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MAKING SENSE OF CHINESE OIL INVESTMENT IN AFRICA

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Over the past decade, Chinese investment in Africa's oil sector, in tandem with Chinese involvement more generally, has grown from residual levels to a major presence with important consequences for African politics and the continent's relations with the rest of the world. However, the level of research has fallen far short of an accurate reading of this momentous process. Recent discussions of Chinese oil investment in Africa have lacked factual precision, analytical clarity, and even a measure of sobriety.[1] Press coverage, particularly in the US, concentrates almost exclusively on the human rights and governance implications of China's so-called 'lack of a moral agenda', to the detriment of other, equally significant and poorly understood dimensions. In turn, this alarmist rendition is countered by a revisionist approach that sees China's demeanour in essentially positive terms and does not recognize the potential for negative consequences.

This chapter is an attempt at providing a succinct interpretation of this process. It does not aim to present an exhaustive account of

1 One exception is Ian Taylor, 'China's Oil Diplomacy in Africa', *International Affairs* 82, 5 (2006), pp. 937-59.

Chinese oil activities in Africa. Section one focuses on China's oil industry and its dual challenge of building world-class business firms and keeping the fast-growing economy provisioned with energy resources mostly unavailable domestically. This has resulted in the internationalization of Chinese national oil companies (NOCs). But the government's lingering distrust of international energy markets and US intentions towards China have led it to pursue a strategy of equity oil acquisition cemented by a proactive petro-diplomacy that, critics say, aims at 'locking up' oil reserves. Section two provides a summary of the present-day activities of Chinese oil firms in Africa, their business methods, and the challenges and opportunities they face. Section three discusses the likely implications of sustained, large-scale Chinese oil investment in the years to come for Africa, China and its Western would-be competitors.

The argument pursued is twofold. Firstly, I explain that the contrast between Chinese and Western oil business practice has been much exaggerated. The West does have a 'moral dimension' to its present-day Africa policies, but the oil sector—despite the 'oversold and underachieved'[2] campaigns on transparency and corporate social responsibility—has always been, and remains, conspicuously absent from it. Secondly, I argue that Chinese oil investment in Africa will indeed contribute to the tragic outcomes for the majority of African citizens that have been mooted by critics. However, this will not be due to the establishment of a new, hyper-exploitative and illiberal political economy of oil. Rather, the rise of China as an oil power in Africa will aggravate what is a much older political economy of oil extraction that for decades has exchanged political support and prosperity for local dictators against reliable provision of oil to consumers. In effect, Chinese NOCs will be joining in a form of time-honoured, if abysmally non-developmental, partnership long indulged in by African oil states, Western importer states, and Western international oil companies (IOCs). On account of Chinese technical backwardness and the resilience of Western oil companies, it is unlikely that the latter will be crowded out. The most probable overall outcome of

2 Michael Peel, 'Britain and Nigeria's half-hearted war on corruption', *Financial* Times, 17 October 2005.

the Chinese 'scramble for oil' is the *de facto* (if not rhetorical) erosion of Western 'progressive agendas'[3] and the full embrace by all players in the oil game of the *Realpolitik* approach needed for business success in the African oil sector.

Challenges for Chinese oil companies

Mirroring the centrality of oil provision for China's ongoing economic growth, NOCs are at the forefront of the Chinese government's attempts to construct globally competitive corporate players. This emphasis is due to two factors. The first is the understanding that successful late industrializers have always developed world-class firms, particularly in the 'commanding heights' of the economy,[4] and that China cannot secure its position in the world economy without them. As Deputy Premier Wu Bangguo put it, China's 'position in the international economic order will be to a large extent determined by the position of our nation's large enterprises and groups'.[5] The second factor is the overriding strategic importance of oil supplies and the concurrent desire of the Chinese government not to leave such a crucial task to the vagaries of the market and foreign intermediaries. Chinese 'national champions' in the oil sector are, in this vision, tasked with finding, extracting, transporting, refining and domestically marketing the oil needed to fuel China's growth. These factors also apply to NOCs of other fast-growing Asian economies and the Chinese bid for African oil must be seen as part of a wider pattern (see map).

To that effect, Chinese industrial policy has sought to gear up its three main oil firms, CNPC, Sinopec, and CNOOC, all of which

3 Discussed in Chapter 6 of Soares de Oliveira, *Oil and Politics in the Gulf of Guinea* (London: Hurst, 2007).

4 This includes sectors as diverse as aerospace, pharmaceuticals, oil and petrochemicals, power equipment, automobiles and components, steel and coal, consumer electronics, telecommunications, IT hardware and financial services. Peter Nolan, *China at the Crossroads* (Cambridge: Polity, 2003), p. 19.

5 Quoted in Peter Nolan and Jin Zhang, 'Globalization Challenge for Large Firms from Developing Countries: China's Oil and Aerospace Industries', *European Management Journal*, 21, 3 (2003), p. 287.

were established in the early 1980s.[6] CNPC and Sinopec were originally upstream and downstream companies respectively. Following restructuring of the Chinese oil sector in 1998, they became vertically integrated companies, although both remain stronger in their previous activities and more rooted in different regions of China.[7] CNOOC remains primarily an upstream company with offshore expertise. By 2001, all three had had subsidiaries successfully floated in the New York and Hong Kong stock exchanges, with some of the shares (10-30 per cent) listed.[8] Despite the subsequent presence of commercially minded minority shareholders, and the Chinese leadership's ambition to turn these firms into global corporate giants that can compete with Western oil majors, they remain principally the tools of Chinese government strategizing.[9]

For all the portraits in the Western media of Chinese oil companies as ruthless competitors, the Chinese outlook on these matters is altogether different. Chinese decision-makers are painfully aware of the inferior prowess of their oil firms in the global stage. They

6 Other companies have also shown an interest in overseas investment. Sinochem (China's fourth largest in the oil sector) has announced plans to spend US$2 billion in projects outside China over the next three to five years. See Deepa Babington, 'Chinese Sinochem looks to Africa in oil hunt', *Reuters News*, 23 April 2006. According to the *Financial Times*, Chinese companies have subsequently preferred to list in Hong Kong, but have avoided dual listing in the US, 'discouraged by the tough Sarbanes-Oxley corporate governance regulations and a Securities and Exchanges Commission investigation into insurer China Life following its IPO in 2003'. See Justine Lau, 'Chinese IPOs are bigger than those in US and Europe', *Financial Times*, 12 May 2006.

7 Robert E. Ebel, *China's Energy Debate: The Middle Kingdom Seeks a Place in the Sun* (Washington, DC: CSIS, 2005), p. 11.

8 'China's oil companies: drilling for the Party', *Economist*, 24 May 2003. Investors building up a stake in Sinopec and PetroChina (CNPC's internationally listed firm) included most Western oil majors as well as the known investor Warren Buffett. CNOOC for its part included Henry Kissinger among the members of its Advisory Board.

9 For a good overview of reform and partial privatization in China's energy sector see Philip Andrews-Speed and Cao Zhenning, 'Prospects for Privatization in China's Energy Sector', in Stephen Green and Guy S. Liu, *Exit the Dragon? Privatization and State Control in China* (London and Oxford: Chatham House and Blackwell Publishing, 2005), pp. 197-213.

possess neither the bountiful reserves of the NOCs of oil-producing states nor the technical expertise, financial weight and business savvy of European and American IOCs. 'The blunt reality is that after two decades of reform China's large firms are still far from being able to compete with the global giants.'[10] In their careful analysis of the challenges faced by China's oil industry, Peter Nolan and Jin Zhang conclude that its technological capability is 'relatively backward'.[11] Chinese oil companies are overstaffed and saddled with plenty of non-commercial obligations. While attempting to foster their character as commercial entities, state impingement frequently means that they commit to projects and policies that would not withstand commercial evaluation.[12] The internationally listed subsidiaries of the three companies are more agile, broadly appear to follow Western corporate governance principles, and are acquiring expertise at great speed. But even they are no match for their Western counterparts.[13]

10 Nolan, *China at the Crossroads,* p. 20.

11 Nolan and Zhang, 'Globalization Challenge for Large Firms from Developing Countries', p. 290.

12 This contradiction between commercial and non-commercial agendas is well illustrated by the distortions introduced by pricing policies in China. In order to protect consumers from high oil prices, the Chinese government keeps domestic prices artificially low. Suffering from squeezed profit margins, China's companies started to export their refined products in order to sell them at higher prices. This caused domestic shortages in 2005. Eventually, the Chinese government stepped in, prohibiting refiners from signing new export contracts and providing offsetting subsidies to compensate refiners such as Sinopec for their losses. Center for Strategic and International Studies and Institute for International Economics, *China: The Balance Sheet* (Washington, DC: CSIS and IIE, 2006), pp. 35-6.

13 The will to converge with Western levels of corporate governance and technical competence is a feature of these companies and some already portray themselves in such manner. Fu Chengyu, the CEO of CNOOC, for instance, suggested that China's major oil firms 'are not really like other Chinese companies. Our systems, models and processes are more like our Western counterparts.' See Francesco Guerrera, 'The maverick oil mandarin', *Financial Times*, 25 June 2005. On the occasion of CNOOC's failed bid for US oil firm Unocal, this passion for Western corporate standards did not prevent Fu from consulting with the Chinese government for approval *before* mentioning it to the company's board. See James Kynge, *China Shakes the World: The Rise of a Hungry Nation* (London: Weidenfeld and Nicolson, 2006), pp. 133-6.

This perceived fragility of Chinese corporate players in the global economy is echoed by the Chinese government's fear of dependence on foreign sources and transit lanes for keeping China's fast growing economy provisioned. China had been a net exporter until 1993; then its appetite for foreign oil grew so fast that, by 2004, it had become the world's second importer of oil. In tandem with this novel engagement with global energy markets, unsuccessful attempts at substantially increasing domestic production led to the realization that China is now irrevocably tied to energy supplies from abroad. Chinese decision-makers are deeply fearful of this. Not only do they know that all sea lanes leading to Chinese ports are controlled by the US Navy, and subject to disruption in the context of conflict or deteriorating relations. They also have bad memories of dependence on Russian energy supplies in the 1950s and early 1960s, which significantly curbed Chinese policy leeway even after the Sino-Soviet schism.[14] Yet for all the misgivings, the Chinese leadership has accepted this dependence as unavoidable.

Reflecting a significant and multifaceted debate on how best cope with its volatile energy supply situation,[15] China has engaged in the simultaneous pursuit of a number of policies (this is partly the result of a very fragmented policy process, as there is no central agency responsible for the energy sector). These include the diversification of foreign suppliers, increased domestic exploration for oil and use of China's plentiful coal reserves, the building of a strategic petroleum reserve, expansion of refining capacity, initial steps at energy conservation, etc.[16] For the purpose of this chapter, I concentrate

14 Erica S Downs, *China's Worldwide Quest for Energy Security* (Santa Monica: RAND, 2000), pp. 11-12. Distrust of foreign entanglements is heightened by China's own two decades-long experience as an energy exporter (from the early 1970s to the early 1990s), during which it successfully used its own 'oil weapon' to shape Japan's regional policies. See Downs, *China's Worldwide Quest,* pp. 43-4.

15 See, for example, Jonathan E Sinton *et al.*, 'Evaluation of China's Energy Strategy Options', report prepared for the China Sustainable Energy Program, 16 May 2005 and Erica S. Downs, 'The Chinese Energy Security Debate', *The China Quarterly* 177 (2004), pp. 21-41.

16 It should be emphasized that these policies have encompassed the partial opening up of China to foreign oil companies, mostly in joint ventures with

on the dimension that is most relevant for China-Africa relations: a concerted effort by Chinese NOCs to venture into foreign markets and acquire equity oil. While this was an unstated goal from the mid-1990s,[17] President Hu Jintao's embrace of a 'going out' policy in 2002 accelerated the drive for external involvement.[18] The objective is to increase Chinese control of supplies by subtracting a meaningful amount of oil from the international market. Through its vertically integrated companies, the Chinese government aims to 'control' a significant percentage of its oil needs while shielding the Chinese economy from potential price hikes or supply disruptions. As Erica Downs writes:

> In the event of another oil shock, the Chinese government will be able to pressure state-owned oil companies to forgo windfall profits from higher international oil prices by requiring them to supply Chinese industries at artificially low prices, cushioning the impact of the shock on the Chinese economy.[19]

In outline, the main traits of China's 'mercantilist' approach to oil supply are: a) distrust of markets, especially in contexts of disruption or conflict; b) belief in ownership of oil resources through NOCs as the best guarantee of access; c) strong investment in friendly bilateral relations with oil producers.

This attempt at 'locking up' oil assets or, failing that, acquiring oil through fixed long-term contracts as opposed to the spot market,[20] while only a segment of an otherwise mostly market-based Chinese

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the Chinese majors. According to Ebel (*China's Energy Debate*, p. 26) China plans to fully open up its domestic refined oil market to competition by 2007 in accordance with WTO commitments.

17 Zha Daojiong, 'China's Energy Security: Domestic and International Issues', *Survival* 48, 1 (2006), p. 180. According to the IEA (2000: 10), a May 1997 policy paper by former Premier Li Peng had already 'blessed Chinese involvement in the exploration and development of international oil and gas resources'.

18 Flynt Leverett and Jeffrey Bader, 'Managing the China-US Energy Competition in the Middle East', *Washington Quarterly* 29, 1 (2005), p. 193.

19 Downs, *China's Worldwide Quest for Energy Security*, p. 20.

20 While it is the upstream activity of Chinese oil companies that catches public attention, *African Energy* has pointed out the 'demand revolution shaking up the secretive trading market'. See 'China's long march to West Africa

approach to energy supplies, contrasts with current Western visions of well-functioning energy markets. The implicit role for Chinese NOCs—the subordination of commercial logic to the Chinese government's political imperatives—also contrasts with the maximization of shareholder value that drives Western IOCs. Far from opposing this impingement upon their commercial character, Chinese oil companies are the most strident advocates of a global equity oil strategy. They believe such immersion in the tough outside world of oil exploration and production can only provide them with a much-needed technical and managerial crash course in their grooming as 'global players'. While struggling for some autonomy from government political meddling, Chinese NOCs also count on state assistance through soft loans and petro-diplomacy to more than compensate for the uncommercial element encompassed by 'national interest' policies.[21] In pursuit of this vision, Chinese NOCs have fanned out into Central Asia, Latin America, the Middle East and Sub-Saharan Africa in a bout of frenzied negotiations and investment.

This means that, in addition to the complex challenge of attempted internationalization in perhaps the most competitive of business sectors, Chinese oil companies are perceived as poachers on someone else's turf. This is so particularly in the USA, where a veritable aca-

marked by increasing sophistication as well as big appetite', *African Energy* 95, February 2006.

21 Many analysts overestimate the extent to which Chinese NOCs are seeking independence from the Chinese state, which remains their biggest shareholder by far (author observation at a conference on the rise of China and India as energy consumers, Potsdam, January 2007). NOCs want the freedom to pursue commercial policies but would not want to lose the benefits of a close association with the Chinese state, which protects them from full international competition, grants them cheap finance, and can be counted on to advance company interests abroad. Furthermore, to think that the Chinese state would ultimately allow its strategic-sector companies the leeway to pursue completely independent policies is to misapprehend the nature of China's regime. The Communist Party remains responsible for all senior appointments; the main sources for capital remain the state-owned banks. A more possible medium-term outcome is a mixed company such as Brazil's Petrobras: on the one hand it is a competent, technologically advanced, and partly privatized firm; on the other, it remains one of Brazil's industrial 'jewels in the crown' which cannot conceivably pursue self-regarding policies in oblivion of the interests of the state.

demic and policy industry of concern for China's rise has come into being over the past years. Analysis and speculation on the behaviour of Chinese NOCs and their linkages with China's global strategy is a particularly fertile sub-genre. Among energy specialists, there is a virtual consensus that China's mercantilist energy strategy, itself the product of 'immaturity' and lack of understanding of energy markets, is bound to fail, as well as disbelief at the underlying 'paranoia'[22] of Chinese acquisitions. A number of arguments have emerged. First, that the foreign equity oil acquired (less than half a percentage point of world oil production) or likely to be acquired by China is not enough to make much difference. Second, that because of 'transportation and logistical costs', it will often make more sense to sell or swap oil cargoes in the international market than physically bring them into China,[23] which defeats the whole purpose. Third, that the Chinese 'shopping spree' fails to meet 'financial and commercial criteria acceptable to most IOCs':[24] Chinese companies overpay for their assets, either financially or through onerous 'packaged deals'. Somewhat illogically for a strategy so airily dismissed as amateurish, China's overseas energy policy is causing great anxiety in some quarters.[25]

22 'China's Splurge on Resources May Not Be a Sign of Strength', *New York Times*, 12 December 2004.

23 Downs, *China's Worldwide Quest for Energy Security*, p. 23. This was argued by a senior US-based Chinese scholar, who claimed that only about 10 per cent of Chinese foreign equity oil is actually sent back to China (conversation with the author, Potsdam, 18 January 2007, and subsequent email exchanges).

24 Ebel, *China's Energy Debate*, p. 41.

25 A prominent example was the attempted acquisition of the US oil company Unocal by CNOOC that led to a high-profile US backlash. While CNOOC claimed the acquisition was on commercial grounds alone, 'congressional and other critics in the United States charged that China as a country was using aggressive tactics to lock up energy supplies around the world and that CNOOC's bid represented a clear threat to US national security and should be blocked'. See CSIS and IIE, *China: The Balance Sheet*, p. 75. CNOOC withdrew its bid before this could happen. On the extensively covered Unocal-CNOOC affair see, e.g., Francesco Guerrera and Joseph Leahy, 'CNOOC considers $13bn for Unocal', *Financial Times*, 6 January 2005, Sebastian Mallaby, 'China's latest "threat"', *Washington Post,* 28 June 2005, Keith Bradsher, 'China retreats now, but it will be back', *New York Times*, 3 August 2005, and 'Giving China a Bloody Nose', *Economist*, 4 August 2005.

Are Chinese oil companies the storm troops of an aggressive foreign policy, then? No, but it is undeniable that Chinese decision-makers now link 'energy security with the much wider international political environment'.[26] As Rosemary Foot notes, the Chinese global strategy is characterized by two complementary dynamics. On the one hand, China's leadership understands the unipolar state of the international system, and wants to 'avoid open conflicts with the United States and not give it an excuse to shift its attention to [China] to pick quarrels that would result in extraordinary interference in China's endeavor to modernize': hence its attempts at accommodating US preeminence, foiling portraits of a 'China threat', and projecting the image of a conciliatory, peaceful and responsible presence in the international sphere. On the other hand, China's policy contains

> an important 'hedging' element, or insurance policy, through which China seeks to secure its future. If it should be necessary [...] China could try to use its newly formed bilateral and multilateral relationships to offset any serious deterioration of relations with America. The strong ties it has sought to establish around the world help ensure that Cold War-style containment [...] simply could not occur in this era of interdependence.[27]

The mercantilist element of Chinese energy policy and its accompanying petro-diplomacy is one such instance of Chinese 'hedging' against possible worsening of the Sino-US relationship. Not wanting to 'put all its eggs in one basket',[28] the Chinese government believes that privileged access to oil and a dense political relationship with oil producers in the developing world will enhance its security. Whether or not it is mistaken in this belief—especially in regard to the fungible nature of the international oil markets, where no producer or consumer stands in isolation from others—is neither here nor there: the pursuit of this policy is itself consequential. And although recent developments may point towards partial convergence with a more

26 James Tang, 'With the Grain or Against the Grain? Energy Security and Chinese Foreign Policy in the Hu Jintao Era' (The Brookings Institution, Center for Northeast Asian Studies, October 2006), p. 28.

27 Rosemary Foot, 'Chinese Strategies in a US-hegemonic Global Order: Accommodating and Hedging', *International Affairs* 82, 1 (2006), p. 88.

28 Chung-lian Jiang, 'Le pétrole, nouvelle dimension des relations sino-africaines', *Géopolitique Africaine* (spring 2004).

market-based approach,[29] this is the political backdrop for much of China's policy towards Africa's oil resources in the past five years.

China's oil investment in Africa

The arrival and deepening involvement of Chinese NOCs in Africa over the last decade has taken place amidst revolutionary change in the continent's oil sector.[30] This is particularly so in the Gulf of Guinea region which in the past decade has witnessed a major (and still ongoing) reassessment of the magnitude of its petroleum reserves.[31] The estimate is now of over 50 billion barrels, or just under 5 per cent of world proven oil reserves,[32] roughly 80 per cent of which are in Angola and Nigeria alone. Technological breakthroughs in the form of ultra-deep water machinery and expertise have played a crucial role in this process. The first ultra-deep water discovery, Angola's giant Girassol oilfield, was made in April 1996. In less than three years, there had been 25 such finds, the fastest rate of discovery in the world.[33] The excitement over the ultra-deep waters of the Gulf

29 The 2007 Chinese government's white paper on energy supply states that "worldwide search for oil and gas [...] will be carried out in a spirit of fair play and international cooperation so as not to disrupt sensitive international markets". This International Energy Agency—style language seems to point so some convergence with swestern approaches, as at least a wish to arrange the materials. That said, this has been the dominant Chinese approach until now. See http://www.cchina.gov.cn/WebSite/CChina/UpFile/FIle229.pdf (accessed 2 February 2008).

30 This distinguishes oil producers from African producers of other commodities, whose comparative prosperity over the past years is due directly to increased demand from the Asian Drivers and particularly from China. While the Chinese need for oil is one of the key demand-side reasons for current high oil prices, external competition for Africa's oil deposits predates it.

31 Soares de Oliveira, *Oil and Politics in the Gulf of Guinea*.

32 British Petroleum, *BP's 2005 Statistical Review of World Energy* (London: British Petroleum, 2005).

33 'Le point sur l'exploration/production dans le golfe de Guinée', *Marchés Tropicaux et Méditerrannéens* 502, 5 March 1999 and also Joseph M. Bruso *et al.*, 'Geology will support further discoveries in the Gulf of Guinea's Golden Rectangule', *Oil and Gas Journal,* 16 February 2004. Extending the analysis to deep waters (from 300 meters) there were 43 finds by late 1999, according to D. Harbinson, D. R. Knight and J. Westwood, 'West African Deep Water Developments in a Global Context', *The Hydrographic Journal* 98 (2000).

ASIA'S OIL INTERESTS IN AFRICA

ALGERIA
CNPC
Exploration: Block 112/102a (75%), Block 350 (75%) and Block 438b (100%).
Exploration, construction, marketing: Adrar Upstream & Downstream Integrated Project (70%).
Petronas
Exploration & production: Ahnet Block & Block 401C (interest).
Petrovietnam (PIDC) (40%) **and Petroleum Authority of Thailand (PTTEP)** (35%)
Exploration: Blocks 433a & 416b (Touggourt).
Teikoku (Japan)
Development: Ohanet, El Ouar I & II Blocks.

MAURITANIA
CNPC
Exploration: Blocks Ta 13, Ta 21, 12 & 20.
Production sharing: Blocks Ta 13, Ta 21 & 12.
Operation: Block 20.
Miscellaneous: engineering & technical services such as geophysical prospecting, well drilling & well logging.
Petronas
Exploration & production: Block 6 (interest), located NW of Nouakchott.
Operation: Chinguetti oil field.
Exploration: PSC A, PSC B; Offshore Blocks 2, 6 & 7; Blocks Ta 11 & Ta 12.

GAMBIA
Philippine National Oil Company
Exploration block (this deal had no tender or technical review, unsure of current status).

SENEGAL – GUINEA-BISSAU JOINT EXPLORATION BLOCK
Markmore Energy (Malaysia)
Exploration: Dome Flore Block (55% interest).

CÔTE D'IVOIRE
Joint exploration project, CI-112: **ONGC (India)** (21%); **Oil India** (10.4%); **Sinopec** (27%).

TOGO
Petronas
Exploration: Togo offshore block (interest).

BENIN
Petronas
Exploration: Block 4 (20% interest).
Korea National Oil Company (KNOC)
Exploration & production: Blocks 2 & 3.

NIGERIA
CNPC
Blocks OPL 298, OPL 471, OPL 721 & OPL 732.
CNOOC
OML 130 (45%).
Sinopec
Interest in exploration project.
IndianOil
An onshore block.
Oil India Ltd (OIL)
Block OPL 205 (oil/gas; 25% interest).
Korea National Oil Company (KNOC)
Exploration & production: Offshore Blocks OPL 321 & OPL 323 (interest).

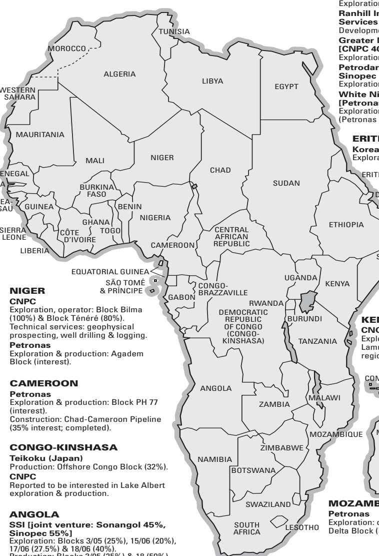
EQUATORIAL GUINEA
CNPC
Production: Block M (70%; operator).
China National Offshore Oil Company (CNOOC)
Exploration: offshore project (interest).
Petronas
Exploration & production: Block N, offshore Corisco Bay (interest); Block P, Rio Muni Basin (interest).

GABON
IndianOil
Onshore farm-in arrangements in Gabon Oil India Ltd (OIL).
Exploration: Block Shakthi (FT-2000) (operator; 45% interest).
Petronas and Mitsubishi Petroleum Development Corporation [joint venture with Amerada Hess, operator]
Exploration & production: Moabi & Nguma Permits.

MOROCCO
Petronas
Exploration & production: Tiznit Block, offshore (42.5%).
Exploration: Cap Drâa Haute Mer Permit Block (26.67%; operated by Energy Africa, 80% Petronas-owned).

TUNISIA
CNPC
Exploration: NK block.
Production: SLK Oilfield (50%).
Technical services: drilling.

LIBYA
CNPC
Exploration & production: Block 17-4 (interest).
Construction: crude/gas parallel pipeline in western Libya (2004).
Technical services: seismic crews, five drilling rigs & eight well logging crews.
IndianOil Corporation (IOC) and Oil India Ltd (OIL)
Exploration: Blocks 86 & 102-4 (18.4% interest in each).
Medco Energy (Indonesia)
Exploration: Area 47 (50% interest).
Korea National Oil Company (SK)
Elephant field, joint venture.
ONGC-Videsh (OVL)
Exploration & production: NC 188, NC 189 (49% interest in each); 81-1 & Contract Area 43.
Japanese consortium [Inpex, Japan Petroleum Exploration (JAPEX), Mitsubishi, Nippon Oil and Teikoku]
Exploration & production: Blocks 2-1/2, 40-3/4, 42-2/4, 81-2, 82-3 & 176-4.



NIGER
CNPC
Exploration, operator: Block Bilma (100%) & Block Ténéré (80%).
Technical services: geophysical prospecting, well drilling & logging.
Petronas
Exploration & production: Agadem Block (interest).

CAMEROON
Petronas
Exploration & production: Block PH 77 (interest).
Construction: Chad-Cameroon Pipeline (35% interest; completed).

CONGO-KINSHASA
Teikoku (Japan)
Production: Offshore Congo Block (32%).
CNPC
Reported to be interested in Lake Albert exploration & production.

ANGOLA
SSI [joint venture: Sonangol 45%, Sinopec 55%]
Exploration: Blocks 3/05 (25%), 15/06 (20%), 17/06 (27.5%) & 18/06 (40%).
Production: Blocks 3/05 (25%) & 18 (50%).
Petronas
Exploration: Block 24 (15%).
Teikoku (Japan)
Production: Cabinda North Block (17%).

EGYPT
Petroleum Authority of Thailand (PTTEP)
Exploration: Rommana Block (30%; not operator); Sidi Abd El Rahman Offshore Block (30%; not operator).
Petronas
Exploration: 4 blocks in Siwa, W Ghazalat, El Farafa, El Saloom [partnership with Tharwa Petroleum (Egypt)]; Block E1 Burg (30% interest).
Exploration & production: NE Mediterranean Deepwater (Nemed) Oil & Gas Block (interest); West Delta Deep Marine (WDDM) Concession (interest).
LNG liquifaction plant (under construction; joint venture).
GAIL (India)
15% interest in NATGAS (gas company).
ONGC-Videsh (OVL)
Exploration & production: N Ramadan Block (interest).
AOC (Japan)
Exploration & production: NW October Block, Suez Gulf (interest).
Teikoku (Japan)
Interests in S October, N Qarun, W Bakr & SE July blocks.

SUDAN
CNPC
Blocks 1, 2 & 4 (40%), Blocks 3 & 7 (41%; operator; oil/gas), Block 6 (100%; Fula oil field & its pipeline), Block 15 (production sharing with Sudapet, Petronas & others), Khartoum Refinery (50%), Block 13 (co-operator).
Petronas
Refinery construction: Port Sudan (completion 2009).
Operates: service stations, bulk terminals, storage.
Exploration: Blocks 5A, 5B & 8 (interest).
Gas exploration & production: Offshore Block 15 (interest).
Sinopec
Exploration: Ogaden.
Ranhill International (Malaysia) and Petroneeds Services International (Sudan)
Development: Blocks 3 & 7.
Greater Nile Petroleum Operating Company (GNPOC) [CNPC 40%, Petronas 30%, ONGC 25% and Sudapet 5%]
Exploration & production: Blocks 1, 2 & 4 (joint operation).
Petrodar [CNPC 41%, Petronas 40%, Sudapet 8%, Sinopec 6% and Al-Thani Corporation 5%]
Exploration & production: Blocks 3 & 7.
White Nile Petroleum Operating Company (WNPOC) [Petronas, ONGC-Videsh (OVL) and Sudapet]
Exploration: Block 5A (Petronas 69%, OVL 24%); Block 5B (Petronas 39%, OVL 24%); & Block 8 (Petronas 77%).

ERITREA
Korea National Oil Company (KNOC)
Exploration & production: Defnin Block.

ETHIOPIA
Petronas
Exploration & production: Ogaden Blocks 3, 4, 12, 16, 17 & 20; Gambela Basin Block G (interests).

CHAD
CNPC
Technical services Block H (100%); geophysical prospecting, well drilling & logging.
Construction: N'Djamena Refinery.
China Petroleum Company (Taiwan) through overseas arm OPIC
Joint exploration: 3 blocks
Petronas
Exploration & production: Doba Three-Field Development (Miandoum, Bolobo & Komé fields) (interest).
Exploration: Permit H (Doba, Doseo & Lake Chad Basins) (interest).

KENYA
CNOOC
Exploration: Lamu offshore region.

MADAGASCAR
Sunpec (HK, China)
100% owner of Madagascar Energy International Limited (MEIL) and its Madagascar Oilfield Block 3113 (gas/oil exploitation & operation).

MAURITIUS
IndianOil Mauritius Ltd
Operator: storage facility of 18,000 MT, Mer Rouge in Port Louis.

MOZAMBIQUE
Petronas
Exploration: offshore Zambezi Delta Block (interest).

SOUTH AFRICA
Petronas
Owns 80% Engen Ltd (Durban refinery, 1400 service stations).

Sources: EIA; Afroil; ENI; KNOC; Petronas; CNOOC; CNPC; Sinopec; IndianOil

Source: Africa-Asia Confidential, 1, 2 (14 December 2007, p. 5).

Credits: David Burles (cartographer), and Charles Moore (research).

of Guinea was such that a worldwide decrease in capital expenditure by oil companies during the 1998-99 drop in prices had no impact there: in fact, spending rose 10 per cent relative to the previous year.[34]

34 See Anne Guillaume-Gentil, 'Pétrole: la nouvelle donne', *Marchés Tropicaux et Méditerrannéens*, 10 March 2000 and 'Deep-Water Survey: Gulf of Guinea Development Work Set to Boom', *Petroleum Economist*, 23 October 2001.

Natural gas, still largely flared across the region, is increasingly being harnessed for production and exportation. Interest in onshore oil development has proceeded in tandem, despite political instability. At the forefront of this process are major Western IOCs that have dominated oil production in the region since the 1950s, such as Exxon-Mobil, Chevron, BP, Royal Dutch/Shell and Total. But scores of other companies of diverse sizes and origins are also taking part in this rush for business deals.

While Chinese oil companies have recently gained important footholds in high-profile Gulf of Guinea producers such as Nigeria, Angola and Equatorial Guinea, their first African stop was Sudan, a disreputable state mostly marginalized by the West since the 1990s. CNPC entered a partnership with Talisman, a Canadian oil company, and Malaysia's Petronas, and became the lead investor in the Greater Nile Petroleum Operation Co. From the Chinese point of view, there was no intrinsic sympathy for Sudan's exclusion by the West. China's objective was rather to explore the unique opportunity of putting down roots in the notoriously oil-rich Sudan while the country was still on the international blacklist. As John Ryle commented, 'the Chinese calculation [was] to consolidate and expand while Sudan is still a pariah state'.[35] In this, China was successful: not only is the country China's only major production site in Africa at the present time, but the end of the civil war in the south has also rekindled investors' interest in Sudan. China's willingness to engage with Sudan at a troubled time means it is in an ideal position to benefit from peacetime investment opportunities. Sudan's leadership has also benefited from this partnership, counting on oil revenues for regime survival and on China to deflect international criticism of the state-supported violence in Darfur. This could not conceivably take place without the resources made available to the Sudanese government by Chinese oil firms, even if at the political level Chinese complicity is matched by that of others such as the Arab League.[36]

35 Peter S. Goodman, 'China Invest Heavily in Sudan Oil Industry', *Washington Post*, 23 December 2004.

36 See the chapter by Daniel Large for a more detailed discussion of China-Sudan relations.

The Sudan case is exemplary of Chinese business methods in the African oil industry, not only because of China's willingness to get involved in rough spots and neglected regions, even if this is one of its hallmarks—notice, for instance, CNOOC's decision to enter the Niger Delta precisely when the insurgency there was expected to discourage new investors.[37] More importantly, the Sudan experience shows China's capacity for providing 'package deals' that promise aid, credit lines, and investment in infrastructure and other sectors that commercially minded companies would never contemplate, and that Western donors are not interested in. In Nigeria, for instance, CNOOC offered a US$2.7 billion development spending commitment on top of the US$2 billion-plus purchase of a 45 per cent stake in a Niger Delta oil block.[38] For its part, CNPC's acquisition of four drilling licenses came with its taking up of a controlling stake in the Kaduna refinery. That refinery's privatization had been decided in the 1990s but its poor condition and the impossibility of making a (legal) profit in Nigeria's downstream meant that serious investors had never before materialized.[39] Moreover, and although these deals were not tied up together, China's simultaneous offer to invest US$1 billion in Nigeria's crumbling railway system (yet another sure money loser) cemented Nigerian good will.[40]

As shown in the Nigerian case, a key feature of Chinese oil deals in Africa is that they are much more generous than those of other firms. Some analysts argue that this is a sign of inexperience, while others contend that this is because China is assuming that commodity prices will remain very high during the lifetime of its projects.

37 This elicited a bellicose reaction from MEND, the guerrilla group behind most of the attacks in 2006, which told Chinese oil companies to 'stay well clear' of the Niger Delta. See Dino Mahtani, 'Stay away from the delta, Nigerian rebels tell China,' *Financial Times*, 1 May 2006.

38 'It's definitive: CNOOC concludes its Niger Delta mega-deal—or so it thinks', *African Energy* 95, February 2006.

39 In a typical twist of Nigerian politics, CNPC subsequently lost the bid to a well-connected local group but reportedly remains keen on getting involved in the Kaduna refinery. See Wang Ying, "CNPC may expand its Nigerian oil refinery", *ShanghaiDaily.com*, 3 March 2008.

40 Rory Carroll, 'China extends its reach into Africa with $1bn deal for Nigeria's railways', *Guardian* 23 May 2006.

Whatever the case, Chinese oil companies can only afford to do so because they can access cheap finance through state banks in what critics have called 'predatory finance'.[41] As the *Economist* noted in a survey of Chinese foreign acquisitions, the fact that Chinese NOCs are linked to the state means that 'the cost of capital is close to zero': they do not always need to 'make a commercial return or perhaps even repay loans from state banks'. In turn, state bank loans are made available either at concessional loans with long maturities or 'at no interest at all'. Though 'clearly nonsense in a world of rational economics,' the *Economist* concludes, 'the abundant domestic liquidity and […] foreign exchange reserves' means that 'it is […] a nonsense that can go on for a long time'.[42] While there is disagreement as to the reasons for the Chinese willingness to pay so handsomely, the upshot from an African perspective is precisely that the Chinese will pay more and they are welcomed on that basis.

This is evident in China's involvement in Angola, which recently surpassed Saudi Arabia as China's number one source of oil imports during 2006.[43] As elsewhere, China's apparent willingness to overpay for assets is coupled with a readiness to leverage oil sector participation with a number of non-oil sector perks. In 2004, Sinopec outbid India's ONGC bid for block 3 and offered a major credit line and a commitment to the reconstruction of Angola's rail system. Sinopec also agreed to participate in a joint venture with Sonangol to finance and manage Sonaref's 200,000 bpd refinery in Lobito. The Lobito refinery had been a pet project of the Angolan leadership for more than a decade. But despite the involvement of major foreign consulting firms, its dubious economics meant that it could not garner enough interest from Western companies to see the light of day.

41 Peter Evans and Erica S. Downs, 'Untangling China's Quest for Oil Through State-backed Financial Deals', *Brookings Policy Brief* 154, May 2006.

42 'Chinese companies abroad: the dragon tucks in', *Economist*, 30 June 2005. An assessment by the respected oil consulting firm Wood Mackenzie noted that Asian NOCs 'have not drastically overpaid for asset acquisitions', especially in view of the consistently high oil prices of the past years. See 'Wood Mackenzie predicts establishment of Big Eastern Oil to rival Big Western Oil', Wood Mackenzie Press Release, 29 June 2006.

43 See the chapter by Manuel Ennes Ferreira for a more detailed discussion of Angola-China relations.

Sinopec's enabling of the refinery was thus far more momentous than a mere business deal.[44] It is also the tip of the Chinese iceberg in Angola. By opening up three credit lines totalling almost US$6 billion in a mere two years, the Chinese have enabled the Angolan government both to pursue its postwar reconstruction strategy in the absence of a Western donors' conference and to keep its distance from the IMF's transparency prescriptions although the subsequent increase in oil production and oil pries also played a key role. Moreover, China's willingness to partner with African NOCs gives it an edge over other companies when it comes to licensing rounds[45] and, through the sharing of technology and expertise, suggests the will to build relationships for the long haul.

It is true that Chinese NOCs are, for that time being, technically inferior to their Western competitors. Yet to stress the technical element excessively is to forget that African elites are as politically minded as the Chinese investors, and can do with less-than-stellar oil firms if they are bearers of other rewards. In other words, while still lagging behind Western companies in most areas, Chinese NOCs bring to the table the weight of the Chinese state, a willingness to pay for long-term engagements that would not be viable if perceived in the short term, and cheap finance to secure deals. As Robert Ebel notes, NOCs from importing nations, 'by their very nature, can offer terms far more acceptable to supplier nations than IOCs. In these instances energy requirements are often difficult to distinguish from political goals'.[46] This strategy is strongly underpinned by an activist petro-diplomacy, consisting of numerous visits by Chinese senior officials (including mostly recently China's President Hu Jintao and Premier Wen Jiabao). While a discussion of China's Africa diplomacy falls outside the ambit of this chapter, suffice it to say

44 The deal was called off in March 2007 by the Angolan government reportedly out of fear that Chinese investors wanted to corner the refinery' output for China's domestic market. See Lucy Corkin, 'Angola flexes newfound muscle', *Business Day*, 23 March 2007 and especially "Big oil, high stakes", *Africa-Asia Confidential*, 2 November 2007.

45 This was shown in the joint Sonangol-Sinopec acquisition of three deepwater blocs and many other instances of collaboration.

46 Ebel, *China's Energy Debate*, p. 84.

that China has provided oil producers with either implicit political support (as in the case of Sudan which, in part because of China, has been able to avoid full international opprobrium over Darfur) or the means to override external criticism (in the case of Angola and that of Chad, where recognition of mainland China in August 2006 allowed it access to Chinese aid and added support for its tussle with the World Bank). This largely accounts for the political, as opposed to merely economic, attraction of Chinese oil investment from the viewpoint of African incumbents.

Making sense of China's energy policy in Africa

I will now briefly discuss the likely impact of Chinese oil investment in Africa from the viewpoint of Africans, the Western companies and governments often described as rivals of the Chinese, and China and its NOCs.

The arrival of Chinese companies is welcomed by African elites both economically and politically. This is not necessarily the case with ordinary Africans who do not see any improvement upon the behaviour of traditional (mostly Western) oil investors and often resent Chinese employment practices. The same applies to political forces that are excluded from access to power-sharing and oil revenues: they have lost little time in demonstrating their hostility to Chinese oil firms as perceived accomplices of their adversaries. Already in the late 1990s, South Sudanese forces had deemed Chinese oil installations legitimate targets in their struggle against Khartoum. In the Niger Delta MEND,[47] an opaque rebel group with a separatist agenda, blew up car bombs in April 2006 as a warning to Chinese oil companies.[48] More seriously, nine Chinese Sinopec workers were slain in April 2007 during a rebel attack while prospecting in the Ethiopian-held Ogaden region.[49]

47 Movement for the Emancipation of the Niger Delta.

48 See Dino Mahtani, 'Stay away from the Delta, Nigerian Rebels tell China', *Financial Times,* 30 April 2006.

49 See Chris Buckley, 'China condemns Ethiopia attack amidst security fears', *Reuters News*, 26 April 2007, and 'Attack on Chinese-run oil field a reminder of dangers of China's interest in Africa', *International Herald Tribune*, 24

These sobering experiences have certainly demonstrated to the Chinese oil companies that they do not exist above local politics and that their elite pacts cannot provide a consistent degree of security for their operating conditions. But there is nothing new to this; Western oil companies have been labouring under these conditions for decades. Furthermore, the deep unpopularity of the oil industry in many oil-producing countries in Africa has never weighted decisively against its presence: even in areas such as the Niger Delta or Cabinda, where armed struggle has resulted from local grievances, this has not ultimately led to the ousting of Western oil companies. The same applies to Chinese NOCs. For them, the supporters they need to cultivate are still the domestic powerholders who alone control foreigners' legal access to oil resources. The subsequent problems caused by lack of legitimacy and the empirical demise of African states are perceived in security terms and addressed in the time-honored codes of an enclave extractive industry.

African elites understand that more investment and a plurality of investors can only increase revenues and their own negotiation leeway, both in oil industry terms and as states in the international system. In particular, the many associated Chinese businesses that come into an economy on the crest of oil investment constitute new business opportunities where African insiders can get involved in as the indispensable local partners.[50] Whether or not Chinese companies are at the cutting edge of environmental and labour practices does not rate highly in the concerns of decision-makers. The massive use of Chinese expatriate workers for the performance of non-skilled tasks in Angola has met substantial popular disapproval but next to no complaints by the political elite. The same applies to the environment: exposed while drilling for oil in the Luango Natural Reserve with unsuitable methods and without a permit, Sinopec could count on the support of the Gabonese government despite the public outcry against the company.[51]

April 2007.

50 See Manuel Ennes Ferreira's chapter in this volume for examples from Angola.

51 'China's Sinopec provokes conservation uproar in Gabon', *Agence France*

The point needs to be underlined: the most obvious consequence of the massive investment of Chinese oil companies is an increase in revenues for the governments of oil-rich states. Major decisions about how these revenues are spent will depend on Africans decision-makers, including the degree to which resource extraction is sustainable, the degree to which it is turned into a 'source of technology, skill formation and market access',[52] and the degree to which its rewards will be broadly shared. Unfortunately, an analysis of political and economic dynamics across oil-producing states—in terms of the self-serving, short-termist motivations of elites, the lack of capacity of institutions, and the feebleness of highly dependent economies—points to outcomes that are not markedly different from those of earlier oil windfalls.[53]

Politically, the effect of China's oil partnerships has been the strengthening of authoritarian, non-developmentalist governments and their avoidance of Western pressure in a number of key areas. This is not necessarily China's goal, but the political uses of its presence by self-serving incumbents are overwhelmingly negative. The latter perceive China's business-only approach as adding a degree of diversification to a landscape hitherto dominated by (at least theoretically intrusive) Western prescriptions.[54] This is especially the case with states such as Sudan, Angola or Chad, which faced a fairly unanimous stance from Western donors as to the reforms needed for engagement. African elites also appreciate China's understanding of,

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Presse, 28 September 2006 and Philippe Alfroy, 'China's Sinopec 'illegally' destroying Gabon', *Business in Africa*, 29 September 2006.

52 Andrea Goldstein, Nicolas Pinaud, Helmut Reisen, and Xiaobao Chen, *The Rise of China and India: What's in it for Africa?* (Paris: OECD Development Center, 2006), p. 111.

53 For a study of this see Soares de Oliveira, *Oil and Politics in the Gulf of Guinea* and also Soares de Oliveira, 'Context, Path Dependency and Oil Based Development in the Gulf of Guinea', in Michael Dauderstadt and Arne Schildberg (eds), *Dead Ends of Transition: Rentier Economies and Protectorates* (Frankfurt: Campus Verlag, 2006).

54 Even before the establishment of the close Sino-Angolan partnership, officials of the NOC Sonangol could be heard salivating about the 'business-only' approach of the Chinese (author interview, Luanda, 24 January 2004).

and assistance to, projects that they feel are essential but Westerners tend to dismiss as 'prestige' or 'vanity' extravaganzas such as Angola's 'Nova Luanda' or Khartoum's new presidential palace. African elites do not want Western companies to go, of course: they know they need the West's essential technical expertise and certainly do not want to replace Western donors with a new dependence on China. But they do hope that heightened competition will make Westerners more pragmatic and less shrill about their conditionalities.

The West will deal with the rise of Chinese oil firms in Africa in a contradictory way. Western media and especially NGOs will mostly give their activities in Africa a bad coverage. The latter are the most evident losers in the process of China's expanding Africa role: in contrast with Western firms, which seek to be seen trying to address the criticism of civil society organizations, the Chinese government and oil companies often ignore NGOs.[55] But 'the West' is not a unitary actor trying to force 'transparency' and 'good governance' on wayward African oil producers. Beyond rhetoric, official Western reactions will be dependent on a Chinese engagement with international oil markets that is less equivocal and on a Chinese presence that does not detract from the business opportunities available to Western companies (which has not happened yet in most cases, as Roland Marchal argues in this volume). Chinese-Western relations over Africa's oil are therefore dependent on wider political dynamics. If these conditions for mutual adjustment are met, and China starts to behave like a mature energy importer (as most importer states

55 This view was expressed by several representatives of French NGOs at a seminar on China-Africa relations (Paris, 5 July 2007). Potential campaigning strategies for Western NGOs tackling Chinese activities in Africa are unlikely to be successful if framed in the same terms as those focusing on Western actors. Rather than direct lobbying in China, the more effective points of pressure are the Western regulatory agencies that Chinese companies want the approval of, such as the SEC, and would-be Western investors in subsidiaries of Chinese companies. In the case of Sudan, a heavy-handed campaign around the so-called 'Genocide Olympics' has nonetheless had the effect of concentrating Chinese decision-makers' minds as to the reputational damage of this close partnership. Initiatives such as the 'Publish What You Pay' campaign (www.pwyp.org, accessed 23 April 2007)—calling for standards that, if adopted, would apply to any company listed in Western stock exchanges—seem like a good place to start.

have tended to), governments in the West can only be happy at the Chinese willingness to pump more oil from inhospitable locations.

The same applies to Western IOCs, which perceive their Chinese counterparts as much as an opportunity as a threat, especially when compared with the NOCs of oil producing countries. They will cry foul when state-supported Chinese bids thwart their own agendas, but will otherwise pragmatically go into business with the Chinese, as they have in Angola and Nigeria. As mentioned before, Western oil majors are strategic investors in the internationally listed subsidiaries of the three Chinese companies and cooperate extensively with them in China and elsewhere. Close partnerships with Chinese companies carry reputation risks, especially with activist constituencies in the West. But there are ways to go around this. The internationally listed, partially privatized subsidiaries of the three major companies are also tailor-made to fit Western expectations of accountability and corporate governance. When threatened with a Sudan-related investor backlash on the eve of being floated on the New York stock exchange, CNPC merely expunged from its soon-to-be-listed subsidiary, Petrochina, everything connected with Sudan operations. This ungainly wart removed, the company was highly attractive for would-be investors, and its flotation a success.[56] The *à la carte* system presupposed in this means that the subsidiaries of Chinese oil companies can move into the mainstream of Western capital markets while their differently-run parent companies continue to do business in states marginalized by the West.

The overseas activities of Chinese NOCs, their close articulation with Chinese state interests, and their initial scepticism towards the market mechanism as the solution for supply security are nothing new. China's policies are in fact 'no different' than those once pursued by 'other oil-importing countries concerned about the linkage between national and energy policy'.[57] Nevertheless, this politicized, market-

56 Goodman, 'China Invest Heavily'.

57 Ebel, *China's Energy Debate*, p. 5. According to the IEA, Chinese current policies 'mirror the classic moves of nations which found themselves in import dependency in the past' (International Energy Agency, *China's Worldwide Quest for Energy* (Paris: IEA, 2000), pp. 8-9). They are particularly reminiscent of the activities of European national champions such as France's

sceptic understanding of energy security[58] is at variance with that now broadly accepted by the industrial nations.[59] This approach is likely to continue for some time and Africa will play a key role in it. There is no doubting the stamina and competitiveness of Chinese oil companies. The leading oil consultancy Wood Mackenzie is right is stating that their presence is not a transient factor in Africa or elsewhere, and in heralding the arrival of 'Big Eastern Oil' to the continent.[60]

For the time being, Chinese NOCs are clearly inexperienced. But they learn fast and seem keen to emulate their Western counterparts in many ways, as a cursory look at their English-language websites will show. Might this mean that Chinese oil companies will end up

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Elf Aquitaine (or Italy's ENI) until their privatization in the 1990s. The activities of these firms were informed by a paradigm—sometimes termed 'the French paradigm'—characterized by 'defiance towards the market and the willingness to put in place, under state initiative, a direct, concrete, and controlled link between national demand and the resources necessary for its fulfillment'. See Pierre Noel, 'Indépendance enérgetique versus marché mondial', *Revue de l'Énergie*, September 1999, pp. 2-3. France reacted to the 1973-74 oil crisis by primarily pursuing an aggressive campaign at energy independence that included the building up of one of the world's leading nuclear sectors. France only adhered to the EIA in 1992, and the primarily political running of Elf-Aquitaine was only halted by privatization in the mid-1990s and merger with TotalFina in 1999. The French convergence with the international oil market is therefore very recent and, some would argue, still to be completed.

58 Andrews-Speed *et al.*,'Searching for Energy Security', p. 17.

59 US commentators who berate China for 'not understanding oil markets' also deny the eminently political, as opposed to merely commercial, nature of the international political economy of oil. (Ironically, these are the same commentators who chastise Venezuela, Iran and Russia for trying to score political victories on the back of their oil resources.) This reaction, often dressed up as an affirmation of the 'natural' character of oil markets as *markets*, is really a plea to the effect that oil *should* continued to be traded in the open market, not locked up. After three decades of OPEC price hikes, political upheavals, and wilful disruption of supplies (not to mention the frequent resort to the rhetoric of resource nationalism) it should be obvious that there is nothing natural about oil markets: as with all markets, they are a political construct, subject to decay and disruption. The implicit fear is that China's actions to secure its energy supplies may paradoxically contribute towards such a market deterioration.

60 Wood Mackenzie, 'Wood Mackenzie predicts establishment of Big Eastern Oil'.

supporting human rights, good governance, transparency, etc., at least to the grudging rhetorical extent that Western oil companies have? While rash observers assume that Chinese authorities simply do not care about being perceived as cavalier in this regard, in reality the Chinese government is extremely image-conscious. It makes consistent attempts at deploying 'soft power' and wants to be liked.[61] Note, for instance, the insistent disclaimers put out by Premier Wen Jiabao in his most recent trip to Africa to the effect that China was *not* pursuing a resource grab strategy in the continent,[62] or the reference in the Africa policy white paper to a need for 'competent Chinese enterprises' to invest in Africa.

There is certainly a nascent debate in some Chinese circles about corporate social responsibility. Some minor convergence may take place in the near future. A measure of PR-driven rhetorical acceptance of the Western-dominated discourse on how companies should behave will certainly occur. But this will not change the key operational features described above, for four reasons. Firstly, Chinese companies simply do not face the scrutiny of activist shareholders or a concerned civil society back home. There is an emerging pluralist debate on this in China, but if progressives in Western liberal democracies have not yet succeeded with their companies, why should Chinese critics get much further (or even that far)? Secondly, the fact that China tries to please does not mean that it is trying to please a minority of activists in the West. While Chinese oil companies do not want to be the targets of a media-driven smear campaign, the true constituencies they are seeking to charm are firstly, those of elites in the developing countries they are getting involved in, and secondly, those of regulatory bodies in the West that are essential for their international mainstreaming. In other words, Chinese companies may want to please the Sudanese government and the US Securities and

61 Bates Gill and Yanzhong Huang, 'Sources and Limits of Chinese "Soft Power"', *Survival* 48, 2 (2006), pp. 17-36.

62 See, e.g., Gavin Stamp, 'China defends its African relations', *BBC News*, 26 June 2006; Ana Dias Cordeiro, 'Primeiro-ministro da China em visita histórica a Angola', *Público*, 20 June 2006; 'China and Africa: for better or for worse?', *IRIN News*, 27 June 2006.

Exchange Commission, but not necessarily Human Rights Watch or Environmental Defense.

The third reason is that while they seek to placate some general criticism, Chinese companies will not want to become 'stakeholders' in Western progressive agendas that, if taken beyond mere window-dressing, could erode the meagre comparative advantage they currently possess. Even leaving aside the more demanding transparency and 'good governance' issues, forcing Chinese companies to abandon package deals, predatory financing, and overt support for ostracized despots might well be the death of them. And finally, to expect major changes in this stance is to misunderstand just how deep some of the Chinese government's assumptions run. Non-interference, mutual respect, the primacy of national sovereignty, etc., are not simply ploys to get ahead commercially, even if they do serve that purpose: they are coterminous with China's prevalent foreign policy values. Converging with something like the Western conditional approach to sovereignty would mark a sea change in Chinese policy that simply does not seem forthcoming in the short run.

It is important to keep China's oil partnerships and their consequences at the centre of any assessment. This said, one must not overstate the difference between the methods of Western companies and those of the Chinese newcomers. For many decades, the extraction of oil in Africa was structured around a *Realpolitik* relationship between oil-producing states, companies, and Western oil-importing states. The latter wanted energy security and did not mind partnering with questionable regimes for that purpose. (Arguably, they still don't.[63]) It is undeniable that Western policies towards Africa over the past decade have greatly improved, notably through the partial acceptance of agendas on transparency and the appropriate behaviour of corporations, and that there are powerful civil society actors in the West that simply do not exist in China. However, the apparent rhetorical victory in the West of the progressive agendas obscures the extent to which, on the ground, very little has changed.[64] It also fails

63 The nature of this decades-long partnership cannot be explored here in detail. See Soares de Oliveira, *Oil and Politics in the Gulf of Guinea*.

64 It must be noted that the absence of meaningful changes on the ground cannot

to shed light over the fact that many Western business actors did not willingly accept these new expectations upon their behaviour: rather, they caved in to international civil society pressure. In this sense, the Chinese presence and its unproblematic and very competitive embrace of the *Realpolitik* agenda may be just the right excuse for Western companies, under pressure to finally deliver on their rhetorical commitments, to bring about a return to previous forms of business-only engagement with Africa's oil that seemed on their way out. In a recent interview, for instance, the head of the European Investment Bank decried Chinese business standards in Africa but only as a cue to suggesting that, in order to stay competitive, Western companies will have to do likewise.[65]

Conclusion

While Chinese oil investment in Africa is a recent affair, the decade-long Sudanese case excepted, an interim assessment is possible. Firstly, Chinese oil investment in Africa is politically motivated and state-supported, a common enough historical occurrence among anxious import-dependent nations. Chinese NOCs often ignore short-term commercial considerations for the sake of the real bottom line of their majority shareholder, the Chinese state, which is energy security. It remains uncertain whether China will in time converge with the market approach favoured by industrial nations or deepen its 'strategic' understanding of oil supplies. This will most certainly be a function of broader developments in US-Chinese relations. Secondly, the operating procedures and investment choices of Chinese oil companies continue to show lack of experience. They are also technically backward in comparison with their Western counterparts and are unlikely to tackle some of the more challenging oil deposits in the deep and ultra-deep waters. But these companies have a steep

be attributed to oil companies alone: the lack of reformist constituencies amongst the empowered political actors in oil states such as Angola are just as consequential. A more serious effort was started by Nigerian reformists in the second Obasanjo Administration, but even there the results are highly problematic.

65 Victor Mallet, 'Hunt for resources in the developing world', *Financial Times*, 12 December 2006.

learning curve and are determined to succeed. Furthermore, African elites are as interested in the political rewards of the Chinese presence as in their investment and are unlikely to disfavour Chinese companies on that basis. Incumbents have skilfully used this Chinese presence to advance political agendas with negative developmental outcomes.

Third, harsh criticism of China and its oil companies is factually correct. Chinese oil companies are willing to partner with and shore up some of Africa's most brutal regimes; show little interest in 'good governance', human rights, transparency, or the environment; and provide a discourse that 'effectively legitimizes human rights abuses and undemocratic practices'.[66] However, most analysts who compare it unfavorably to Western practice tend to misunderstand how the political economy of oil in Africa works and has worked for the past 40-odd years. What is presented as an illiberal departure from Western procedure and prescription is in fact mostly the 'business as usual' approach followed throughout the region. This should not lead observers to be lenient about the Chinese deportment in Africa's oil sector: the idea that Westerners cannot criticize Chinese oil companies in contexts such as Sudan because theirs have a bad history in the region is nonsense. But that history may rather undermine the singular demonization that is widespread in some circles.

Finally, and tied to the previous point: how should one assess the likely impact of China's oil firms? It seems clear that they are not much of a progressive force in Africa. This does not presuppose a blanket judgment about the China 'threat' to the continent. Rather, the Chinese impact—like everyone else's—will be sector-specific. There is no doubt benign potential for Chinese investment in Africa. But when it comes to oil, it would be surprising indeed if Chinese NOCs were willing to act in a manner that is qualitatively different from that of Western operators, or better than their own very low domestic standards. It is also improbable that their actions will not lead to the tragic governance standards that are the consistent outcome of oil production throughout Africa. Whether one thinks Chinese NOCs will be more of the same, or will actually be worse—and

66 Taylor, 'China's Oil Diplomacy in Africa', p. 958.

the Sudan case seems to show that Chinese companies have until recently not cared for fig-leaf respectability—it is difficult to claim that there will be significant benefits for the majority of Africans from Chinese oil investment.

Of course, such negative, non-developmental consequences are not an inexorable outcome of petroleum economies, the activities of oil companies, or the presence of China, even if they all play a significant role. Although there are particular challenges to the proper management of oil revenues, it is undeniable that the resources made available by the present oil boom (according to some sources, the greatest inflow of money into Africa in history)[67] present the rulers of African oil-rich states with the opportunity to make consequential choices about the welfare of their citizens that are simply not available to the rulers of most of Africa's oil-poor countries. The role of African leaderships, and what they do with this opportunity, are therefore vital here. That the wrong choices are often made, and that the masses suffer immesurably from them, show the extent to which those in positions of power play a key role in fashioning the lives, and also the deaths, of their fellow Africans across the continent today.

67 Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor* (Baltimore: Catholic Relief Services, 2003).