

# Securing China's oil supply

## From Saudi Arabia to Sudan

Despite China's endeavours to keep away from oil, it is indisputable that in the coming decades, it will remain a crucial energy source for the nation. Likewise, during the last 20 years, China's oil supply has relied heavily on imports, with import volumes outstripping output. China's future oil imports are dependent on the Middle East and Africa, with countries in those areas, such as Saudi Arabia and Sudan, serving as chief sources of China's oil supply. But cooperation must inevitably involve the restructuring of geo-political relations.

Chen Mo

TO ENSURE THE SECURITY OF OIL SUPPLY, China must first guarantee easy access to petroleum. The most obvious way to do this is to rely on domestic supplies. However, China is a highly populous nation with relatively low per capita oil resources. Furthermore, since the 1990's, China's domestic oil production has no longer been able to meet the rapidly growing demand. As the pillar of China's petroleum industry, onshore oil constitutes 90% of the country's total crude oil output. In Eastern China, where crude oil output accounts for 75% of total output, the oilfields have begun to stagnate and Western China, the strategic substitute region for China's oil industry, has been forced to increase contributions to onshore crude oil output. There are high production costs involved in exploiting this source given the area's complicated geological conditions and adverse natural environment. Offshore oil exploitation is a specialised industry that requires huge investment, high-technology and involves high risk. Although some marine spaces in the East and South China Seas offer good prospects for oil and gas resources, territorial disputes with neighbouring countries remain unsolved, making exploitation in these areas problematic, at least in the short term.

In 1993, China became a net oil importer and in recent years China's overall crude oil import volume has maintained a generally upward trend. China relies on the Middle East for a considerable proportion of oil supply, however, this dependence – on a region prone to tensions and with vulnerable export (pipeline and shipping) routes – is a potential threat to the security of China's energy resources.

### Strategy for securing oil imports

China has adopted a series of energy policies and approaches in order to realise a steady oil supply:

#### a) Greater diversity of oil imports

China's diversification policy created the conditions for reducing dependency on the Middle East for oil supply, however, the Middle East and Africa have abundant oil resources and favourable price and transportation conditions, re-affirming them as important sources of supply for China. Other options for China include Russia and the Caspian oil producer countries. China is increasingly co-operating with the oil producing countries of Central Asia, and in particular Kazakhstan. At the same time, China has developed its energy cooperation with Latin America, among others Venezuela.

#### b) Energy diplomacy

For China, oil security is largely about avoiding disruption to supplies and cushioning the impacts of dramatic fluctuations in oil prices. The Chinese government's energy diplomacy is a substantial guarantee for energy security and indispensable for ensuring oil import security – creating better conditions for domestic companies in the international market, introducing energy saving and environment friendly technologies and carrying out international cooperation on alternative energy resources. Energy diplomacy is a new policy and integral to China's diplomatic efforts since the 1990s.

Expanding energy cooperation with oil importers is a substantial element of China's energy diplomacy. The Sino-US relationship is becoming increasingly important in global affairs and its strategic significance extends to the international economy, politics, security and other fields. China and the US are increasingly finding common interests in maintaining regional and international security and ever-increasing reasons for cooperation. As big energy consumers, oil supply and oil price



changes impact greatly on both their economies. Therefore it is in their interests to work together to maintain the stability of the global oil market and cooperate further on energy resources.

As for energy diplomacy with the European Union, China's policy is to avoid turning the energy issue into a political one. China is committed to maintaining a secure, stable and favourable political environment and to minimise the influence of regional political disputes (such as the ethno-religious conflicts in Central Asia) on the global energy resources supply. China also exercises rational exploitation of traditional energy resources and is actively developing renewable energy resources, in order to realise globalisation and counter external threats to energy security, as well as to maintain stability in the international energy resources market.

For many years, China has been fostering friendly relations with developing countries based on equality, mutual benefits and aid. China and other developing countries share common interests in the 'battle' against the supremacy of, what they see as, the unreasonable international business order and supremacy, and at the same time, benefitting from mutual support and cooperation in the economic field.

In terms of China's relationship with oil exporters, the country is in need of steady energy supplies and investment by oil producing countries. In fact, these oil producing countries see the dynamic Chinese market as an attractive outlet for their surplus production. This has created a 'win-win' environment which favours further cooperation.

#### c) The 'going global' strategy

The 'going global' strategy is crucial to China's participation in economic globalisation and for Chinese enterprises to compete in the international market. It is also of significant importance for elevating China's GNP and increasing wealth for the Chinese enterprises. China's oil companies have proved that they can retain their position in the global oil industry by making full use of their low-cost advantage. A case in point is China's oil projects in Sudan, which have lower production costs than the average international oil company.

#### d) Establish strategic oil reserves

After years of discussion and preparation, China established the National Oil Reserve Center on December 18, 2007. This centre is of strategic importance for establishing and improving the oil reserves management system in line with Chinese characteristics, accelerating the accumulation of strategic oil reserves and also regulating the operation of these reserves. The first batch of four strategic oil reserve bases will soon come on stream, and site selection for a second batch of bases has also taken place.

#### e) Seek energy saving approaches, improve energy efficiency, reduce energy consumption and strengthen environment protection

Efficient use of energy resources requires energy saving approaches, improved energy efficiency, reduced energy consumption and strengthened environment protection. Since 2007, the Chinese government has taken a number of measures in these areas.

#### Energy cooperation between China and Saudi Arabia

Saudi Arabia openly supports the one-China policy in relation to Taiwan, and in return, the country seeks backing for its policies on the stability and security of the Middle

East and the Gulf Region. In particular, Saudi Arabia hopes that China can play a major role, and take a fair and just stance, in Arab-Israeli issues.

From an economic perspective, China needs energy supplies from Saudi Arabia; in turn, Saudi Arabia has every intention of investing in China, seeing it as an export market with great potential and also as being relatively safe for oil dollars. The nation anticipates that China could serve as an important market for its own petrochemicals and perhaps even for those of the entire Gulf Region.

While China expands oil exports from Saudi Arabia, Saudi oil companies are making their way into the Chinese market as well. Large-scale Sino-Saudi cooperation in the energy field kicked off in 2003 and saw rapid growth of bilateral investment. The Sino-Saudi relationship does not pose any threat to the US. Politically, America tends to take sides with Israel on Middle East issues and Saudi Arabia wants China to play a more important role in the region, but China's influence is quite limited when it comes to Arab-Israeli issues. In fact, China is excluded from the 'four-party mechanism' and the only influence it can exert is through the mediation of its Middle East envoy. China has a long-standing policy of respecting national sovereignty and avoiding interference in other nation's internal affairs. The US government is aware of the importance of maintaining a close relationship with its Middle East allies and in asserting its traditional power in the region. Economically, Saudi Arabia has not yet opened the upstream sectors of its oil industry, a sector which has been designed based on American technology. The Saudi upstream gas industry has been opened up and the biggest overseas investors are still American companies. Even in the construction contracting market, expensive contracts are still obtained by contractors from the US and other developed nations, leaving China with contracts small in both value and scale. Currently then, the emergence of Chinese companies in Saudi Arabia pose little threat to American businesses.

#### Energy partnership between China and Sudan

China and Sudan have long been on friendly terms. The Sudanese government upholds the one-China policy regarding Taiwan. Economically, China and Sudan appear to be in a win-win situation. Sudan needs Chinese oil companies to exploit its oil resources and it needs Chinese agricultural technology transfer in order to improve people's livelihoods and promote its economy.

Oil cooperation between China and Sudan is carried out under mutually beneficial policies. Chinese investment in Sudan enables joint development of Sudanese oil resources. Under the request of the Sudanese government, China provides capital, technology and human resources to build a complete oil industry – from upstream to downstream sectors.

The oil cooperation between China and Sudan covers areas including prospecting, exploitation, production, oil pipelines, refining, polypropylene, plastic processing and refined oil selling. The oil industry has become a major driving force behind Sudan's economic growth, putting momentum into the development of transportation, manufacture and construction. Under the principle of 'mutual benefit and development', China Petroleum, while investing in the oil industry in Sudan, offers free support to funds for local agriculture, education, culture, healthcare and construction of roads and bridges, all of which is hugely welcomed by the Sudanese people. China Petroleum also stresses its use of environmental technologies and facilities in Sudan, striving to improve local environment.

#### Conclusion

The oil supplies in China function as a complicated system that includes both domestic and international strategies. In terms of domestic strategies, it covers energy-saving measures, energy efficiency improvement, exploitation of alternative energy resources, establishment of strategic oil reserves and more. Regarding international tactics, it refers to the 'going global strategy', greater diversity of oil sources and developing relationships with oil producers and powerful nations. As a newly emerged oil importing country, China has gained experience from its former oil exporters. At the same time, as a developing nation China also learned lessons from those countries, which has resulted in oil import security policies. The 'win-win' strategy, in terms of China's relations with oil exporting countries, is key for mutual development and co-operation and represents a new concept of energy security.

#### Chen Mo

Chinese Academy of Social Sciences  
Institute of West-Asian and African Studies  
chenmo@cass.org.cn

#### Notes

1. Edited by An Weihua & Qian Xuemei, Oct, 2000. 'Commenting on New Theory of Gulf Petroleum', P1. Social Science Documentation Publishing House.