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AVOIDING AN ENERGY WAR WITH CHINA

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AVOIDING AN ENERGY WAR WITH CHINA

Would the United States and China really go to war over oil? It is an unlikely, but terrifying, possibility. As Chinese state-owned companies scour the globe in search of oil and gas to fuel China's rapid economic growth, criticism of China for cozying up to dictators in exchange for access to oil, driving up domestic gas prices, and worsening global warming has grown more strident. According to some hardliners in Washington, the U.S. should begin to prepare for future energy conflict with China by strengthening alliances with key oil producers while denying China access to strategic oil supplies.

Such policies would be dangerously short sighted. They increase Chinese anxiety about the security of oil supplies, encouraging China to lock in oil resources from unsavory regimes while undermining moderates in Beijing. Hard-line policies on oil could even turn into a self-fulfilling prophesy, fostering a new Cold War between the U.S. and China. In such a zero-sum competition over resources, nobody wins.

An alternative is available. Through cooperation and dialogue, China and the U.S. can advance their common interest in secure access to sustainable energy resources at fair prices while avoiding costly and dangerous competition over scarce oil resources. Three key steps are:

- Support for energy efficiency and environmental protection in China
- Engage China in multilateral energy institutions
- Improve energy efficiency and conservation in the U.S.

China's Oil Anxieties

China's remarkable economic boom, fueled for years by China's massive supply of soft coal, has begun to expand beyond China's domestic energy supply. While coal still makes up 65 percent of China's primary energy consumption, oil imports fill a growing percentage of China's mounting energy needs. A net oil exporter in 1993, China today is the world's third largest importer of oil and the second largest oil consumer. Over the next fifteen years, Chinese demand is expected to roughly double. By 2020, China will likely import 70% of its total oil needs, compared to 40% today.¹

China's dependence on imported oil raises political anxieties in Beijing. China's government stakes its political right to rule on economic performance and rising standards of living. Domestic energy shortages, rising oil costs, and the specter of long-term global energy "scarcity" could undermine the country's economic growth and seriously jeopardize job creation, raising real risks of social instability in China.

Beijing is also worried that the U.S. seeks to exploit China's energy weakness. After all, China sees the U.S. as the global energy giant, importing almost twice the total oil consumption of China and accounting for one-quarter of the world's daily oil consumption. The U.S. is the third largest oil producer in the world after Saudi Arabia and Russia, and wields enormous power in global oil institutions. The U.S. navy controls all critical energy transport sea lanes. The U.S. military, having gone to war twice in Iraq to secure access to Persian Gulf oil, is now expanding its influence into

Central Asia and Africa. U.S. policies have reshaped Iraq's post-invasion oil development to benefit U.S. oil companies.ⁱⁱ

China's global oil strategy responds to these perceived vulnerabilities. Since Western companies control oil resources from major producers like Saudi Arabia and Iraq, the Chinese government has encouraged state-owned oil companies to reach extraction agreements with so-called "rogue" states such as Iran, the Sudan, Myanmar, Uzbekistan, and Venezuela. After all, seventy-five percent of known available oil reserves are in countries where outside investment in oil development is excluded or sharply limited.ⁱⁱⁱ

To avoid their vulnerability to domestic instability in oil-producing countries, Chinese firms try to engage in all stages of oil extraction, refinement, and transport. Meanwhile, the Chinese military has modernized its navy and tightened naval ties with countries such as Pakistan, Bangladesh, and Myanmar, in an effort to ensure secure oil transport through critical sea lanes.

This is not an ideal strategy for China. Long-term, high-risk investments in unstable states carry high economic and political costs for China, while military modernization diverts scarce resources away from economic development at home. Above all, China's policies are raising tensions with the United States, China's largest investor and trading partner.

The "China Threat" Approach

For some people in Washington, China's global oil strategy signals a dangerous threat to U.S. interests. They call for denying China access to energy resources while building up U.S. military capacity and strengthening alliances with key oil producing states.^{iv}

Africa, which supplies over a quarter of China's oil and gas imports and is expected to provide a quarter of all U.S. oil imports by 2015, is already emerging as the next battleground over oil. The newest U.S. military command, AFRICOM, focuses on the Gulf of Guinea, a region dominated by major oil producing states. AFRICOM will be augmented by forward basing and access agreements the U.S. has recently struck across Africa.

Efforts to deny China access to oil also are popular at home, evident in the outcry against China National Offshore Oil Corporation's bid for Unocal in 2005, and criticism of China's oil investments in Canada and Venezuela as undermining U.S. oil security.^v Such rhetoric is often based upon misperceptions about how today's global oil markets actually work. While China has been widely criticized for rapidly rising world oil prices, many experts argue that given the rapid increase in U.S. oil imports over the past decade, the U.S. has been much more of a rogue element than China in the world oil market.^{vi}

Efforts to deny China access to oil are not merely misguided--they are dangerous. If Beijing believes that the U.S. is manipulating energy policies to weaken and contain China, then China will likely respond by increasing the pace of its military modernization, tying Chinese energy investments abroad ever more closely to dubious regimes, promoting security cooperation with adversarial governments, and politicizing global energy markets. Hardliners in Beijing who warn of the U.S. military threat will be strengthened, rendering the "China threat" a self-fulfilling prophesy.

Engaging China over Oil

As the two largest consumers of oil worldwide, the U.S. and China share common interests: avoiding disruption to global energy supplies, ensuring political stability in key oil producer regions, accelerating the development of alternative energy sources, limiting domestic consumption, increasing energy efficiency, creating greater transit and fuel flexibility, and reducing the environmental impacts of fossil fuel consumption. Three specific measures can build mutual trust while reducing the risk of U.S.-China armed conflict over oil:

1. Engage China in Multilateral Energy Institutions

China is currently excluded from International Energy Agency (IEA) emergency oil sharing arrangements, which adds to price volatility in times of global supply disruptions. Although Chinese membership in IEA is unlikely given current IEA requirements for all members to be democracies and adhere to international human rights norms, the U.S. could take the lead in establishing an IEA-PRC partnership that would build trust, goodwill, and encourage cooperation on issues such as developing energy-efficient technology, dealing with oil supply disruption in a crisis, and encouraging Beijing to take a less mercantilist approach to meeting its energy demands.

2. Encourage Chinese energy efficiency and environmental protection

Chinese government policies have begun to recognize the need for demand-side energy reforms aimed at improving energy efficiency and the diffusion of new energy-saving technologies. China's national renewable-energy law went into effect in January 2006, offering financial incentives for renewable energy development. Current plans call for 20 percent of China's electricity capacity by 2020 to come from renewable resources, including wind, biomass, and hydropower. However, China's current bureaucratic, technical, and economic limitations are likely to undermine such ambitious efforts. Through the Asia-Pacific Partnership on Clean Development and Climate, and other mechanisms, the U.S. should expand its support for research and development programs which promote the use of renewable energy sources and transportation fuels, clean coal technologies, carbon sequestration, and promote energy and fuel efficiencies in China.^{vii}

3. Improve energy efficiency in the U.S.

All good foreign policy starts at home. The United States remains an energy glutton, a country in which energy efficiency and conservation measures are the result of private sector reactions to the market rather than of comprehensive public policy initiatives. The Bush administration has focused on supply-side increases, but with limited effect. Even after the enactment of the 2005 Energy Policy Act, experts still project a future doubling of U.S. petroleum import dependency. The U.S. should pursue greater energy efficiency, renewable energy sources, and reductions in demand. Above all, reducing U.S. oil dependence is the key to preventing future conflicts with China over oil.

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ⁱ Kenneth Lieberthal and Mikkal Herberg, “China’s Search for Energy Security: Implications for U.S. Policy” *NBR Analysis* Vol.17, No. 1 (April 2006): 11.

ⁱⁱ Greg Muttitt, “Crude Design: The Rip-Off of Iraq’s Oil Wealth,” *Global Policy Forum*, November 2005, <http://www.globalpolicy.org/security/oil/2005/crudedesigns.htm>.)

ⁱⁱⁱ International Energy Agency, “World Energy Outlook 2004,” October 2004, http://www.iea.org/Textbase/publications/free_new_Desc.asp?PUBS_ID=1266: p. 99.

^{iv} Gary Schmitt and Dan Blumenthal, “Wishful Thinking in Our Times: The Pentagon Looks at China and Blinks,” *Weekly Standard*, August 8, 2005, http://www.aei.org/include/pub_print.asp?pubID=22922 ; James Dorn, “U.S.-China Relations in the Wake of CNOOC,” Cato Institute Policy Analysis, no. 533, November 2, 2005, <http://www.cato.org/pubs/pas/pa553.pdf>.

^v For example, see: Hon. C. Richard D’Amato, “National Security Dimensions of the Possible Acquisition of UNOCAL by CNOOC and the Role of CFIU.S.,” statement presented before the House Committee on Armed Services, July 13, 2005.

^{vi} From 1995 to 2004 U.S. oil imports grew by 3.9 million barrels per day (MBD) while China’s grew by 2.8 MMBD. The incremental U.S. draw on global oil market supplies absorbed the equivalent of more than three-quarters of the entire increase in OPEC oil exports during that ten-year period. “BP Statistical Review of World Energy 2005,” June 2005, http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/publications/energy_reviews_2005/STAGIN_G/local_assets/downloads/pdf/statistical_review_of_world_energy_full_report_2005.pdf.

^{vii} These recommendations are from S. 193 RS, “Energy Diplomacy and Security Act of 2007,” Section 4.

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