

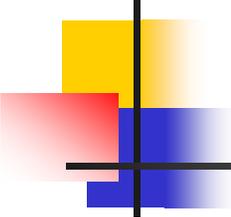
China's Energy Security Policy and Its International Implication

Hongtu ZHAO

China Institutes of Contemporary International Relations

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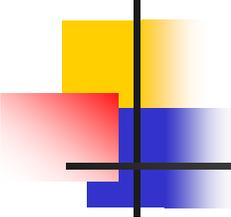


Does China Have Energy Security Strategy or Policy?

- Energy security and strategy are poorly understood concepts.

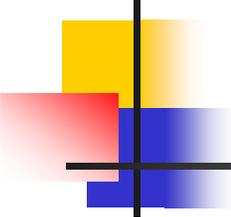
- *“The United States doesn’t have an energy policy, and we never will. Neither does China, despite decades of a planned economy. China didn’t even have an energy minister to serve as a counterpart for Secretary Bodman when he and Treasury Secretary Paulson led a U.S. delegation to Beijing last year to inaugurate the Strategic Economic Dialogue”*

----- Kevin G. Nealer



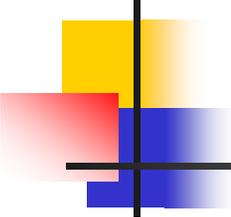
The Energy Challenges

- **Rapidly Growing Energy Demand:** *From 2001 to 2005, China's total energy consumption rose by 60 percent.*
- **Increasing Dependence on Oil Import:** *by 2025, imports will account for 75 percent of China's oil consumption.*
- **Rising Energy-related Environmental problems:** *Pollution damage costs China nearly 10% percent of its GDP annually.*
- **Problematic Energy Consumption Structure and Efficiency:** *Two-thirds of energy consumption comes from burning coal, energy consumption per unit is about 25-90 percent higher than western countries.*
- **Undeveloped and Ineffective Energy Market Mechanism**



China's Energy Security Policy

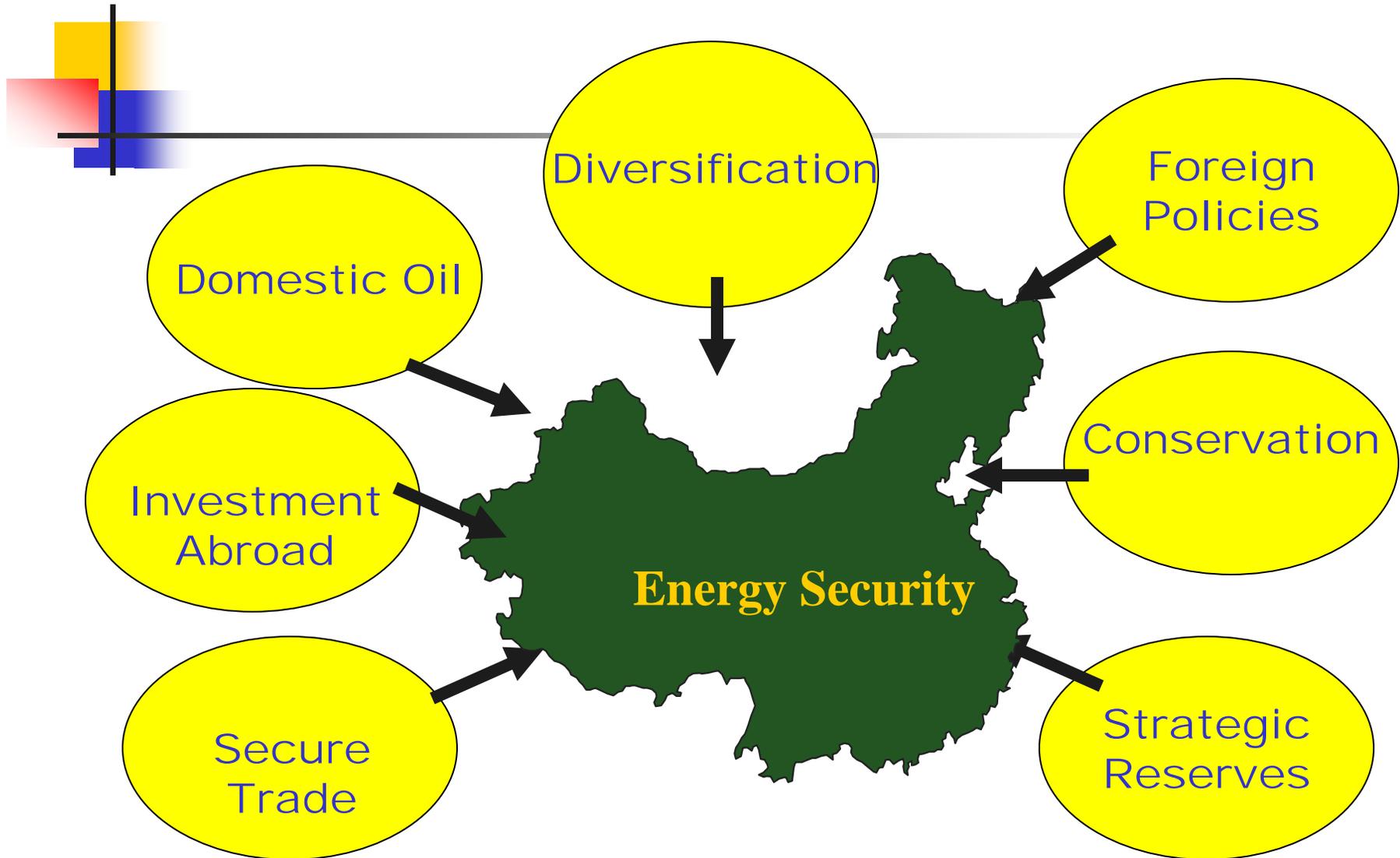
- *To deal with these challenges, China is paying more attention to the demand side management and pushing forward the energy market reforms while encouraging the diversity of energy structure and imports.*
- **Improve Energy Efficiency and Adjusting Economic Structure**
- *Energy conservation as one resource has been gradually recognized by Chinese government.*
- *China plans to reduce by 20% the energy consumption per unit of GDP at the end of 2005 by 2010.*
- **Push Forward the Liberalization and Transition of Energy Market**

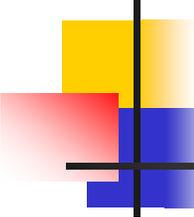


China's Energy Security Policy

- **Pay more attention to new and renewable energy**
 - *A stated goal of increasing the use of renewable energy to 10 percent of the country's electricity consumption by 2010 (up from roughly 3 percent in 2003).*
- **Strengthen International Cooperation and Dialogue**
 - *Partners: Consumers and producers, international and regional organizations.*
 - *Fields: Trade, investment and technology, environment.*
- **Establish Emergency Response System**
 - *Strategic Petroleum Reserves*

Strategies for Energy Security?





Overseas Investment and “Goes out”

How does some western analysts explain “Goes out”?

- *A. Securing energy supply through upstream investment.*
- *B. China is inciting its national-owned oil companies to snatch oil resources abroad.*
- *C. Taking oil “off the market”.*
- *D. world- wide search for energy security.*

Why?

- *A. China oil companies’ investing overseas and China becoming a net oil importer happened almost at the same time.*
- *B. A number of Chinese analysts tend to believe that Chinese oil companies’ going abroad can and should play an important role in ensuring China’s energy security.*
- *C. Energy Diplomacy and Government’s financial support.*

CNPC OVERSEAS INVESTMENT PROJECTS



E&P

Sudan

1

2

3

Algeria

7

8

9

10

Niger

11

12

Chad

13

Mauritania

14

Mauritania

15

16

Oman

17

Syria

18

Iraq

19

Iran

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Kazakhstan

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Kazakhstan

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Azerbaijan

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Turkmenista

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Peru

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Venezuela

38

Venezuela

39

40

Ecuador

41

Canada

42

Indonesia

43

Thailand

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Myanmar

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Tunisia

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PapuaNewGuin

48

Pipeline

Sudan

5

Kazakhstan

29

30

Refinery

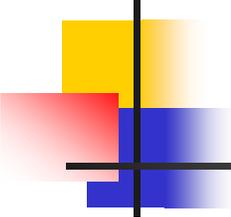
Sudan

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Petro-chemical

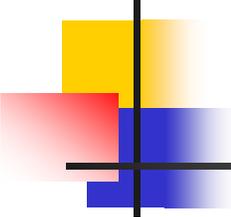
Sudan

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What does “Goes out” Mean?

- **Who goes out? Goes out for energy?**
- **Why goes out?**
- **A. Internationalization of Energy Firms.** *Getting involved world market to achieve scale expansion and establish a Multinational Corporation.*
- **B. Maximization of the profits:** *High oil price; increase of wages in china; improving export of equipment, technology and labor.*
- **C. Available Possibilities:** *oil rich country's opening up; Chinese companies' technology and experience; Government's support.*
- **D. World-wide internationalization of national oil companies:** *Stateoil, Petrobras, Petronas and Saudi Aramco*
- *Since 2003, around half of the bid in upstream comes from stated owned companies.*



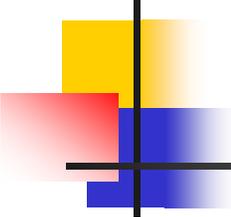
China's Energy Diplomacy

- *Accessing energy resources?*
- *Creating better investing environment and improve energy security environment*
- *“The goal is to use oil diplomacy to cover up its ambitions for strategic expansion” ?*

-----Paul Lin

- *“Beijing gives its relationship with the United States priority over the acquisition of foreign oil assets by a Chinese NOC”*

-----Erica Downs

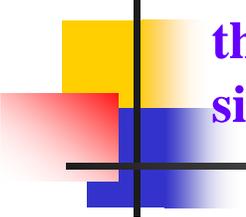


NOCs and the Government: Who drives whom?

- *Oil companies being played an arm to carry out Chinese government's energy procurement strategy and foreign policy?*
- *“Foreign investment by the Chinese state companies may be a good way to develop the country's foreign policy, such investment decisions are made by bureaucrats and are political, rather than aimed at providing an adequate return”.*

-----Maria Kielmas

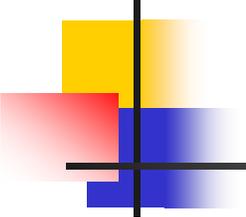
- *China takes a 'strategic approach' instead of a 'marker approach'?*



The interest of energy companies is not always in accordance with that of the government, even in contrast with the government in some situations.

- *In 2005, when the government adopted price control policies to keep the prices of domestic oil products low and produced huge losses for state refiners, the state oil companies reacted by constraining crude runs, reducing product imports, and increasing product exports.*
- *In most cases, the states oil companies recognized the opportunities first, initiated negotiations over the prospective investment move, sought government approval of their investment plan and financial and diplomatic support if needed.*
- ----- *U.S. Department of Energy: “National Security Review of International Energy Requirements ”*
- *China’s NOCs work hard to drive the government to support them to go abroad in the name of energy security*

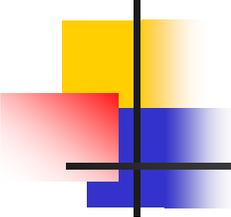
----- Minxin Pei



Impacts on International Energy Market

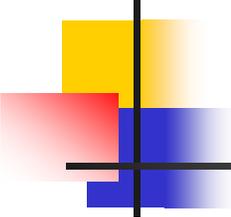
- *China ‘Locks up’ or ‘removes’ oil?*
- *“Goes out” = “Takes back”?*
- *China’s overseas investment and the internationalization of state owned oil companies pose challenges to international oil company (IOC) regarding market and commercial competition, anyway, it can help to increase world energy supplies.*
- *Even if China’s equity oil investments remove assets from the global market, in the sense that they are not subsequently available for resale, these actions merely displace what the Chinese would have otherwise bought on the open market. China can be expected to consume the vast majority of such resources; the effects of these purchases should be economically neutral.*

-----U.S. Department of Energy



Impacts on International Relations

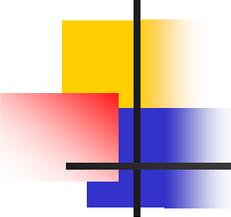
- *In the eyes of United States, China's investment in countries like Uzbekistan, Sudan, and Burma nonetheless pose a series of challenges to their foreign policy, it makes it more difficult for U.S. to contain these countries through energy and economic embargo.*
- *Is China building navy forces to safeguard the energy sea line?*
- *Enlarge the gap between China and other Western countries by strengthening the energy cooperation with countries like Sudan and Iran.*
- *Anyway, the overseas investment will no doubt facilitate China's integration with the world.*



Energy Security Dilemma: China and The West

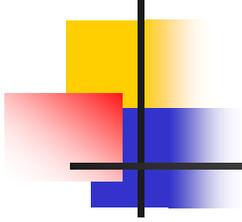
- **China:** why the west is so nervous about china's energy activities?
- **The West:** China has not made them fully understand its real intention.
- *“Discussions ignoring market basics get more attention”. “Many Chinese analysts talk about “strategy”without specifying its meaning ,and /or nuance lost in translation”*

---Zhao Daojiong



Common Responsibilities

- Push forward the strategic energy dialogue to reduce the perception gaps and to establish bilateral confidence-building mechanism.
- Improve the market efficiency through greater transparency and freer flow of information as well as the more technical aspects related to energy efficiency.
- *For the Western Countries, in terms of peacefully integrating China into the world economy, China's overseas investment should be welcomed, not feared.*
- *Instead of blaming China for its energy demands or containing China as an energy threat, the industrialized countries may be wise to seize China's vast energy market potential in technologies of energy conservation and efficiency, environmental protection techniques and know-how, renewable and alternative energy production, and joint-efforts in managing global warming.*
- ----- *"The Dragon Tucks in", The Economist, July 2, 2005, p.61*



Thanks for your attention !