China’s energy role in the Middle East and prospect for the future

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Structure

• What is China’s energy role in the Middle East?
• What is driving this engagement?
• What may determine future developments?
Key elements of oil strategy

**Domestic**
- Maximise production
- Maximise refining
- Build pipelines
- Ports/shipping
- Build storage
- Coal to liquids, biofuels
- Fuel consumption standards

**Overseas**
- Diversify imports
  - Maximise crude imports cf product imports
  - Long-term contracts/relationships
  - Overland import (pipe/rail)
- Overseas investment
  - Exploration & production
  - Refining
- Oilfield services & construction
- Inward investment from foreign NOCs
- ‘Loans for oil’

**BUT**
- Encouraging private road transport
- Fuel pricing/tax
- Agricultural sector
Sources of China’s crude oil imports

China’s oil imports from the Middle East
China’s oil imports from the Middle East

China’s international oil and gas investments

<table>
<thead>
<tr>
<th>FSU</th>
<th>MENA</th>
<th>SSA</th>
<th>E, S &amp; SE Asia/Aust</th>
<th>Americas</th>
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<tbody>
<tr>
<td>Azerbajan</td>
<td>Algeria*</td>
<td>Angola*</td>
<td>Australia*</td>
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<td>Cote D’Ivoire</td>
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<td>Saudi Arabia</td>
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<td>UAE</td>
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China-Middle East oil & gas investments

CHINA’S INVESTMENTS IN THE MIDDLE EAST

• Large (upstream) projects in countries with large reserves
  – Iran + Iraq, Saudi, Kuwait, UAE
  – Secure:
    • Iran: Yadavaran
    • Iraq: Al-Ahdab
  – Iran: S and N Pars

• Smaller projects in countries with less reserves
  – Oman, Yemen, Syria

MIDDLE EAST INVESTMENTS IN CHINA

• Mainly Saudi Arabia & Kuwait
• Refining & petrochemicals

Overseas investment: Objectives

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<thead>
<tr>
<th><strong>China’s government</strong></th>
<th><strong>Host government</strong></th>
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<tbody>
<tr>
<td>Industrial policy: pillar industries</td>
<td>Oil exports: market guarantees</td>
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<td>Social policy: employment</td>
<td>Economic policy: investment/aid</td>
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<td>Financial policy: forex and tax</td>
<td>Resource policy: regaining control</td>
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<tr>
<td>Foreign policy</td>
<td>Industrial policy: diversify investors</td>
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<th><strong>China’s NOC</strong></th>
<th><strong>Host NOC</strong></th>
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<tr>
<td>Reserves growth</td>
<td>Funds: investment, loans</td>
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<td>Profits</td>
<td>Cheap(er) oil field services</td>
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<td>Vertical integration</td>
<td>Access to opportunities in China</td>
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<tr>
<td>Survival</td>
<td>Vertical integration</td>
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<td>International ambitions</td>
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<td>Avoid price controls</td>
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Constraints: exogenous

• Global/regional trends and events
  – Political stability in the Middle East
  – Actions of outside parties in the Middle East
  – Changes in relations between China and the West concerning the Middle East
• Iran and Iraq as ‘test cases’
  – Tension between
    • China’s desire to ‘balance’ the USA
    • its desire to maintain effective working relations with the USA

Constraints: endogenous

• Host government – Chinese government
  – Deteriorating diplomatic/economic relations
• Host government - Chinese NOC
  – Change of government
  – Reluctance to be over-dependent on China
  – Poor performance of Chinese NOC
  – Poor/deteriorating investment conditions for China’s NOCs
• Host NOC - Chinese NOC
  – Diverging commercial objectives
• Chinese government - Chinese NOC
  – Financial losses by Chinese NOCs
  – Damage to China’s reputation from NOC activities
  – Changes in China’s diplomatic priorities