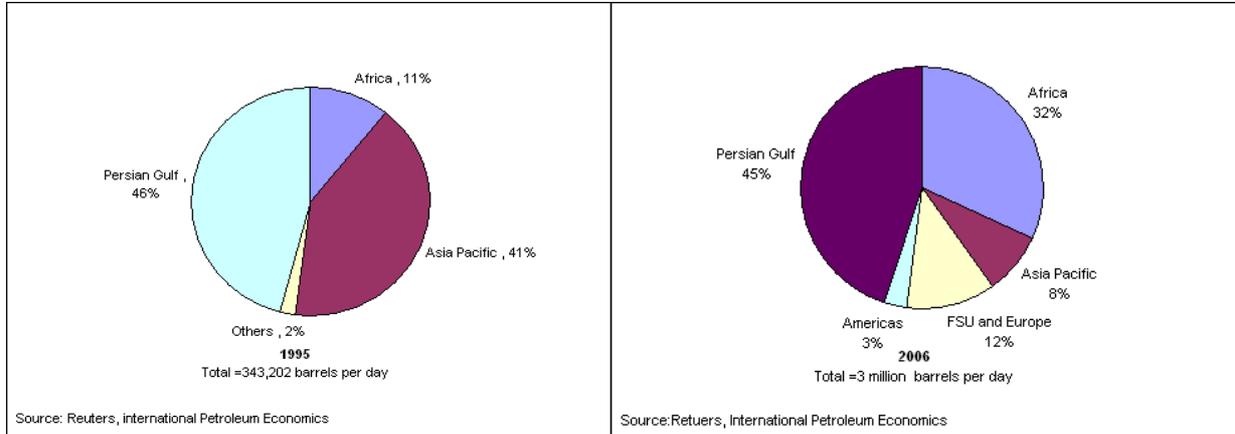


Factors for China's oil companies going to Africa

The Persian Gulf and Asia Pacific regions were China's main oil import resources in the 1990s. In 1995, these two regions supplied almost 87 percent of China's oil imports (Persian Gulf 46%, Asia Pacific 41%). But since the end of 1990s, the importance of these two regions in China's oil imports has diminished. In 2006, the Asia Pacific's portion declined to 8 percent, while the Persian Gulf's portion hovered at 45 percent (figure 3). The Asia Pacific region does not have the supply to meet China's oil import demand. Indonesia, the region's second largest oil producer (behind China) and once China's largest

supplier (31 percent in 1995), is now a net oil importer.

Figure 4 China's crude imports by region



The Persian Gulf will remain an important source of crude oil for China. Yet, the 9.11 terrorist attacks on the U.S., the predominantly American “war on terror”, the military interventions in Afghanistan and Iraq have all heightened China’s sense of insecurity and vulnerability. Beijing is concerned that the U.S. reaction to the 9.11 terrorist attacks has further destabilized the already far from stable oil-producing regions of the Middle East and Central Asia. China has to diversify its energy import strategy so as to security its oil supply. China perceives the current oil production order and partnerships as entrenched. Over the past five decades, U.S., Japanese and European companies have already forged relationships with key producing countries. Southeast Asia was under the exclusive control of Western powers during the colonial period. The oil-producing territories of Indonesia, Brunei, Sarawak and Burma (Myanmar) were controlled

by the Dutch or British. Western control and the head start of Western oil companies in exploration, development, transport, refining and petrochemical as well as natural gas industries had helped to entrench Western interests there. It would be difficult for Chinese oil companies to enjoy equal opportunity in those markets. Chinese oil companies felt compelled to find alternative sources of oil.

Africa is believed to be one of the main growing sources of future global oil supply; *Wall Street Journal* predicted that by 2010 “West Africa will be the world’s number one oil source outside of OPEC” (Ball 2005). Africa’s oil surplus has grown over the past decade, and the light, sweet crude of West Africa are well suited to China’s refineries. Unlike the Middle East, African oil upstream markets are opened to foreign investors. Europe and the U.S. have yet to monopolize some of these new oil producers, such as Sudan and Angola.

The U.S. influence and control over oil in this region have been either weak or counterbalanced by political factors. Some African countries, such as Libya and Sudan, had been barred from U.S. energy investment and trade; in Libya’s case, it is because of its support for terrorism and its pursuit of weapons of mass destruction; in Sudan’s case, it is because of its egregious human rights behavior. This provided China with a unique opportunity to obtain a significant position in one of the few remaining underdeveloped oil regions in the world.

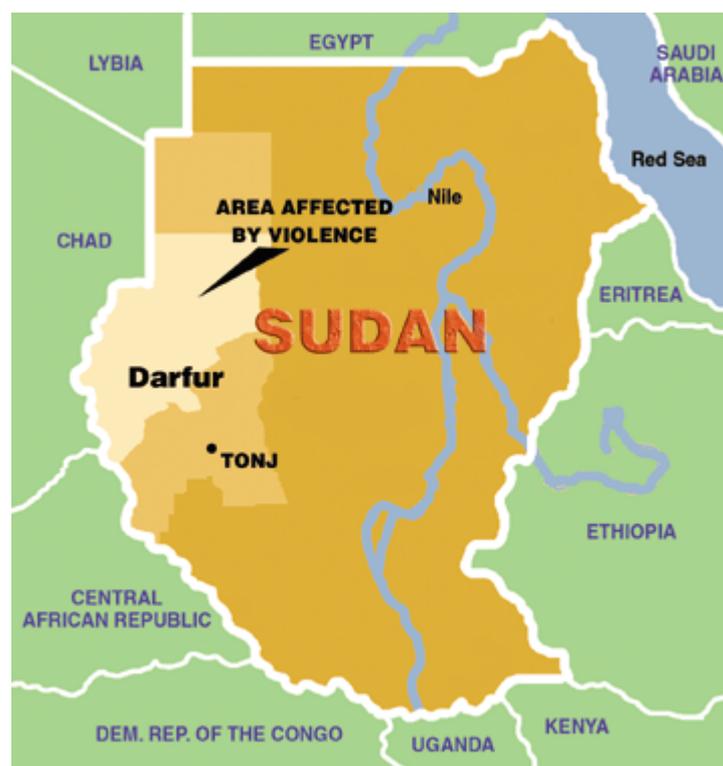
China is not a newcomer to Africa, and has been playing a significant role there for several decades. China first became a major actor in the African scene in the 1960s and 1970s, when, as part of its ideological rivalry with the Soviet Union, it supported certain national liberation movements (notably those that were prepared to eschew Soviet aid) and some friendly post-independence regimes in the area. As part of this effort, China provided arms and military equipment and helped build roads and railroads. “Between 1955 and 1977, while many African countries were fighting for independence and self-determination, China sold \$142 million worth of military equipment to Africans. Moreover, China opened its universities to over 15,000 African students for free education and has consistently supported Africa’s development and responded to emergencies” (Klare & Volman 2006). For this and other reasons, China cannot be considered as an interloper in Africa but a legitimate player with a credible history of supporting African development efforts.

Limited opportunities to raise domestic upstream production and thin margins on downstream activities³ is another factor compelling Chinese oil companies to scour the world for investment opportunities in untapped energy reserves. To grow an upstream business there are only two options: one is to explore somewhere more risky, the other one is to expand through mergers and

acquisitions. Following CNOOC's aborted bid to acquire Unocal, Chinese firms see bigger risk in bidding for U.S. and European energy firms than in drilling for oil in Sudan, Syria, or Iran, where western oil companies are either prohibited from investing or hesitant to do so out of fear of political risks there.

Chinese oil companies are less concerned that a host country will one day decide to nationalize their assets. This is partially because these state-owned firms are new to the game and have yet to endure such an ordeal. They also face lower investment hurdles overall and can thus accept a higher risk premium. Well known is the case of CNOOC's attempted acquisition of Unocal in 2005, where the smallest of the three Chinese oil majors was able to secure US\$7 billion in cheap state financing as part of its US\$ 18.5 billion bid (Rosen 2007). Another example is CNPC whose 2006 profits alone totaled US\$ 24 billion (Lee 2007). As CNPC is not required to pay dividends to the state, and can not find enough new outlets for investing the profits, the only alternative is to put the money in bank for deposits. With less opportunity costs, CNPC is more able to overcome various investment hampers or take on a higher risk level than BP or Chevron, whose shareholders would rather take their money and reinvest it elsewhere if the company cannot deliver double-digit returns (Rosen 2007).

Finally, the success of Chinese oil companies going into Africa should be attributed to concession agreement from some African countries. With a dramatic fall in foreign direct investment (FDI) after the end of the Cold War, the introduction of Chinese FDI is welcomed. There is genuine enthusiasm on the part of African governments for providing concession agreements for Chinese entrepreneurs investing in their countries and opening new business in some neglected areas, such as the oil industry. In this context, China's Sudan project is a good example.



Sudan's modern oil industry began in 1978. The American company Chevron began its oil exploration in 1974 in the Muglad Basin. When civil war broke out for the second time in 1984, Chevron abandoned over one billion dollars of

private investments and sold its interests to a Canadian firm, which formed the Greater Nile Petroleum Operating Company (GNPOC). When Sudan's president Omar al-Bashir visited China in September 1995, he expressed hope that Chinese oil companies could invest and explore oil resources in Sudan, helping Sudan to develop its own modern oil industry. CNPC conducted its preliminary study of Sudan and concluded that the fields in question were similar, in terms of geological formation, to China's Bohai Bay region. In 1997, CNPC decided to join the oil exploration project in Sudan, and bought 40% share from GNPOC. The goal of the newly formed company was to develop Sudan's oil field in the south-central part of the country and build a 1500km pipeline to a coastal port facility at Marsa al-Bashair, near Port Sudan.

To support CNPC's business in Sudan, the Chinese government signed a framework agreement with Sudan government in September 1995, agreeing to provide a preferential credit of 1.15 billion RMB for oil exploration projects in Sudan (Lin 1997). After discussing with representatives from the Financial Ministry and Central Bank of Sudan, it was agreed that preferential credit would be provided to Chinese companies while the project would come under the supervision of the Sudan Bank.⁴ On the part of Sudan, it agreed to give China generous concession terms, such as no restrictions on profit repatriations and exemptions of all domestic taxes on exported oil. These terms are among the most generous in the world. Thus from a purely commercial basis,

investments in Sudan were almost too good to turn down, especially given China's perception that most producing regions were tied to U.S., European and Japanese interests, and might be less receptive to Chinese overtures.

China's energy strategy in Africa

China's oil venture in Africa has expanded over the last few years. Since 1999, crude oil imports from Africa have accounted for over 20% of its total oil imports, and in 2005, this percentage increased to 31% (38.47 mts/year). Angola, Sudan, Congo and Equatorial Guinea were among China's top ten oil importing partners in 2005, while other oil producing African countries such as Nigeria, Gabon and Cameroon are increasing their oil exports to China. The growing dependence on imported oil from the continent means that China will continue with its emphasis on Africa as part of its new energy strategy.

Changing the forms of diplomatic aids

The Chinese government began giving financial support to African countries in the 1970s. At the outset, the objectives of support were largely ideological in nature. With the advent of its economic reforms in 1978, the Chinese government stepped up its diplomatic aid to Africa, which served multiple purposes, including economic and oil objectives. During the last years, the assistance has become partly more sophisticated, in terms of instruments utilized, and partly more geographically diverse. In the 1980s, the Chinese

government provided much of its economic aid in the form of building large non-commercially oriented projects, such as sports stadiums, hospitals, schools and government office buildings in Gambia and Sierra Leone. This strategy was extended to the other African countries in which China has economic interests. In the 1990s, support began to shift to grants. Today, the proportion of non-commercial aids has been decreasing, with commercially oriented loans accounting for the vast majority of Chinese government-sponsored African aid.

China's Export-Import Bank, which was established in 1994 as a state policy-bank, is the sole state-owned entity the Chinese government uses to dispense official economic aid worldwide, including to Africa. According to the World Bank in 2007, as of 2005, the Chinese Export-Import Bank had made an accumulated commitment of US\$ 800 million in concession loans for 55 projects in nearly 22 African countries, and as of mid-2006, the total amount of Export-Import Bank loans to Africa reached over US\$ 12.5 billion in infrastructural development alone (Gill 2007). These projects are mainly concentrated in oil-rich countries, such as Angola, Mozambique, Nigeria, Sudan and Zimbabwe. In the summer of 2006, a US\$ 2 billion infrastructure loan announced during Premier Wen Jiabao's visit to Angola as part of a seven-nation African tour (France 2006). When visiting Africa in early 2006, Chinese president Hu Jintao promised to provide preferential credit of US\$ 3

billion and preferential supplier credit of US\$ 2 billion, and announced that China's support to African countries would be doubled by the year 2009 (Financial Times 2006). China is also using debt relief to assist African nations. Since 2000, Beijing has taken significant steps to cancel the debt of 31 African countries. That year, China wrote off US\$ 1.2 billion in African debt and in 2003 another US\$ 750 million (Broadman 2007).

In the past years, developing bilateral relations with most of the African countries had been a priority of China's diplomacy, and most of the aids were given through bilateral channels. As China becomes a greater player in Africa, it has begun cooperation with multilateral organizations. China has joint the "Donor Coordination Groups" which are based in Kenya and Tanzania; China started cooperation with NEPAD (New Partnership for Arica's Development) in 2003, discussing development priority in Africa. China's role in the UN, its contributions in African Development Bank, its recent conference of African leaders in Shanghai are testimony to China's evolving recognition that a strategy based on international cooperation may be more important than one that relies on special arrangements.

Incorporating oil into a broader business regime

Realizing that it did not have the historical linkages with key oil-exporting countries as enjoyed by U.S. and European multilateral companies, China tried to approach Africa not simply as an oil resource base, but as part of a greater

interdependent business relationship. By the end of 2005, China had invested in 27 major oil and natural-gas projects in 14 African countries, including Angola, Sudan and Nigeria. China is to further increase its investment in Africa's oil through its state-owned oil companies. In 2006, CNOOC paid US\$ 2.7 billion to obtain a minority interest in a Nigerian oil field and US\$ 4 billion to build refineries in the same country; while Sinopec paid US\$ 2.2 billion for two oil fields in Angola (The Economist 2006). China has been also investing in related infrastructure. In Nigeria, China Civil Engineering Construction Corporation signed a US\$ 8 billion contract in October 2006 to build a 1,315 km railway line which will connect the commercial cities of Lagos and Kano with the oil cities of Jos and Port Harcourt.

In terms of trade, from 2000 to 2005, bilateral trade between China and Africa as a whole has been increasing by 40% on a year-on-year basis, reaching US\$ 36.3 billion in 2005. To date, China has established trade relations with all African countries, with over 800 foreign trade companies doing business there.

China believes that modern international oil cooperation is more based on "win-win" principle, which is the basic factor for sustainable development and enlargement of oil cooperation. In implementing its "going out" strategy in Africa, for example, CNPC focused on mutual benefits with resource countries. In the Sudan project, nearly 50% of the revenue went to the Sudan

government. CNPC and its branches in Sudan have employed over 4000 Sudanese employees and over 7000 contract workers, greatly relaxing the employment pressure in Sudan. Meanwhile, CNPC lays stress on training for its Sudanese employees. Since 1998, CNPC has spent US\$ 1.5 million in sending 35 Sudanese students to study at various universities in Beijing.

In developing its relationships with African countries, China has deliberately avoided a singular focus on oil supplies and attempted to enlarge the range of economic exchanges. China's goal is to create a level of economic interdependence that will lead to greater trade, including the purchase of oil and gas supplies. By the end of 2006, China had established over 800 non-financial enterprises in Africa, with the accumulated value of investment reaching US\$ 11.7 billion. The investment projects cover trade, textile, power generation, road construction, tourism and communication. Strategically, these endeavors are meant to reinforce Beijing's efforts at establishing itself in Africa as a desirable long-term customer for the continent's oil exports.

China is negotiating for the establishment of a regional economic free trade area with the Southeast African Customs Union. China joined the African Development Bank and Western African Development Bank, and has built its more expansive engagement in Africa within the FOCAC (Forum on China and Africa Cooperation) framework. The third FOCAC summit in Beijing in

November 2006 stands out from the previous two (2000 in Beijing and 2003 in Addis Ababa) for its exuberance, scale and ambition. Meanwhile, China has established mechanisms, such as bilateral committees between China and African countries and political consultation between foreign ministries of the two sides, to conduct dialogue and consultation in a flexible and pragmatic manner. All these indicate that Beijing has launched a more comprehensive and ambitious program to court Africa as a whole and integrate it into the world market.

Adjusting approach to Africa

Until November 2006, China actively worked to block U.S. initiatives at the U.N. Security Council aimed at forcing Khartoum into allowing a more robust peacekeeping mission in its Darfur region. China has been careful not to endorse U.N. involvement in the domestic affairs of the host government without consent, out of fear that someday such a standard could be used against its own interests. China believed that its activities in Sudan were commercial in nature, and doubted foreign intervention would bring democracy and justice to that troubled nation, because “history has shown that oil-importing countries have little power to effect change in many of the world’s oil states” (Zha 2006). As Sino-African relationship develops further, however, it has begun to alter this policy.

During the last couple of years, China's investment interest has been repeatedly jeopardized and harmed in Sudan and some other African countries. "China is finding it more difficult to follow its non-interference policy in Sudan, while also ensuring the stability of its investments in the country's oil industry" (Wolfe 2007). Indeed, Beijing does not believe that Khartoum's actions will lead to a resolution of the crisis, and this could potentially undermine China's investments and oil interests in Sudan. Beijing now believes that the only way to maintain stability in the region is for outside powers to force a negotiated settlement.

China started to adjust its approach in October 2006 when it voted in favor of a bigger UN peacekeeping presence in Khartoum to buttress a weak African Union force on the ground. On his visit to Khartoum this February, Chinese President Hu Jintao told al-Bashir, "Darfur is a part of Sudan and you have to resolve this problem" (Wolfe 2007). In May 2007, China announced the dispatch of 275 military engineers to help strengthen the international presence. China subsequently appointed Liu Gui Jin (former Chinese ambassador to South Africa and Zimbabwe) as China's special representative for African affairs, indicating that China is loosening its "non-interference" policy in certain circumstances.

However, there is little reason to believe that China will shift toward the

isolation policy advocated by the U.S. In the past months, China has held several meetings with Sudanese officials, pushing for closer relations and a more “flexible” approach to Darfur. In each meeting, China used every opportunity to reassure Khartoum that it has not fallen out of favor with Beijing.⁵ In fact, China’s approach to solve the long-lasting conflict in Darfur has been to provide comprehensive development assistance, while finding every tactical means to persuade the al-Bashir’s government to comply with Western requests.

Is China’s oil venture fueling rivalry with the U.S.?

China’s increasing oil investment in Africa has aroused the concern of some American officials. In the past few years, another perceived threat has arisen: the possibility that China will pre-empt U.S. firms in the development of promising oil fields and compete with the U.S. for the loyalty of local governments. Although not all U.S. officials would put China in the ‘threat’ category with respect to African oil, there is concern over growing Chinese presence in the region among some in the Congress and the Department of Defense (DOD).

For example, Representative Christopher Smith of New Jersey told the House Committed on International Relations in July 2005 that “China is playing an increasingly influential role on the continent of Africa, and there is concern that

the Chinese intend to aid and abet African dictators, gain a stranglehold on precious African natural resources, and undo much of the progress that has been made on democracy and governance in the last 15 years in African nations.” (Klare 2006) Another example is the view reflected in the DOD’s 2005 report on Chinese military capabilities that China’s role in African oil could affect U.S. policy. The report notes that “China’s growing reliance on imported energy, especially oil and natural gas, ‘is playing a role in shaping China’s strategy and policy’. Such concerns factor heavily in Beijing’s relations with a number of major oil producers, including Angola and Sudan. Beijing’s belief that it requires such special relationships in order to assure its energy access could shape its defense strategy and force planning in the future.”(US DOD 2005) This reinforces the belief of the DOD that any such efforts on China’s part could pose a challenge (even a direct challenge) to U.S. security interests.

But this does not necessarily follow that China’s quest for oil is bound to lead to clashes over energy with the U.S. In fact, the U.S. and China are not really in direct conflict on many energy issues. Nevertheless, China’s search for oil is making a new rival to the U.S. for influence in Africa. If not managed prudently and properly, this rivalry might generate bilateral friction between the two major powers.

U.S. policy on African oil

Like China, the U.S. has exhibited extraordinary interest in African oil. In light of Africa's unique ability to increase its output in the years ahead, "Africa is expected to be one of the fastest-growing sources of oil and natural gas for the American market" (Klare 2006). It is predicted that within the next decade, the U.S. will rely on Africa for 20 to 30 percent of its oil imports. Moreover, the Bush government is seeking to enhance U.S. access to African oil in order to reduce its dependence on the ever-turbulent Middle East. These years, the U.S. oil imports from Africa in its total annual oil imports have increased from 16% in 2000 to 20% in 2005; while China's from 24% to 30% (table 1). In 2006, the U.S. imported 2.23 million barrels per day (bpd) from Africa, slightly higher than that from the Middle East (2.22 million bpd). Private-sector engagement is steadily rising, concentrated in the energy field; annual two-way trade reached US\$ 60.6 billion in 2005, up 36.7% from 2004 (Gill 2007).

Table 1. US and China's Oil Imports From Africa (million tons)

	1997		1998		1999		2000		2001		2002		2003		2004		2005	
	US	China	US	China	US	China	US	China	US	China								
Algeria	13.92	...	14.13	...	12.61	...	11.1	...	13.56	...	12.9	...	18.63	0.13	22.11	0.68	23.35	0.82
Egypt	1.81	0.29	0.57	0.20	1.15	0.11	0.52	0.12	0.34	...	0.52	...	0.43	0.8	0.69	...	0.71	0.8
Angola	20.86	3.84	22.85	1.11	17.6	2.88	15.0	8.64	16.0	3.80	16.2	5.71	18.12	10.1	15.5	16.21	23.07	17.46
Equatorial Guinea	0.26	0.20	0.1	0.24	0.2	0.81	0.38	0.92	1.02	2.15	2.22	1.78	3.26	1.46	3.8	3.45	3.4	3.84
Congo	2.3	0.98	2.6	0.38	2.2	0.38	2.53	1.45	2.33	0.64	1.34	1.05	1.53	3.39	0.7	4.78	1.55	5.53
Gabon	11.24	0.38	10.1	...	8.19	0.65	7.02	0.46	6.82	0.15	7.0	...	6.37	...	7.0	...	6.22	...
Cameroon	0.22	...	0.20	...	0.25	0.25	0.34	0.43	0.32	0.82	0.62	0.35	0.60	...	1.14	...	0.4	...
Libya		0.07		0.14		0.13		0.13		0.25		...		0.13	1	1.34	2.74	2.26
Nigeria	34.04	...	34	0.12	32	1.37	43.86	1.19	43.2	0.77	30.3	0.49	42.32	0.12	55.77	1.49	56.9	1.31
Sudan		0		...		0.27		3.31		4.97		6.43		6.26		5.77		6.62
Chad		0.21	...	3.29	0.83	4.76	0.55
Africa total	63.8	5.91	84.6	2.19	74.0	7.25	80.6	16.96	83.6	13.55	71.1	15.80	91.8	22.18	111.0	35.30	123.1	38.47
%	14.2	17	18.0	8	15.5	20	15.9	24	15.7	22	13.8	23	16.7	24	18.8	29	20.1	30

Note: % in each country's total annual imports.

Sources: U.S. Energy Information Administration; Zha Daojiong, "China's Oil Interest in Africa: International Political Problems",

Journal of International Political Studies, No. 4, 2006.

For the most part, the U.S. policy regarding African oil is aiming at improving the investment climate for American firms and strengthening the internal security capabilities of friendly governments. For instance, to enhance U.S. access to African oil, the Bush government has sought to expedite the removal of obstacles to participation of U.S. oil companies in Libya and Sudan. In February 2004, following a declaration by Libya that it would abandon its weapons of mass destruction and comply with the Nuclear Non-Proliferation Treaty, the White House eased sanctions on Libya and announced that “U.S. companies will be able to buy or invest in Libyan oil and products”. Sudan could soon be so as well, if a peace agreement between the northern government in Khartoum and the Sudanese People’s Liberation Front takes hold and conditions improve in Darfur (Klare 2006).

The U.S. defense establishment devoted relatively meager resources to Africa (in comparison with U.S. military expenditures geared to Europe, Asia and the Middle East). As a result of growing American reliance on African oil and the uncertain security climate (partly due to China’s growing influence there) in the region, the U.S. Department of Defense is paying closer attention to Africa these years. The largest portion of U.S. aid to Africa is being directed to Angola and Nigeria, the leading African oil suppliers to the U.S. Total U.S. security aid to these two countries in Fiscal Years 2004-2006 amounted to some US\$180 million, a substantial increase over the previous

three-year period. U.S. military engagement in Africa has expanded significantly, especially in the Horn of Africa, the Sahara/Sahelian zone, and the Gulf of Guinea maritime zone. Most of the U.S. operations there are directed against terrorism, but the longer-term issue is still on oil, especially in relation to China (Rogers 2007).

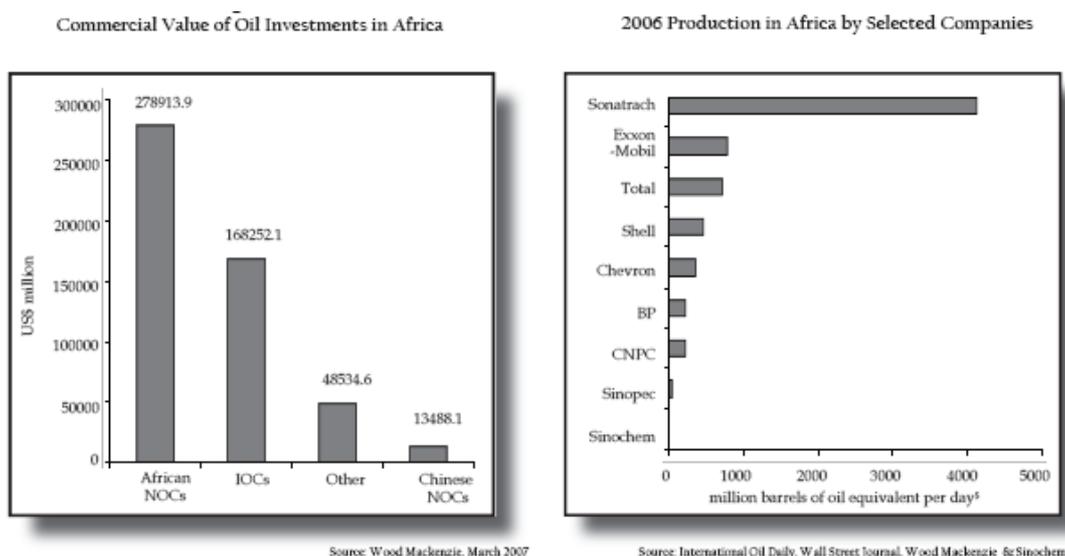
Reducing China-US oil rivalry in Africa

Consequently, it is possible for China and the U.S. to confront each other over oil in Africa. China's increasing oil investment and trade breakthrough with Sudan obviously clash with U.S. and its allies' sanction on Sudan, since "Chinese investments and trade will increase the host government's coffers, giving it the ability to buy more arms" (Lee 2007). Foreign policy analysts in Washington warned that "Beijing's strategy of 'locking up' the world's remaining oil supplies through long-term purchase agreements and aggressive diplomacy could lead Washington and Beijing into a struggle which is described as the 'geopolitics of oil' (Business Times Singapore 2007).

In fact this is not true. While CNPC dominates the oil sector in Sudan, China's NOCs are currently minor actors among the foreign investors, lagging far behind the IOCs in terms of assets' value and production. The commercial value of China's NOCs oil investments in Africa is just 3 percent

of all the companies that have invested in African oil. China's NOCs also produce less oil and gas in Africa than most of the IOCs. In 2006, the total African output of China's NOCs was only about one-third of that produced by the largest foreign producer in Africa—ExxonMobil. Although China's NOCs have enough capital, they lack the technology necessary to compete with other IOCs, such as BP, ExxonMobil and Shell, for some of Africa's most desirable blocks, like those located in the deep waters off the Gulf of Guinea.

Figure 5 Commercial value and production in Africa



Undoubtedly, China has been paying the costs and even running a risk in its oil-related diplomacy in Africa. China has been criticized for doing business with “rogue states” and labeled as “a neo-colonial power that plunders resources of poor states”. The benefits of having relatively uncontested access to oil supplies may be worth the short-term political costs, but these

costs will rise as China becomes more involved in the international market and affect the country's credibility in other forums.

One of the arguments for China's oil investment in Africa is that acquiring oil through direct investment can provide domestic consumers with a more secure and less expensive supply of oil than through the international market. The idea that equity oil enhances energy security is prevalent among some Chinese officials. However, it seems that the case of Sudan can not efficiently support the belief that equity production by China's oil companies abroad can guarantee China a supply of oil that is more reliable and less expensive than that from the international market. In the case of Sudan, the Khartoum government had expressed that concession terms given to CNPC in the late 1990s were overgenerous, and there is growing talk of renegotiating the existing contracts. Meanwhile the government in the South expressed that it has no interest in dealing with the Chinese companies.⁶ In addition, the Khartoum government has initiated negotiation with Indian Oil and Natural Gas Corporation with the intent to sell a portion of its stake in the Greater Nile Petroleum Operating Company and unofficially agreed to sell two new blocks, one to the Romanian company, Rompetrol, and the other to the Algerian national oil and gas company, Sonatrach. It seems that the Sudan government is looking for benefit-balance among foreign investors, and China's position of exclusivity is perhaps deminishing.

Based on this, China cannot take it for granted that Sudan and other African countries will repay China's oil interests for not condemning the conduct of the Khartoum regime. China has invested a large amount of capital with the expectation that over a long period of time it will get its money back plus a generous rate of return. In case these concessions are renegotiated or expropriated by the Sudanese government or its successors, China may find that the net present value of its returns may be far lower than anticipated. China has already realized this and doubts whether equity production by China's oil companies, as small as it is, can greatly increase the country's energy security. If not, why endure the damage to China's image and risk the potential conflict with the U.S.? This thinking has led China to adjust its approach to Sudan.

China's strategy is "one of humanitarian and development aid plus influence without interference, in contrast to the West's coercive approach of sanctions plus military intervention." (Qian 2007) Through high-level diplomacy, such as Chinese President Hu Jintao's visit to Sudan in February and dispatch of special envoys, and multilateral platforms such as the United Nations and the China-Africa summit, China has been making tactical moves to press the Sudanese government to comply with the international community's requests.

To prevent the potential conflict from becoming a self-fulfilling prophecy, it is important for China and the U.S. to intensify mutual understanding and expand coordinative relations with each other. Politically, China needs to do more than sending peacekeeping troops to Sudan, and be more positive in responding to U.S. complaints than repeating “noninterference in domestic affairs” as its guiding principle of foreign affairs (China still insists so orally at least). Economically, Chinese companies could lead the way by giving business opportunities to their US partners in markets where Chinese companies have better political access. More importantly, China’s decision makers need to keep in mind that energy security is a global issue, and in an era of globalization, a single nation’s policy no longer works well in addressing oil security. In the years to come, a strategy based on international cooperation may look more attractive than one on special arrangements with a few rogue states.

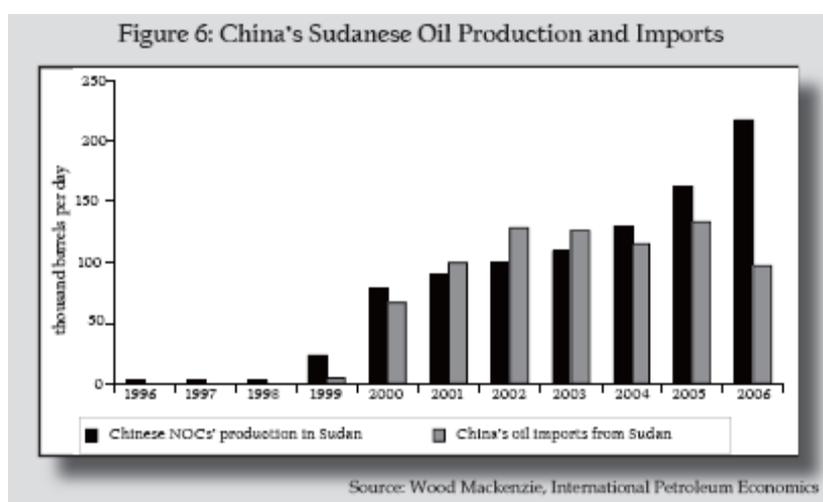
On the part of the U.S., firstly, it is essential to see that both sides share the same view on many controversial issues and understand China’s situation, as U.S. president’s special envoy to Sudan said, “Our policy and Chinese policy (on Darfur/Sudan) are closer than I realized they were, and I think the Chinese are going to play an increasingly important role in helping us to resolve this. I think the visit was a very successful one because we found many more areas of common agreement, both about our objectives and our

strategies for achieving those objectives.” (Natsios 2007) Most obviously, the two sides have become deeply intertwined economically and have a joint interest in managing their political relationship in a way that assures continued bilateral economic and oil interests in Africa.

China’s political influence in Darfur should not be overestimated. At the same time that Beijing’s investment in Sudan provides economic leverage, it also makes Beijing a hostage. Beijing’s role is limited, as it will lose its credibility and influence if it overreaches its will politically, as “the effective influence that Beijing can exert over the Darfur crisis lies in its delicate balance between practicing an influence-without-interference strategy and maintaining the hard-won trust of the Sudanese government.” (Qian 2007)

Secondly, it is evident that China’s oil investment in Africa is not a threat but something to be encouraged, because it has enlarged the availability of oil in the world market. For instance, China’s investments and technical assistance in Sudan have helped turn this country into an oil exporter.

Figure 6 China's Sudanese Oil Production and Imports



Thirdly, U.S. can play its role to lead China onto the right track by, for instance, taking China into the IEA,⁷ so as to turn China's unilateral energy policy into a multilateral one. In other words, it is essential for China to be further integrated into the global oil market by being provided with an opportunity to participate in the decisions on the "rules" governing that market and share information on world oil market, thus being ensured that its oil interests will be protected in the event of turbulence.

Conclusion

As China's engagement in Africa expands economically and politically, it is continuing its emphasis on Africa as part of its energy strategy. At the November summit last year, China announced that over the period of 2007-2009, it will establish a US\$ 3 billion preferential loan package and a US\$ 2

billion preferential buyer's credit for Africans; it will double aid to Africa, cancel all debts owed by African countries that were due in 2005, and establish a US\$ 5 billion China-Africa Development Fund to provide start-up capital to Chinese companies investing in Africa.

But China's activities in Africa are still met with some unexpected straits and difficulties. Although China's current investment in Africa have been diversified to many other sectors, and China's business strategy in Africa has gone far beyond oil and other energy resources, China's investment has still been labeled by some Western media as "new colonialism to plunder resources". Some Western media's reports and concerns have not only badly affected China's positive image in Africa, but also made China's oil interests vulnerable to international pressure.

For example, American jurisdiction over companies listed on the U.S. Stock Exchange, based on an interpretation of the Alien Tort Claim Act, was used by human-rights groups to lead the Canadian oil company, Talisman Energy, to sell its 25% share in GNPOC (Greater Nile Petroleum Operating Company) in March 2003. CNPC was very interested in a listing on Wall Street, and submitted its application in 2000, which was expected to raise US\$ 10bn. However, publicity generated by human-rights activists forced a withdrawal of CNPC. CNPC had no choice but to create a subsidiary, PetroChina, which

explicitly denied that any of the capital raised would go to Sudan. In the end, only US\$ 300m was raised (Alden 2005).

China no doubt has its own interests in Africa, but its engagement there takes into account the interests of African countries and their desire to first of all promote economic development. China has provided African countries with some urgently needed aid, such as concession loans, building bridges, roads, dams and power plants, but China did not get due credit for its activities. China needs to consider further reforming its ways of supporting Africa and help African countries find a new development model. Donation can relieve some urgent needs, but it cannot eradicate the roots of poverty and underdevelopment in African countries.

China's economic reform and development can be an example to Africa. China's financial system has played an effective role in developing its undeveloped areas. China's reform experience in other social fields, relatively advanced technology, and culture can be emulated by African countries as well. China as a forerunner of economic reform can transfer its expertise in creative development to African countries. This would bolster China's image as a constructive and positive partner rather than as a colonial power out to plunder resources.

In short, by improving its activities and image as a donor, China can largely change Western perceptions of its behavior in Africa, thus greatly reducing potential conflicts with the U.S. Both China and the U.S. are becoming increasingly dependent on imported energy. As such, they are finding more common interests with regard to oil affairs in Africa. Both hope to see political and social stability in Africa and a stable supply of oil at a fair price in the international oil markets. They have the foundation and reason to turn oil in particular and energy in general into a cause for confidence building between the two.

¹ Equity oil refers to standard industry production sharing agreements where the foreign oil company is given the right to sell a specified share of the oil produced. By early 2005, China's total equity oil secured was around 400 thousand barrels per day, equivalent to roughly 15% of China's total crude imports (while it makes up over 40% of U.S. oil imports) or 6% of China's current oil consumption. ([http://ksnotes.harvard.edu/research/wpaper.nsf/rwp/PWPOT-017/\\$File/rwp-07.017.lee.pdf](http://ksnotes.harvard.edu/research/wpaper.nsf/rwp/PWPOT-017/$File/rwp-07.017.lee.pdf))

² CNPC was incepted in 1988, an offshoot of the Ministry of Petroleum Industry, with business operations mainly in the north and the west of China. Sinopec (Chinese National Petrochemical Corporation) was established in 1983 after merging assets from the Ministry of Petroleum Industry and the Ministry of Chemical Industry; its stronger presence is in the south and east. CNOOC (China National Offshore Oil Company) was formed as a corporation under the Ministry of Petroleum Industry in 1982, focusing on offshore investments.

³ For fear of passing inflation to an increasingly automobile-oriented and vocal middle class, as well as to low-income farmers and taxi drivers, China has to tightly control the gasoline and diesel prices.

⁴ In 1994, China began to reform and changed the forms of its foreign aid, combining foreign aid with investments, trade and other bilateral cooperation projects (including energy cooperation).

⁵ When visiting Khartoum this February, Hu Jintao provided al-Balshir with an interest-free 100 million yuan loan to build a new presidential palace, and wrote off another 70 million yuan in debt.

⁶ The two sides in Sudan signed a peace treaty in 2005—the Comprehensive Peace

Agreement. Under its terms, the South has a six-year period of autonomous self-rule. The South has formed its own oil company-Nilepet, and disputes are already emerging about which side has the rights to grant concessions for future oil exploration. (Henry Lee and Dan A. Shalmon. "Searching for Oil: China's Oil Initiatives in the Middle East", *Faculty Research Working Papers Series*, March 2007. Available at: [http://ksgnotes.harvard.edu/research/wpaper.nsf/rwp/PWPOT-017/\\$File/rwp-07.017.lee.pdf](http://ksgnotes.harvard.edu/research/wpaper.nsf/rwp/PWPOT-017/$File/rwp-07.017.lee.pdf))

⁷ In the near future, China is unlikely to join the IEA, which requires membership in the OECD (Organization for Economic Cooperation and Development) and the maintenance of emergency oil stocks equivalent to at least 90 days of net oil imports.

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