China’s Global Search for Energy

By CLIFFORD KRAUSS and KEITH BRADSHER  MAY 21, 2014

Whether by diplomacy, investment or in extreme cases, force, China is going to great lengths to satisfy its growing hunger for energy to fuel its expanding car fleet and electrify its swelling cities.

The Chinese government showed that desire on Wednesday when it reached a 30-year natural gas deal with Russia, even as China was locked in a tense standoff with Vietnam over a Chinese oil rig drilling in the contested South China Sea.

The two events involve different political dynamics. The agreement with Russia reflects closer economic ties between the two nations, while the other underscores the growing tension of two on-again, off-again Cold War allies.

But both developments demonstrate China’s expansive approach to energy, a political and economic strategy with significant implications for the rest of the world. As its economy has rapidly expanded over the last decade, China’s energy efforts have come to dominate the global markets. Its mushrooming consumption helped prompt the spike in global oil prices in the mid-2000s.

China’s demand has also provided life support to coal producers suffering from declining use in the United States and other industrialized countries. Among the fastest-growing importers of natural gas, China has had to cement its ties to Russia to diversify its supplies, as well as to invest in exploration in the United States and liquefied natural gas terminals in Australia. China now has operations, investments or projects across the globe in Africa, the Middle East, South America and North America.

“The dynamic growth of China’s economy and energy growth is reshaping global energy markets, and both the economic and strategic implications are still being developed,” said Mark J. Finley, BP’s general manager for global energy markets and United States economics.
The shift has been swift. China used only half as much energy as the United States in 2000. Nine years later, it surpassed the United States as the world’s biggest energy user and last year it leapfrogged the United States as the No. 1 oil importer.

China now burns as much coal as the rest of the world combined. The country’s emissions of greenhouse gases, linked by scientists to global warming, surged past the United States’ emissions a decade ago and have risen ever higher since then.

China has little choice but to look beyond its borders for its energy needs. While it consumed 10.1 million barrels of oil a day last year — one-ninth of the world’s total — the country produced only 4.2 million barrels a day, according to a recent OPEC report. China has had mixed results drilling offshore, and it has been slow to develop what many energy experts believe to be vast shale gas resources on land, though Chinese energy executives express optimism.

“The China market feels that the revolution in shale gas will be coming very soon,” Zhang Mi, chairman and president of Honghua Group, an exporter of drilling rigs, said in an interview while at a Houston energy technology conference this month. He added that 100 shale gas land rigs would be put in operation by the end of the year.

Most energy experts think it will take another five to 10 years, though, before substantial amounts of gas can be produced — and even then the quantities may be small compared to China’s enormous needs. The two main shale gas areas are in the west, far from major energy users in the east, and pipelines are few.

More important, shale gas in China mainly lies significantly deeper underground than in the United States and is in poorly understood, geologically complex formations. The domestic oil industry is already struggling with safety and environmental concerns, and faces a challenge in drilling extremely deep wells in western Chinese terrain with pockets of compressed natural gas and toxic gases.

China’s hunt for natural gas reserves at home has taken it into some of the poorest, most remote mountain valleys of western China, where terraced fields of mustard greens and corn cascade down hillsides from mud-brick farmhouses. While some of the country’s energy giants, like Sinopec, are using modern drilling rigs, smaller Chinese companies are also trying to jump into the industry, although many have minimal experience or technical expertise.
China’s reliance on imports poses the same kind of foreign policy challenges that the United States has faced in recent decades. That is, the country must look to unstable areas of the world to meet its needs.

China imports much of its oil from the Persian Gulf region and through the Strait of Hormuz, where security is dependent on the United States Navy. China relies on roughly a half-million barrels a day from Iran.

But American sanctions on Iran have made that country a less reliable source of oil. At the same time, China has been receiving fewer crude shipments from Libya, Sudan and South Sudan. The Energy Department recently reported that China has nimbly replaced those declining sources with imports from Oman, the United Arab Emirates, Angola, Venezuela, Russia and Iraq.

China’s relations with energy-rich countries differs widely. The situation in Vietnam seems extreme, with ships from both countries ramming each other, and the Chinese naval forces using water cannons against the Vietnamese. China’s moves to exert claims to contested Asian waters have drawn protests from its neighbors as well as from the Obama administration.

But in Iraq, where China is the biggest oil customer and Chinese oil companies are major investors in some of the biggest oil fields, the Chinese have been scrupulous about staying out of Iraq’s strained sectarian affairs. And they do not seem eager to challenge the United States’ influence in the region.

China has also become a major player in an area traditionally dominated by the United States, Latin America. But China is largely forging ties with oil-financed governments that promote a socialist ideology and seek to distance themselves from the United States, namely Ecuador and Venezuela.

In Ecuador, China has become effectively the government’s banker, providing roughly 60 percent of Ecuadorean borrowing needs in return for oil shipments. Chinese companies sell the Ecuadorean oil around the world, including to the United States. Venezuela’s state-owned oil company is repaying China for $40 billion in loans procured over the last six years with a large share of its 600,000 barrels a day in oil shipments.

Africa has proved a more difficult place to invest, showing the limits of Chinese influence. Chad last year indefinitely suspended the activities of the state-owned China National Petroleum because of oil spills south of the capital,
N’Djamena. Chadian officials claimed that the Chinese forced local workers to clean up the mess without adequate protection.

A subsidiary of another Chinese oil company, Sinopec, was forced to pay Gabon $400 million in January to settle what the government said was a breach of contract at an onshore oil field. Premier Li Keqiang this month highlighted China’s enduring interest in Africa by visiting four countries, including oil-rich Angola and Nigeria.

The new gas deal with Moscow should strengthen Russia and China, both economically and politically. It will help China ease some of its dependence on insecure transit routes and unstable countries. It will also guarantee an energy market for Russia if Europe seeks to replace Russian energy with imports from other countries.

Russia could supply 38 billion cubic meters of natural gas annually — or more than 15 percent of current demand — to China beginning in 2018. Perhaps most important, the deal should enable China to replace some of its dependence on coal for electricity generation with natural gas.

“The Chinese public will appreciate being able to industrialize without billows of toxic smog,” said Jim Krane, an energy expert at Rice University. “And the world will appreciate the reduced carbon emissions if cleaner gas can thwart some of the coal consumption in China’s power grid.”

Clifford Krauss reported from Houston and Keith Bradsher from Hong Kong.

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