



China's International Energy Security Policy -- Implications and Responses

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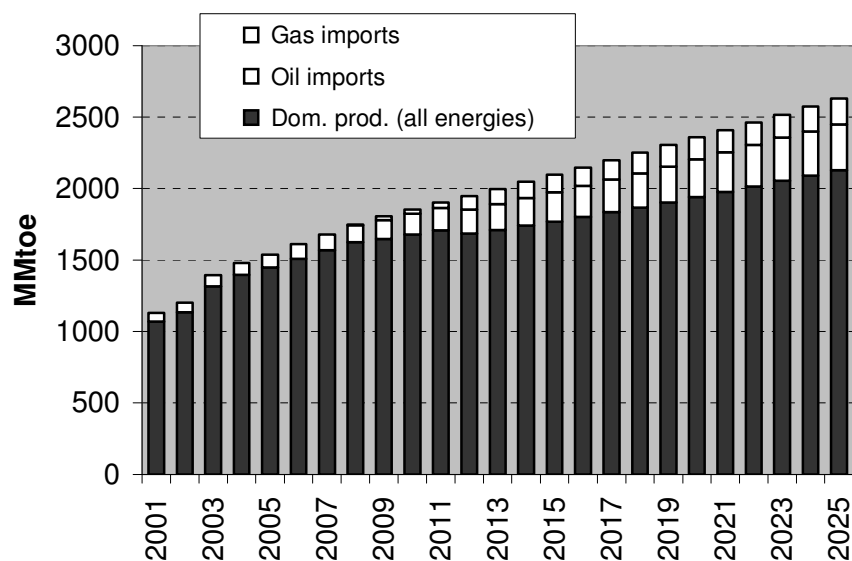
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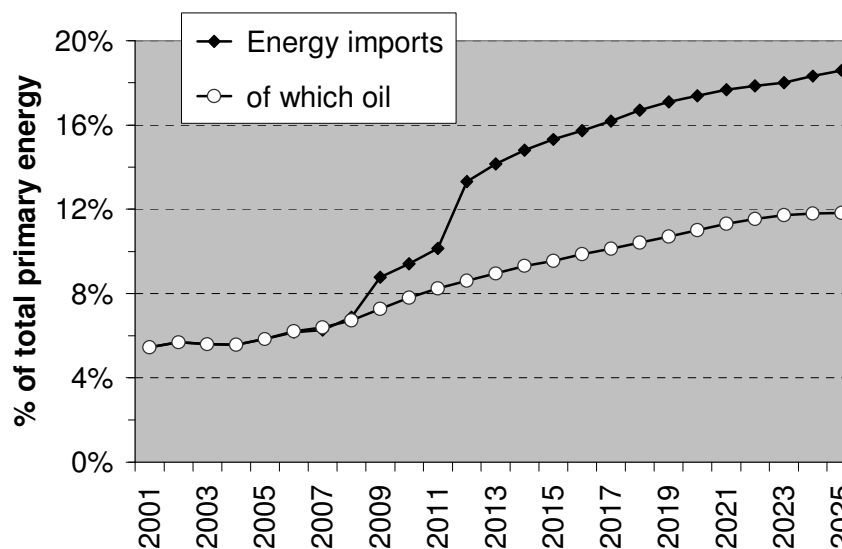
- The Situation
 - China and world energy markets
- The Vision
 - China's energy (mainly oil) security policy
- The Implications
 - What it means for us and how to respond

China and World Energy Markets

- China is (and should remain) **mostly a self-sufficient energy economy** -- because coal is 60% of primary supply, and covers 60% of the growth in primary demand (forecast: POLES model)



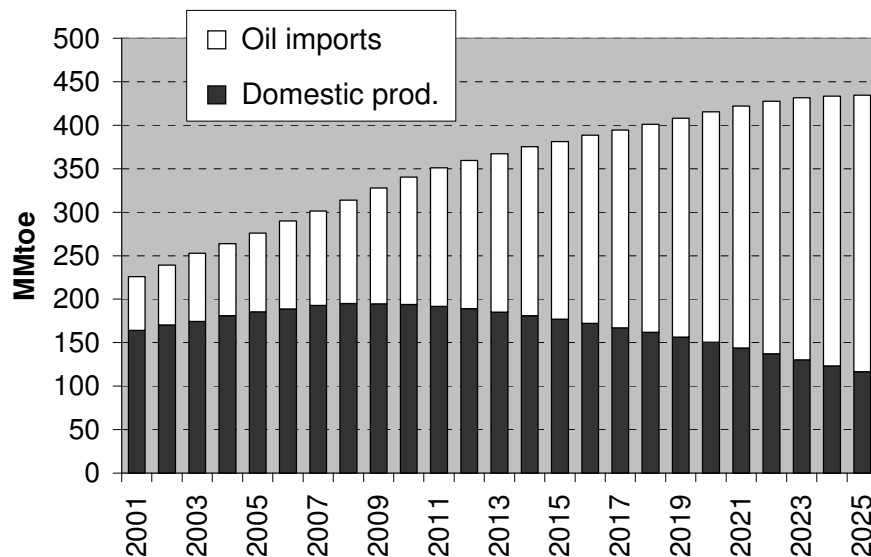
Source : POLES Model, Lepii-EPE



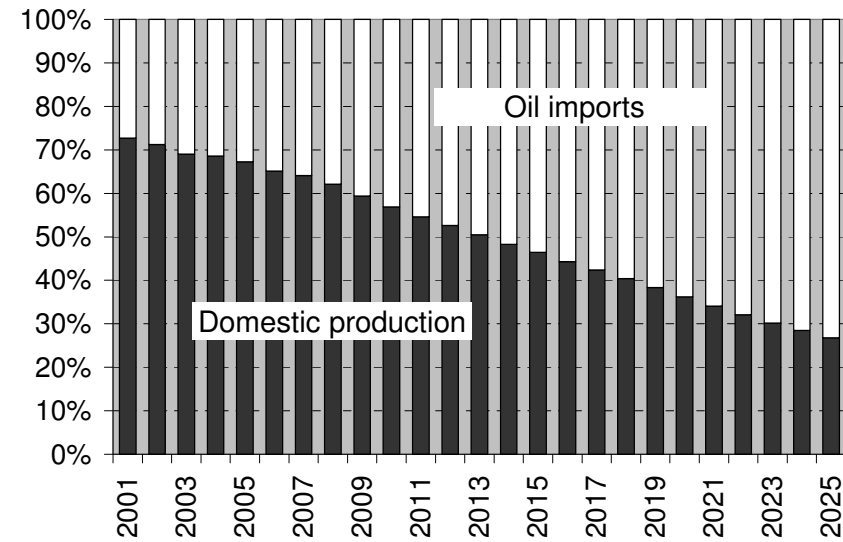
Source : POLES model, Lepii-EPE

China and World Energy Markets (2)

- The great oil transition: From a self-sufficient country to a **large and growing call on the world oil market**



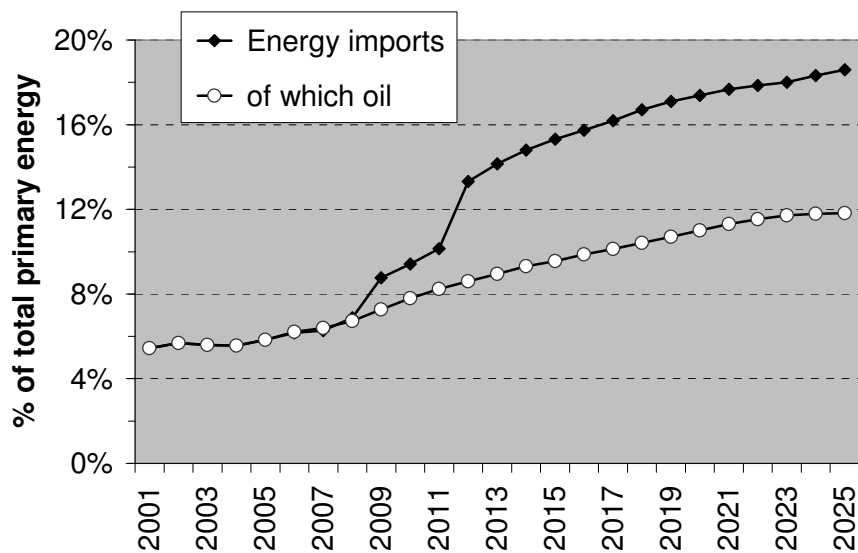
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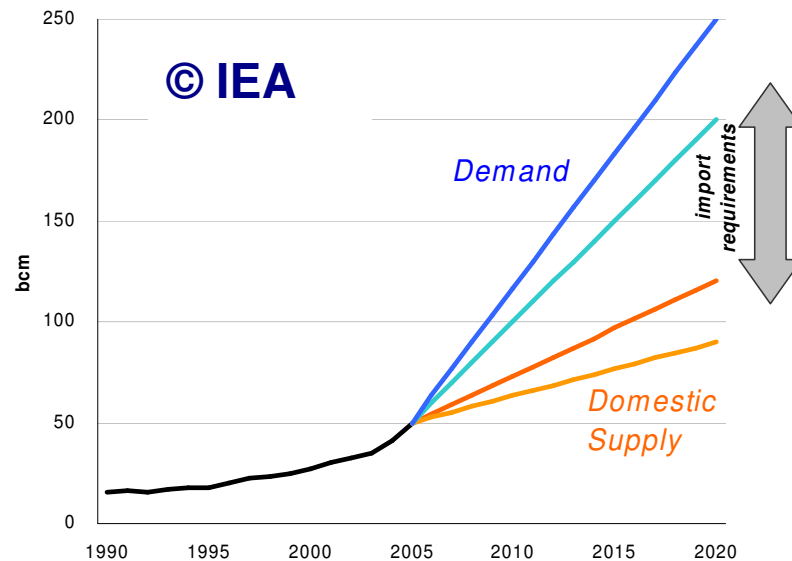
Source : POLES model, Lepii-EPE

China and World Energy Markets (3)

- A large **natural gas importer?** LNG too expensive; Russian gas elusive; Legal & infrastructure barriers to development of a national gas market -- *6GW of idle gas-fired generation capacity*

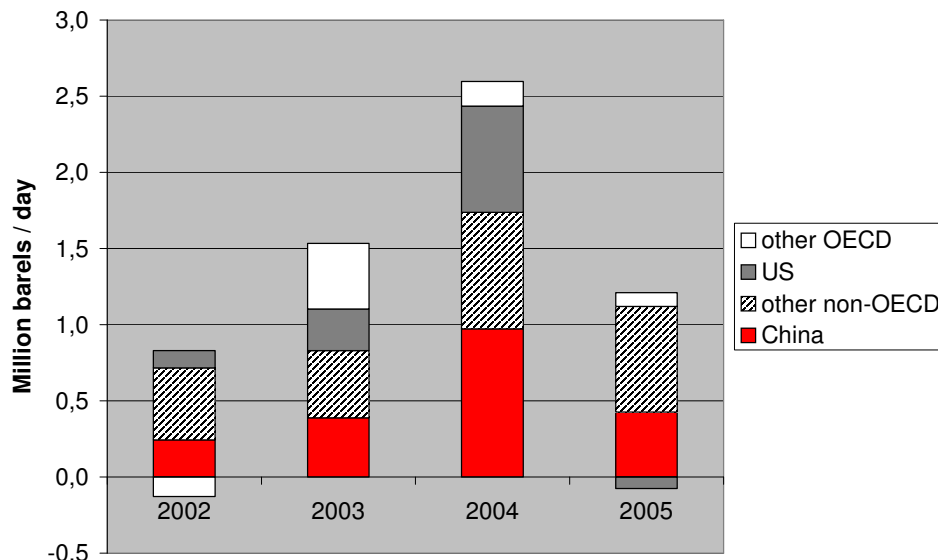


Source : POLES model, Lepii-EPE

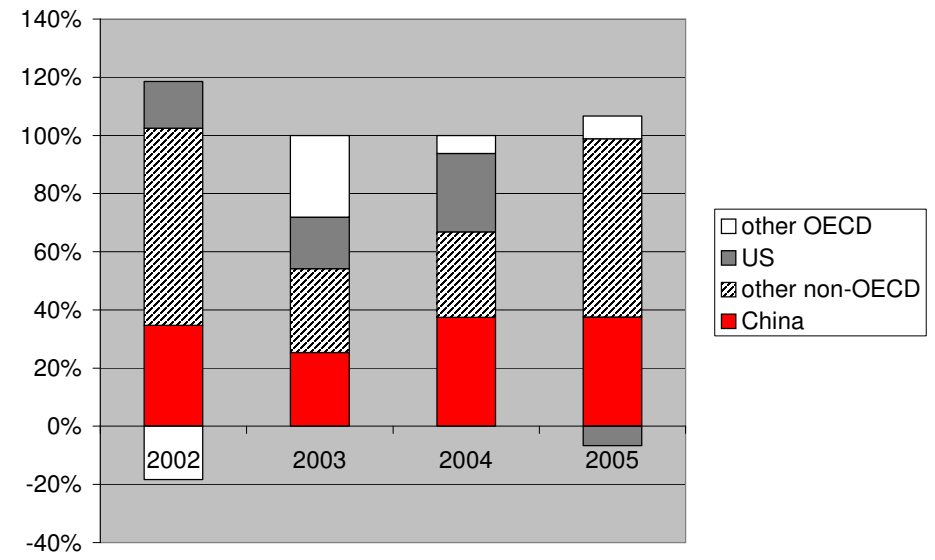


China and World Energy Markets (4)

- China accounts for 30-40% of world oil demand growth



Source: US DOE/EIA, International Petroleum Monthly



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China's Energy Policy Themes

- Supply oriented -- *Fuelling growth the top priority*
- Multi-dimensional reform process: State enterprises, energy prices, legal regime -- *and policy institutions*
- Demand control & environmental impact -- *China over-promises, under-delivers*
- Making coal contestable -- *High oil & gas prices makes it hard to achieve this goal*
- **Security of energy supply -- *The obsession about growing oil import dependence***

Security of Oil Supply: **the Chinese Vision**

- The oil market is a Western-built and dominated system -- *China can not bet its energy security on it*
- Chinese companies should “go out” and “secure supply” by participating in E&P projects
- Diversifying import sources -- *building pipes to China*
- China should pursue broad partnerships with oil exporting countries: better terms and higher security expected
- China should have an emergency oil stock
- China should be able to secure its supply routes
- **Oil security is a national, private good, not a global public one -- *China has to generate its own supply security, which involves competing for “access”***

The Chinese Vision (2) -- Evaluation

- The “Access to Foreign Oil” Fallacy
 - “Accessing reserves” brings no energy security gains -- *it's the global oil market which has to be “accessed”*
 - Bringing equity oil back to China is import subsidisation -- *but it's still import, not quasi-domestic production*
- The “China alone” fallacy
 - The whole idea of “independence by other means” is flawed -- *China can not go round the global oil market*
 - Oil supply security *is* a global public good -- *China can contribute its production, not “privatise” it*
- The Opportunity cost
 - China’s energy security challenges are mostly internal, esp. in the electricity sector

The Chinese Vision (3) -- Evaluation (*cont'd*)

- Diversifying suppliers and routes
 - The main issue is diversity of the global oil supply
 - Still, China has a clear interest in making the Middle East, and the Malacca strait, contestable
 - Pipe from Kazakhstan; Hope for a pipe from Russia...
- Building an emergency oil stock
 - Clearly makes sense for China; optimal size difficult to determine; higher value if co-ordinated with IEA
 - Talks of a Saudi-financed stock in China -- a good idea
- The military dimension
 - Fear of the US blockading China over a Taiwan crisis
 - Unclear how this should drive China's energy policy -- *hedging against this risk would be very expensive*

The Chinese Vision (4) -- Evaluation (*cont'd*)

- An industrial policy?
 - Chinese companies have to renew their reserves to survive as companies
 - They want to become major int'l oil and gas companies
 - The current “going out” policy allows them to enjoy high level of state support (political, financial) to build international portfolios and strategies
 - Next step: emancipation of Chinese companies from government support and influence? -- *They would become new ENIs, Totals, or BPs*
 - Major deals with IOCs (acquisitions or partnerships) would pave the way for that to happen
 - **A bad energy security policy may become a smart industrial policy**

Implications of the Chinese Policy

- Perceived energy insecurity increases the incentive for building up the Chinese military capabilities
- “Going out” policy translates into unfair competition to IOCs
- China is fueling the rapid re-politicization of the E&P business -- *Producing countries ask for it, China offers it*
- Energy interests create powerful incentives to block int’l political initiatives over sensitive oil-producing countries -- *Sudan, Iran*
- Energy as a leverage to counter US/Western influence in Latin America, Africa, Central Asia, the Middle East
- China’s E&P capital is not bound by “good governance” / transparency soft-law -- *Empowers governments in their relations with IOCs, IFIs and Western government*
- These issues have the potential to create tensions in the coming years -- *especially with the U.S.*

What **Response** to the Chinese Challenge?

- We have seen that before...

I don't care about BP, Shell, the Anglo-Saxons and their multinationals! If the state does not do it by itself, we are f...
[nous nous faisons couillonner]

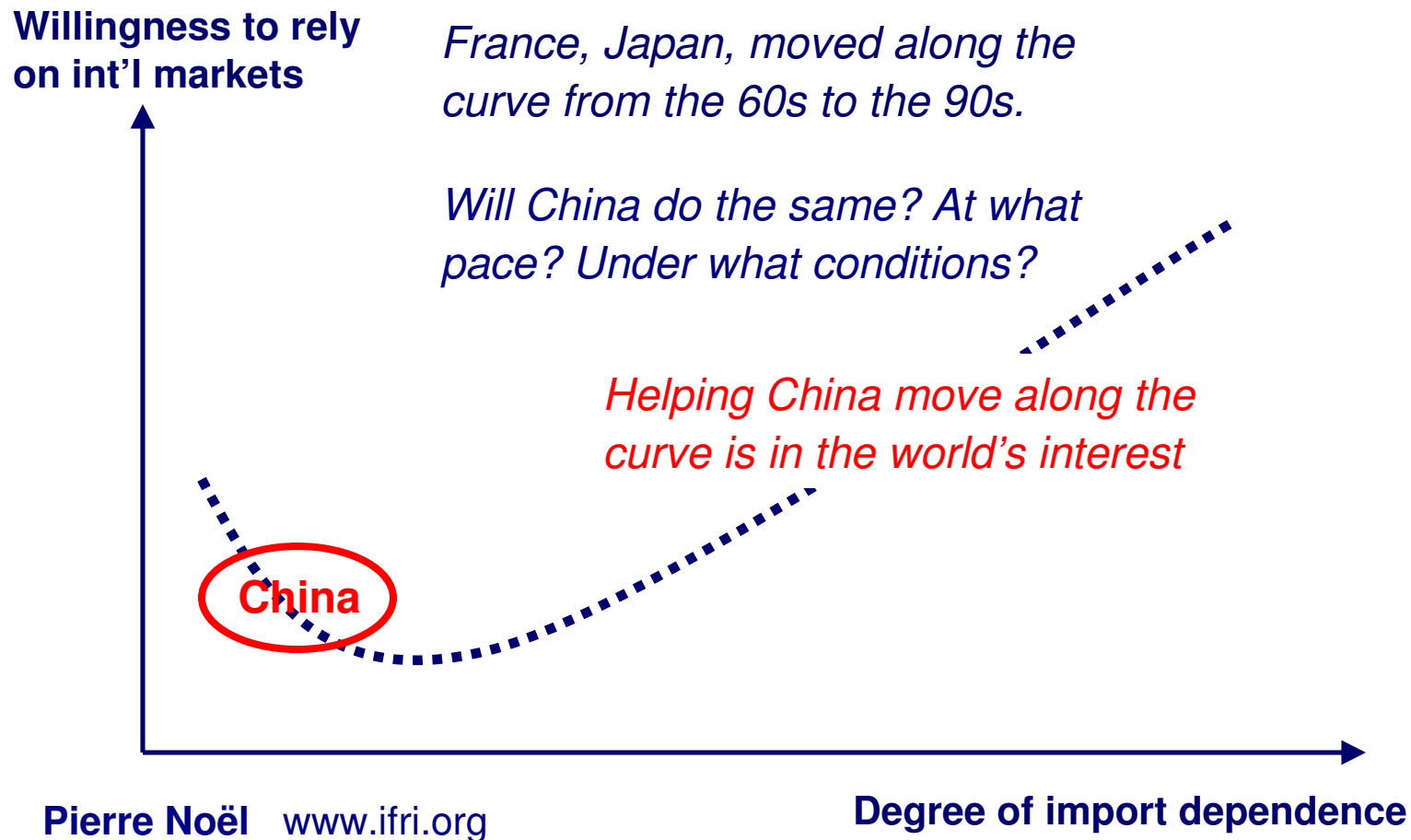
-- *General de Gaulle, Cabinet Meeting, 27/2/1963*
[reported by A. Peyrefitte, *C'était de Gaulle, vol. I, 1994*]

How are we to understand this rigid determination that France have "its own" oil? (...) One element of an explanation is the romantic political aura surrounding oil which lets all manner of nonsense sound plausible.

-- *M. Adelman, "Is the Oil Shortage Real?", 1974*

What Response? (2)

- The energy security policy **historical learning curve**



What Response? (3)

- The vision is starting to be debated in China
 - International energy markets better understood
 - Cnooc top managers have questioned it openly
- Do nothing that could reinforce Chinese distrust
 - US Congress drama over Unocal -- *Very bad signal*
- Do not imitate Chinese actions, or discourse
 - “Entering the race” would be dangerous and useless
 - DG TREN’s energy security discourse is ambiguous
 - US “neo-independantism” may have perverse effects
 - Renewed Japanese “statism”?

Response (4) -- The US-China Dimension

- Geopolitical rivalry will probably intensify
 - But the US should make it clear that China's energy needs carry no energy security threat to it
- Implications of China's int'l energy policy
 - US will probably increase the pressure on China
 - “China as a responsible stakeholder” (B. Zoellick)...
- Co-opting China as an “oil security supplier”
 - Supporting close co-operation with IEA (membership?)
 - Develop a bilateral energy security partnership
 - Dialogue (co-operate?) about the military dimension

*See you soon in
Cambridge...*

