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HEARING ON CHINA'S ROLE IN THE WORLD: IS CHINA A RESPONSIBLE STAKEHOLDER?
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An expanding economy and growing consumption oriented middle class combined with a stagnant domestic oil sector rendered China a net importer of oil in 1993 for the first time in decades. Today, its oil consumption totals close to 7 million barrels a day (b/d), with imports at 3.3 million b/d representing almost 47% of its supply. By 2020, China's oil imports are expected to double from today's levels.

China has responsibly begun addressing its energy challenges by pursuing alternative energy and conservation at home. China's first location of a new strategic petroleum reserve will be on line in Zhenhai this month. Three other locations are planned at Qingdao, Zhoushan and Dalian, scheduled to be completed in the next three years. So far, planned stock levels are modest but local provinces are also studying setting up emergency stockpiles. China is hoping to build stockpiles of at least 100 million barrels. China has also begun to investigate building plants to convert coal to oil. Investment house Credit Suisse in a recent report predicts that China may produce up to 1 million barrels a day of oil from coal to oil conversion plants by 2013. Chinese coal producer Shenhua is expected to bring on line the first project, with Shell studying a large plant that would come on line in Ningxia in 2010. China has also targeted an expansion of renewable energy. It plans to raise the share of renewable energy for the electricity sector to 12% by 2020, up from 3% in 2003, including increased hydroelectric generation. China's National Development and Reform Commission also has released a plan for enhancing energy efficiency in the industrial sector focusing on cogeneration, upgrades to industrial coal burning boilers, improved use of exhaust heat and pressure, and new standards for electrical motors. The NDRC is also adopting stricter standards for energy efficiency of residential buildings and public offices.

China's new fuel efficiency standards for automobiles are also stricter than U.S. standards. China is setting standards by weight class and aims to have most automobiles reach between 21 to 38 miles per gallon fuel efficiency by 2008. Fines of up to 27% of total price will be levied against cars with large engines, including SUVs and other vehicles with 4 liter engines or higher.

In addition to domestic programs, China—through its national oil companies—has for the past decade pursued an aggressive campaign to invest in and acquire oil and gas assets abroad. China's efforts have been very broad based and do not at present focus on only one or two major supply regions. China's NOCs have signed deals across the globe in Africa, South America, Southeast Asia, Russia, the Caspian Basin and the Middle East. China's massive billions of dollars of investment in oil and gas exploration and field development adds to the pool of investment dollars being spent to bring extra supplies to market and will enhance global energy supply and security. The global oil market is like a swimming pool and China's efforts to put more water into one side of the pool will raise the level of water for every swimmer, no matter which section of the pool they reside in. In fact, China's investment activities will help ameliorate tight market conditions. China's active investment program stands in sharp contrast to the reluctance of some major U.S. oil companies to raise exploration spending despite recent price increases. These U.S. companies (among the largest multinational firms) have exhibited a cautious approach to spending, preferring to buy back stock shares and show financial discipline rather than respond full out to U.S. national interests to find and produce more oil.

China's national oil companies have in the past few years provided stiff competition to Western firms bidding for exploration acreage in prime areas like Venezuela, Russia, Angola, and elsewhere in Africa. Most of the Chinese acreage deals have generally been struck within the framework of normal commercial terms. Chinese firms have won international tenders by offered more attractive signing bonuses or higher fiscal terms for contracts than other international oil companies. In one area of hotly contested acreage in Angola, for example, a Chinese firm won a tender by reportedly offering a signing bonus in excess of $1 billion. To some extent, Chinese firms seem to be willing to bid above other competitors, perhaps because they have other than commercial considerations at stake. As national firms, China's national oil companies are generally speaking more concerned with gaining access to foreign oil and gas fields on behalf of the country than with reaping optimum commercial profits. China's firms are also playing catch up in terms of size and scope of their activities to attain the status as major international players and therefore are thereby willing to pay higher bids to garner access to assets. The largest American firms, ExxonMobil, Chevron, and ConocoPhillips, produced upwards of 5.6 million barrels a day of oil in 2004. The production of Chinese firm CNOOC represents less than 4% of this amount despite a ten year program of acquisitions.

The fact that China's firms are aggressively pursuing exploration acreage and adding to their oil production portfolios is not inherently a security or energy challenge to the United States. However, there are two specific areas where China's oil diplomacy raises concerns:

Firstly, China has actively secured oil deals in countries with which the United States has troubled relations, notably Iran and Sudan, and more recently, Venezuela. In some cases, Beijing has purposely gone this route to take advantage of U.S. sanctions policy to optimize its access to attractive oil field opportunities. This Chinese strategy, which has been publicly acknowledged in writings by important Chinese think tanks commentators, undermines the effectiveness of U.S. efforts to isolate these nations and creates the impression that troubled nations can fruitfully play China off the U.S. if oil assets can be put into play. In one example last spring, China and Iran announced the possibility of Chinese firm Sinopec signing a $70 billion deal to develop the Yadavaran oil field in southwestern Iran during the very time frame that the U.S. and European nations were initiating a new concrete proposal on how to resolve the conflict between Iran and the international community regarding Iran's nuclear program.

It is clearly not in America's interest to have China, a nuclear power and Security Council member with veto capability, be susceptible to political pressure from oil producing states such as Iran.

Secondly, China's efforts to secure foreign oil and natural gas are also begetting unintended geopolitical consequences in the areas of human rights and conflict resolution. China's oil diplomacy has been accompanied by attempts to use its massive energy investment in many nations around the world to influence votes and politics at the United Nations, including in some cases quid pro quos of promises on key future issues, such as the status of Taiwan. To the extent that China is successful in utilizing energy diplomacy to strengthen ties with smaller developing nations, this effort could eventually hinder the United States' ability to forge international coalitions on important world challenges if China and the U.S. are not on the same page in terms of policy approach.

Already, clear cases are emerging where China's oil activities are having a negative impact on international efforts to create an effective multinational framework for protection of international human rights and refugee crisis management. It is a mistake to fail to recognize the significance of incidents where China's external oil dealings stand in opposition to international human rights norms. If the United States and other Western nations fail to address such developments properly, they run the risk of encouraging other parties seeking scarce energy supplies to make similar compromises on human rights as they court questionable oil regimes at the expense of local populations. Such a trend would be detrimental to international peace and security.

The most prominent example of this second phenomenon is China's oil trade with Sudan—where China, through its United Nations diplomacy, initially thwarted an international solution to a growing problem of mass atrocities and crisis in Darfur. In addition, a growing energy-driven relationship with the military regime of Burma (Myanmar) is providing support to that regime and even influencing democratic India to consider pursuing energy trade relations despite the troubled political backdrop inside Burma. In early 2006, the Chinese state-owned PetroChina reached an understanding with Burma to pipe natural gas from the new offshore field, Sittwe, to the Yunnan province of China—gas which India also has coveted. Support for Burma's regime as a focal point for Chinese and Indian rivalry for energy resources thwarts U.S. policy goals in Southeast Asia, which include peaceful economic growth, the rule of law, suppression of radical Islamist groups, and combating trafficking in persons and illegal narcotics.

The behavior of Chinese NOCs overseas has set negative precedents for how NOCs in general approach human rights questions both strategically and operationally. And, China's oil relations in places like Africa have often been accompanied by provision of light arms and other military assistance that has hindered conflict resolution. For example, the conflict in Darfur, Sudan has left millions homeless and displaced, while hundreds of thousands have died in extraordinarily violent circumstances or from desperate refugee conditions. Commonly cited estimates hold that over two million people have become internally displaced persons or refugees since 2004 as a result of the Darfur crisis.

China has been Sudan's biggest investor in the country's growing energy industry, and oil revenue has given Khartoum the means to expand its military. But more importantly, China has resisted initiatives by the international community to resolve the Darfur conflict through United Nations channels, particularly a United Nations-backed peacekeeping force. China's opposition in most cases to a stronger UN role in resolving the conflict from 2003-2006 likely exacerbated the scale and depth of the humanitarian crisis and prolonged the armed conflict.

As the crisis in Darfur was unfolding, China vetoed or otherwise opposed UN Security Council measures that might have provided for amelioration of the conflict. China weakened a UNSC resolution (#1564, September 2004) that would have sanctioned Sudan if the government failed to disarm the proxy militias attacking civilian populations. In early 2006, China sided with Qatar to block the release of a UN report that supported sanctions against individuals believed to be obstructing peace efforts in Darfur. While China has softened its stance more recently at the UN following a partial peace agreement for Darfur in April, many problems remain, not least effectively implementing the new accord. If the agreement does not hold—and most evidence points to continued violence since the Abuja talks—China's position on sending a UN force remains unclear, if likely unfavorable. The African Union Mission in Sudan (AMIS), the 7,000 member monitoring force sent to provide low-level security for civilians in mid-2004, already has proven unable to fulfill its mandate due to inadequate funding, materiel, and personnel. Thus, analysts are suggesting that the presence of a robust 12,000 person strong UN force will be needed to adequately protect civilians.

Improving international institutions to better manage conflicts such as Darfur should be a key goal for great power cooperation between the U.S and China. It is important for the U.S. to establish that oil contracting activities should not divert major powers such as China and the U.S. from cooperating to resolve conflicts via the United Nations or other multinational frameworks. The U.S. needs to look at the Darfur crisis as an important opportunity to establish badly needed joint responses and methods for cooperation and to create precedents that might be tapped down the road on other equal or more vital interests where the stakes for future conflict could be even more monumental than the tragedy in Sudan.

The United States is blessed with a strong and competitive oil and gas private sector that is technically the most proficient in the world. It is in American and global interests to promote open access for foreign investment in oil and gas production around the world to maximize the amount of investment made in oil and gas and thereby enhance world supply. As such, the United States should continue to support free trade and orderly and well functioning global commodity markets. It would be detrimental to the global economic system for China, or any other large consumer for that matter, to try to lock out other consuming countries from important sources of energy. Politicized oil agreements heighten the chances of a market failure during a time of supply crisis, such as seen in 1973 or 1979. Open access to energy provides each nation the opportunity to bid for the supplies it needs in an orderly market, preventing extreme or artificial shortages and allowing for less general economic damage from market adjustments to changes in supply. The International Energy Agency emergency system provides tested methods to best deal with sudden global energy shortages to minimize the impact of market chaos in the early days of a disruption.

China should be encouraged to become a stakeholder in this global system and to be educated on past failures countries have experienced in trying to solve energy supply problems through bilateral diplomacy or military forays. The United States should pursue a high level dialogue with China on energy and the Middle East.

A functioning, open access international market system is the best means for China to ensure its energy supply, especially when considering its rising economy, growing energy demand and limited international naval reach.