

CHINA AS A CHALLENGE TO THE SECURITY OF EUROPEAN ENERGY SUPPLIES

Antje Nötzold

In the future, Asia's growth economies in particular will, in the course of their economic development, have an enormous influence on the increase of global energy demands. The People's Republic of China, globally speaking, is already an important energy consumer, as it consumes over two-fifths of the world's coal and almost a tenth of the world's petroleum. Although this means that Chinese energy demands are already assuming a significant scale, the energy demand per head remains at only around 30 percent of the average for OECD states. Independently from the specific characteristic of continued successful economic development, the energy demands of the People's Republic will therefore also rapidly increase in the future. According to forecasts from the IEA in the year 2009, China alone will be responsible for 39 percent of the additional global primary energy demands. At the same time, 43 percent of the additional petroleum and 65 percent of the coal demand will come from the People's Republic.

The challenge for Europe and other energy consumers caused by rapidly increasing Chinese import demands, especially for petroleum, is not merely a result of volume per se. According to current forecasts, in the medium term there are enough reserves and resources worldwide to satisfy a growing global demand. The strain on the worldwide supply situation is in fact due to the enormous energy with which Chinese consumption has developed, and is expected to continue to develop. While the People's Republic was a gross exporter of all fossil fuels until 1993, in less than a generation the country has become the second largest energy consumer in the world, with the strongest growth in demand. In recent years, this massive increase in demand has come up against an increasingly condensed resource market, especially for petroleum. As a result, the Chinese policy to safeguard their energy demands will not remain free of consequences for the global market and global energy supply, and will have significant repercussions on the security of supply for other energy consumers. China's energy policy, frequently criticised for being "aggressive", will be more closely characterised below in order to deduce the possible impact on our security of supply and how Europe should address the issue.

Security of supply has been rated by the Chinese government as a strategic goal in their energy policy, as they associate it with the maintenance of their claim to power and political control. Ongoing economic growth is required to prevent social instability and unrest, and this in turn is dependent on an uninterrupted supply of the necessary fuels and commodities. Therefore the availability of energy supply is the focus of China's energy policy. However,

here Beijing sees itself exposed to considerable disadvantages, and feels threatened by potential supply interruptions to a greater degree than other consumers, in that it entered the resource market relatively late and furthermore with rapidly increasing needs.

The Chinese government deems energy security too important to leave entirely to the markets, and therefore Beijing considers it a duty to ensure state control of security of supply and state guidance and support for the assertion of its energy interests, both domestically and abroad. Behind this is China's scepticism towards the assumption – held even by the EU – that petroleum will always be available on the global market, and supply can be guaranteed by paying the relevant price. Instead, the prevailing opinion in China is that the purchase or control of oil production overseas through Chinese oil companies will allow a more secure and cheaper supply than the market. Thus Beijing expects that in the event of a crisis, national oil companies will supply the People's Republic with their overseas-produced petroleum, so-called "equity oil".

To realise its interests in energy policy, Beijing makes use of extraordinary pragmatism in its foreign relations, a pragmatism which is increasingly denounced, especially by the West. Thus all of the country's political, economic and diplomatic capacities are used to reach the strategic goal of securing the energy supply. To other import-dependent energy consumers, late entrant China seems at first glance to be a trouble maker, as it disregards the established rules of play, and strives to oust competitors from the narrowing supply-driven market. This competitiveness over access to the remaining sources and influence on energy exporting countries due to the perception of energy supply as a zero sum game predominantly exists on the Chinese side, but can also be found at times among American and European experts. Hidden behind this are fears about supply and concerns among political and economic decision makers about China's growing energy demands combined with the increased foreign activities of Chinese oil companies. The Chinese pursuit of energy sources and diversification of imports is considered aggressive, dangerous for regional and international security, and even conflict-causing.

Other assessments focus less on China's general increase in demand and the competition caused by the People's Republic as a new consumer, and instead criticise the strategic bias of Chinese energy security policy towards "equity oil". Beijing's ambitions to indirectly control sources and production overseas through national oil companies, with the aim of importing commodities directly to China, if necessary bypassing the global market, raises concerns that the existing supply structures could be disturbed or even disrupted. Thus some analysts fear that "equity oil" would be removed from the market and therefore kept out of reach of other buyers by direct import to the Peo-

ple's Republic, which in turn would limit the flexibility of the global oil market to balance out unexpected loss of supply or increases in demand.

Although direct imports of this kind fundamentally limit the effect of the forces of supply and demand on the global market, the consequences for other consumers of the Chinese energy security policy by way of purchasing "equity oil" must be put into perspective by the following points: currently, and in all likelihood in the immediate future too, Chinese companies control only around one percent of worldwide oil production outside of the People's Republic. With this, they can cover at most ten percent of China's petroleum needs. Furthermore, the critical evaluation of the Chinese measures is based on the assumption that Chinese oil companies will automatically and exclusively sell their overseas production to China, and not follow other international energy companies in selling to the highest bidder through the global market. Due to state regulation of prices in China and difficulties with transporting commodities due to long distances or a lack of pipeline connections to China, the Chinese companies currently sell the majority of the oil they produce overseas on the global market. Thus profit has so far outweighed political considerations. Moreover, a complete supply of "equity oil" on the Chinese market would reduce their need to buy petroleum on the global market. The relevant amount of surplus petroleum on the global market created by reduced Chinese demand would then be available to other buyers.

At the same time, the People's Republic is not the first or only agent to strategically orient its energy policy and work against free market forces. However, due to its economic and political influence and the enormous continued growth in demand, the challenge for global resource markets is new. In contrast to other countries which follow a strategically oriented energy security policy, China has for several years been operating on an increasingly global level and cooperating with all regimes, relative to its pragmatism. In order to participate in the co-determination of the commodity markets and energy trading, China should be integrated into existing organisations in the energy sector, such as the International Energy Agency (IEA). Beijing would benefit from the IEA's expertise and the best practice experience, especially regarding the effective organisation of institutions, political measures and technological cooperation in the areas of energy efficiency, renewable energies and clean coal technologies. The industrial nations could receive more information about developments in the energy sector in the People's Republic, and in addition the IEA would maintain its original function as a counterbalance to OPEC, as while the significance of OPEC for global oil production will increase, the proportional oil consumption of the current IEA members is rapidly diminishing. However, neither the IEA nor any other current regime offers the opportunity to discipline aggressive investment activities, let alone China gaining admission to and fulfilling the conditions of these organisations. Therefore the conviction must be encouraged in Beijing that Chinese

interests can only be realised and guaranteed on a long-term basis by cooperating with the global community. At the same time, the EU must face up to the shift towards energy trading which is increasingly focused on strategic interests, and also adapt their own energy policy to short and medium-term challenges in order to safeguard their energy supply.

IN: *Auslandsinformationen* 3/2010, ISSN 0177-7521, Konrad-Adenauer-Stiftung e.V., Berlin, p.126-130