The Fact and Fiction of Sino-African Energy Relations

Erica S. Downs

The expanding footprint in Africa of China's national oil companies (NOCs)[1] lies at the heart of concerns of many policy-makers and pundits in the United States and Europe. China's deepening engagement with Africa is viewed as an erosion of their own interests and influence on the continent.[2] The conventional wisdom about China's NOCs in Africa has two parts. It sees the companies prevailing in the competition to gain access to African oil as part of a highly-coordinated government strategy to ensure that China's burgeoning demand for oil is satisfied. Moreover, it is alleged that this strategy does more than just secure oil for Chinese markets – it also undermines American and European efforts to maintain a level playing field for foreign investors, promote good governance and punish regimes that egregiously violate human rights.

This article examines a number of widely accepted "facts" about the growing involvement of China's NOCs in Africa. While some of these have some validity, others simply do not. Contrary to public opinion, China's NOCs are not "lock-

Erica S. Downs *is a fellow at the John L. Thornton China Center at the Brookings Institution.*

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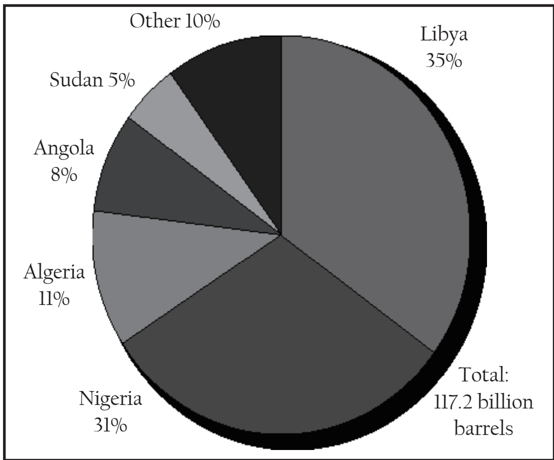
Figure 1:
Proven Oil Reserves in Africa, 2006



Source: BP Statistical Review of World Energy 2007

Table 1:
African Countries where China's NOCs have signed Contracts for Equity Participation

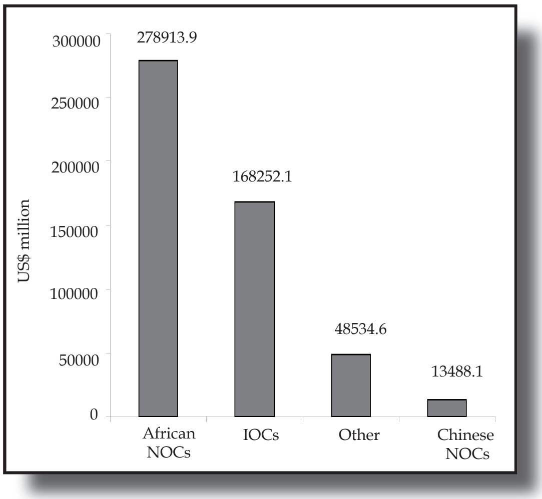
Algeria	Mauritania
Angola	Niger
Chad	Nigeria
Cote D'Ivoire	Libya
Equatorial Guinea	Príncipe
Gabon	Somalia
Kenya	Sudan
São Tomé e Príncipe	

ing up" the lion's share of African oil as part of a centralized quest for energy. In addition, the extent to which the Chinese NOCs' involvement in the African oil patch has contributed to the erosion of the "rules of the game" – established by Western governments and international financial institutions for foreign investment, foreign aid and human rights – may be exaggerated in some cases.[3] Discerning fact from fiction within the discourse about Sino-African energy relations is important in order to understand the activities of China's NOCs in Africa as well as to inform policy-making in Washington, D.C. and other world capitals.

"China's oil companies are 'locking out' Western oil companies from Africa."

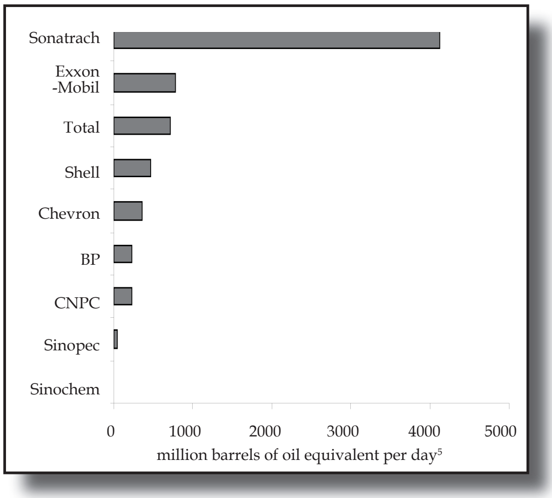
No, China's oil companies are relatively small players in Africa. The tendency of many analysts is to simply list the wide swathe of African countries in which China's NOCs have acquired assets and conclude that China is winning the race for oil exploration and production on the continent (see Table 1). The

Figure 2:
Commercial Value of Oil Investments in Africa



Source: Wood Mackenzie, March 2007

Figure 3:
2006 Production in Africa by Selected Companies



Source: International Oil Daily, Wall Street Journal, Wood Mackenzie & Sinochem

reality, however, is quite different. While China National Petroleum Corporation (CNPC) dominates the oil sector in Sudan, China's NOCs currently are minor actors among the foreign investors in Africa's largest reserve holders, including Libya, Nigeria, Algeria and Angola (see Figure 1). With the exception of a handful of projects in Sudan (Heglig and Unity fields), Nigeria (Akpo field), and Angola (Greater Plutonio fields), most of the African assets held by China's NOCs are of a size and quality of little interest to international oil companies (IOCs).[4] In fact, many of these assets were relinquished by the IOCs.

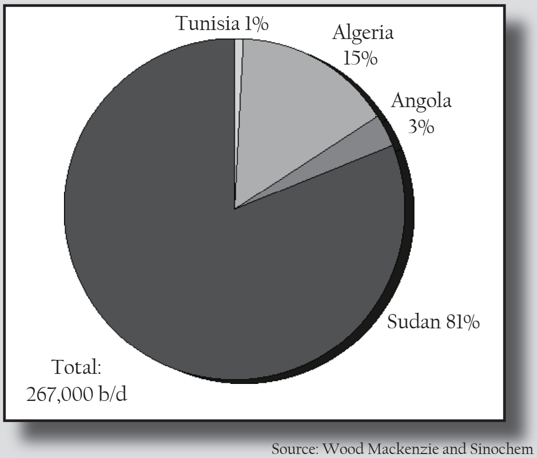
China's NOCs lag behind the IOCs in terms of their African assets' value and production. According to the consulting firm Wood Mackenzie, the commercial value of the oil investments in Africa of China's NOCs is just 8 percent of the combined commercial value of the IOCs investments in African oil and 3 percent of all companies invested in African oil (see Figure 2). China's NOCs also produce less oil and natural gas in Africa than either the IOCs or the major African NOCs, including Algeria's Sonatrach, Libya's National Oil Company, and the Nigerian National Petroleum Corporation (see Figure 3). In 2006, the total African output of the Chinese NOCs was about 267,000 barrels of oil equivalent per day (boe/d).[5] This is only one-third of that produced by the largest foreign producer in Africa, ExxonMobil – which pumped 780,000 boe/d – and a mere 7 percent of that of the continent's largest producer, Sonatrach, which pumped 4.1 million boe/d.[6]

The African output of China's NOCs is currently overwhelmingly concentrated in Sudan, but will diversify when two large projects in Angola and Nigeria begin production (see Figure 4). The BP-operated Greater Plutonio project, in which the China Petroleum and Chemical Corporation (Sinopec) has a 50 percent stake, is scheduled to begin pumping 200,000 barrels per day (b/d) in 2007, and the Total-operated Akpo field in Nigeria, in which China National Offshore Oil Corporation Limited (CNOOC) has a 45 percent share, is expected to produce 225,000 boe/d by 2008.[7]

The acquisitions of China's NOCs in Africa are modest to date because of the stiff competition for access to the continent's oil. Africa is one of the most promising regions of the world for future oil production. Proven reserves increased by 56 percent between 1996 and 2006, compared to 12 percent for the rest of the world.[8] IHS Energy projects West Africa will account for 38 percent of global oil production growth through 2010, more than any other region except the Middle East.[9]

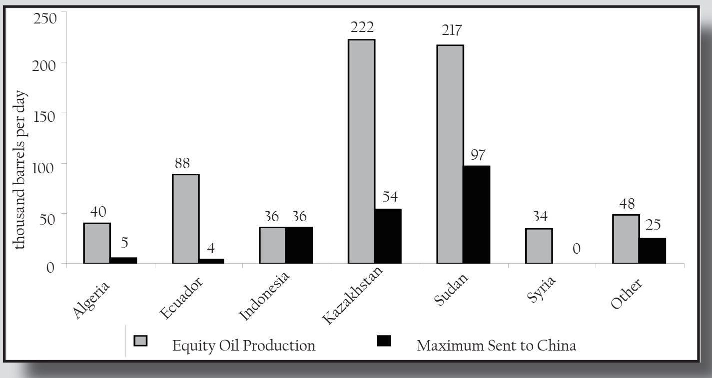
Additionally, African oil producers are open to foreign investment in exploration and production at a time when other countries are reasserting state control over their oil industries. Not only are more than three-quarters of the world's oil reserves closed to foreign equity investment, but other major reserve holders such as Russia and Venezuela are limiting the opportunities and incentives for foreign investors.[10] In contrast, African oil producers allow foreign companies equity access. Resource nationalism has been less virulent on the continent, as some of the African NOCs need the competency and the capital possessed by foreign companies. Although China's NOCs have deep pockets, they lack the technologies necessary to compete for some of Africa's most desirable blocks, like those located in the deep waters of the Gulf of Guinea. Chinese oil industry analysts maintain

Figure 4: Chinese NOCs' Production in Africa, 2006



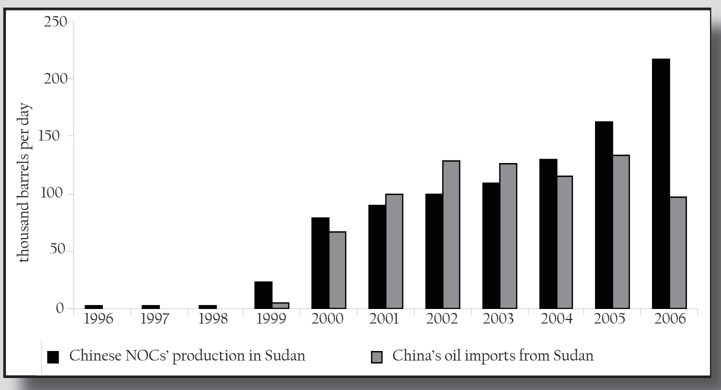
Source: Wood Mackenzie and Sinochem

Figure 5: China's Overseas Equity Oil Production and Imports, 2006



Source: Wood Mackenzie, CNOOC Ltd., Reuters, Upstream, International Petroleum Economics

Figure 6: China's Sudanese Oil Production and Imports



Source: Wood Mackenzie, International Petroleum Economics that during Angola's May 2006 licensing round, the shares awarded to Sinopec of three ultra-deepwater blocks relinquished by BP, ExxonMobil and Shell were smaller than what the company had initially bid for because it lacked the capacities that the Angolans deemed necessary for greater participation.[11]

"China's oil companies are taking oil off the world market."

No. The argument that China's NOCs are removing oil from the world market (and thus shrinking supplies and putting upward pressure on prices) by importing their equity oil[12] from Africa and elsewhere is unfounded. Any foreign oil production that China's NOCs send to China merely replaces oil that China would have to buy from other countries. If China's NOCs had shipped home all of the 685,000 b/d of oil they produced abroad in 2006 (instead of the maximum of 221,000 b/d of equity oil they may have sent to China), then China would have needed to purchase almost half a million barrels per day less from other exporters, such as Saudi Arabia and Angola, the country's top two crude oil providers, which are also large suppliers to the U.S. market (see Figure 5).[13] China's NOCs are actually expanding rather than contracting the amount of oil available to other consumers through their overseas operations, especially through the development of oil fields that other oil companies are unable or unwilling to invest in.

Whether China's NOCs sell their foreign equity oil to Chinese consumers or on the international market appears to be largely determined by economic factors. Historically, CNPC has shipped back home most of its Sudanese equity oil because the country's light and sweet Nile Blend crude, which accounts for the bulk of CNPC's in-country production, is very similar to China's Daqing crude and easy for CNPC's refineries to handle (see Figure 6). (2006, however, was an exception as CNPC sold most of its Sudanese production on the international market, probably because the price was higher.[14]) CNPC is also importing the highly acidic Dar Blend crude it began to produce in Sudan in late 2006 – and building a refinery in southwest China to process it – because of the lack of interest among international traders.[15]

"China's oil companies' African activities reflect a highly coordinated government strategy."

No. The "China, Inc." model that many international observers use to describe the overseas investments of Chinese firms in general, and the Chinese oil companies in particular, is far less coherent than is often assumed.[16] Beijing has certainly encouraged China's NOCs to expand internationally, provided them with varying levels of diplomatic and financial support, and occasionally intervened in the companies' foreign investment decision-making. However, when it comes to choosing where to invest, the companies are almost always in the driver's seat and the Chinese government, while occasionally offering general advice about the direction they should travel (for example, "invest in Morocco"), is often just along for the ride with little idea of the final destination. Sudan's recent omission from the Chinese government's catalog of countries that Chinese companies are encouraged to invest in is a case in point: this absence has not prevented CNPC from continuing to invest there.[17]

The prevailing wisdom among many observers of the foreign investments made by China's NOCs is that they are part of a highly-coordinated quest for oil and natural gas assets in which the companies are merely puppets of the state, executing the directives of their political masters in Beijing. This perception stems from a combination of the authoritarian nature of the Chinese government, the state ownership of China's oil companies, and the country's growing demand for oil. It has also been reinforced by the flurry of high-profile visits by Chinese leaders to oil-producing states along with executives from China's NOCs to sign agreements (some binding, many not) for energy cooperation with the host country, sometimes in conjunction with other investment, aid and trade deals. Appearances, however, can be deceiving.

Where many international observers see a carefully devised strategy for the acquisition of overseas oil and natural gas assets driven from the "top-down," Chinese analysts see chaos generated from the "bottom-up." Chinese commentators – with a clear preference for the kind of highly coordinated government-company plan for securing energy abroad that their foreign counterparts imagine exists – have complained that the foreign investments of China's NOCs are like a battle in which "each soldier is fighting his own war" (dan bing zuo zhan). They have criticized the poor coordination both between the NOCs and the central government, and among the companies themselves.[18]

The low level of coordination between the Chinese government and China's NOCs is explained in part by the central government's limited capacity to control the activities of China's NOCs. Over the past two decades, the liberalization and decentralization of China's energy sector, which is part of the broader transition from a centrally-planned to a market economy, has resulted in a shift of power and resources away from the central government toward the state-owned energy companies.[19] Multiple bureaucratic restructurings have fragmented Beijing's authority over China's energy sector among many government agencies that are under-staffed and under-funded. Information tends to flow vertically within these agencies rather than horizontally to other agencies. In some cases, bureaucratic actors are actually politically weaker than the NOCs.[20] The power of the NOCs vis-à-vis the central government has grown substantially, especially since the turn of the century, due to their surging profits, their listing of subsidiaries on foreign stock exchanges, their globalizing senior management, and their reliance on international banks and consultancies for investment advice.[21] Consequently, government agencies face enormous difficulties coordinating the formulation and implementation of energy decisions among themselves, let alone with the NOCs.

Additionally, the Ministry of Foreign Affairs (MFA) has no direct control over China's NOCs, and communication and coordination between the MFA and the companies is sometimes lacking. Although the MFA has a broad mandate to support Chinese firms abroad, Chinese diplomats have complained that they often do not learn about overseas investments made by the NOCs until after the fact.[22] One prominent example of an MFA-NOC disconnect was the failure of the MFA and CNOOC, despite the fact that they are located across the street from each other in Beijing, to develop an international political strategy to support the company's bid for the U.S. firm UNOCAL.[23]

The lack of close coordination among China's NOCs is due to the fact that the companies view one another as rivals, competing not only for oil and gas assets, but also for political advantage. The more high-quality assets a company acquires, the more likely it is to obtain diplomatic and financial support from the Chinese government for its subsequent investments. This is especially true for CNOOC, which does not have as much political clout as CNPC and Sinopec. According to one Chinese consulting firm, "CNOOC's real enemies are CNPC and Sinopec. The little brother has to have more assets to have a louder voice."[24] Additionally, the general managers of China's NOCs realize that demonstrating success at the helm of increasingly internationally competitive firms can serve as a springboard to higher-ranking positions in the Chinese Communist Party (CCP) and Chinese government. There appears to be little love lost between the companies, which have reportedly criticized one another's foreign investments to third parties both inside and outside of the Chinese government.[25]

Concerns that poor coordination both among the NOCs and between the government and the NOCs was negatively impacting China's national interests gained attention at the highest political level by the fall of 2005. The NOCs were increasingly in direct competition with one another for projects in countries such as Kazakhstan, Libya and Sudan, much to the dismay of the Chinese government – the companies' primary shareholder – because it ultimately lowered the rate of return for the winner. When CNPC and Sinopec competed against each other for a pipeline project in Sudan, Chinese diplomats and the China International Contractors Association unsuccessfully attempted to persuade Sinopec, the company that entered the lower bid, to withdraw from the competition.[26]

Moreover, some of the NOCs' overseas activities were threatening to undermine other Chinese foreign policy objectives. For example, the furor that erupted on Capitol Hill in response to CNOOC's unsolicited offer for UNOCAL (about which the Chinese leadership was never enthusiastic) increased Sino-American tensions and threatened to complicate Chinese President Hu Jintao's planned visit to Washington, D.C. in September 2005. In response to these developments, Chinese Vice President Zeng Qinghong published an essay in the CCP journal *Study Times* urging Chinese companies to coordinate their foreign investments and to consider China's political and diplomatic strategies, not just economic factors, when making investment decisions.[27]

Head-to-head competition between China's NOCs has diminished in recent years. This is probably due to both the companies' diverging foreign investment strategies and the attempts of the National Development and Reform Commission (NDRC) to ensure that only one company pursues any invitation extended to multiple Chinese firms to negotiate bilaterally for a particular asset.[28] However, the problem of contradictory commercial and diplomatic objectives remains.

"State financial support for China's oil companies is unfair to Western oil companies competing for acreage in Africa."

Yes, but its impact has been exaggerated. Beijing's financial largesse does provide China's NOCs with a competitive advantage over oil companies that do not receive similar support from their governments. While Beijing's deep pockets have, for example, helped Sinopec acquire some assets in Angola, a number of the other arrangements for China's NOCs to obtain oil blocks in African countries in exchange for aid or Chinese investment in other economic sectors of the host country have not materialized. Additionally, most of the assets offered to China's NOCs as part of these deals are not attractive to the IOCs.

Beijing provides financial support to China's NOCs for at least two reasons. First, there is a widespread perception in the Chinese government and oil industry that China's NOCs are handicapped in the global competition for oil reserves because they are latecomers to the international oil business. China's NOCs have only been active abroad since the early 1990s, while some of the IOCs have been operating overseas for more than a century. This historical experience has given the IOCs a competitive edge that other companies have not been able to replicate.[29] For example Shell, which entered Nigeria in 1938 and enjoyed a monopoly there until the country's independence in 1960, is still the country's largest producer.[30] In the words of CNOOC Chairman and CEO Fu Chengyu, "[i]t is actually not easy for us to find projects. The oil market already has more than 100 years of history and all of the good projects are already taken. As a newcomer, it is obviously not easy to do well."[31]

China subsidizes its NOCs because it believes they are handicapped as latecomers to the game.

Second, the sustained rise in world oil prices since 2002, like other periods of high prices, has shifted bargaining power away from foreign companies and toward oil-producing countries, encouraging them to tighten state ownership and to increase their take vis-à-vis that of foreign firms. Some African oil producers, lacking critical infrastructure and eager to diversify their economies away from oil, have sought to capitalize on their newfound positions of strength by offering preferential access to companies willing to link investments in oil exploration and production to investments in other economic sectors of the host country.[32] China's NOCs, which lack the cutting-edge technologies, capacity-building and large project management skills that make the IOCs attractive to many African oil producers, can sell themselves on their willingness to satisfy some host governments' appetites for "package deals."

One of the main vehicles through which Beijing provides financial support to the NOCs is through the Export-Import Bank of China (China Eximbank), one of three policy banks created in 1994 to manage state-directed lending. The principal mandate of China Eximbank, the world's third largest export credit agency, is to "implement state policies in industry, foreign trade and economy, finance and foreign affairs."[33] As the Chinese leadership's interest in China's NOCs acquiring oil assets abroad has increased, so has that of China Eximbank.[34] Senior Chinese government officials have stated in private conversations that all of China Eximbank's loans are offered on concessionary terms, with some more generous than others. Although the strong cash flows of China's NOCs in recent years have reduced their financial dependence on the government (most of their projects are done on balance sheet), they still take advantage of cheap credit provided by Beijing.

Financial support from China Eximbank has come in three forms.[35] First, it has extended lines of credit to China's NOCs intended in part to fund overseas exploration and development. Second, it has provided financing for specific acquisitions abroad and made such financing easier for China's NOCs to access. In 2004, the NDRC and China Eximbank announced that the bank would earmark a portion of its FDI budget for "state-encouraged key overseas investment projects," including natural resource development, and an interest rate discount of at least 2 percent.[36] CNOOC appears to be a beneficiary; in 2006 the company received a 10-year loan of $1.6 billion to help fund the development of the Akpo field in Nigeria at an interest rate of about 4.05 percent, substantially below the limit of about 4.68 percent set by Beijing for commercial lending.[37] Third, China Eximbank has indirectly supported the foreign acquisitions of China's NOCs through investment in infrastructure in host countries, which is partly aimed at securing oil. The most prominent example is the $2 billion, low-interest loan provided to Angola in 2004 to finance projects primarily built by Chinese companies, such as the refurbishing of the Beguela railway, which facilitated Sinopec's entry into the country's oil patch. (Chinese officials, aware that the industrialized countries frown upon linking development aid with commercial interests, have never publicly stated that a purpose of the loan was to help China's NOCs secure oil assets.[38])

State financial support has helped China's NOCs establish a footprint in Angola that they otherwise might not have. It seems unlikely that Sonangol, the Angolan NOC, would have rejected the deal struck between Shell and India's Oil and Natural Gas Corporation Ltd. (ONGC) for the latter to purchase Shell's 50 percent stake in Block 18 (Greater Plutonio fields) and instead sell it to Sinopec, had China Eximbank not extended the $2 billion loan. China Eximbank's largesse may also have contributed to Sonangol's decision to award Block 3/80 to Sinopec after refusing to renew Total's license for it in the wake of the French judicial investigation into illegal French arms sales to Angola in the early 1990s.[39] However, Sonangol probably has no intention of allowing Sinopec to dominate the Angolan oil patch; the company's former director of negotiations, Jorge Vandeste, said in the late 1990s that diversification of the foreign companies operating in Angola is one of the country's objectives.[40]

Oil-for-infrastructure deals have not won China's NOCs attractive exploration and production assets elsewhere in Africa. In Nigeria, for example, efforts by Abuja and Beijing to link oil and non-oil investments by Chinese firms have yet to yield any results for China's NOCs. An agreement reached in April 2006 between CNPC and the Nigerian government to allow the company to invest $2 billion in the decrepit Kaduna refinery in exchange for the right of first refusal on four oil blocks in the mini-licensing round in May 2006 has fallen apart.[41] The four blocks are of very low quality and CNPC, after doing some seismic work, decided to relinquish them. CNPC's plans to invest in the Kaduna refinery have also been derailed as the Nigerian government sold a 51 percent stake in the refinery to Bluestar Oil, a company run by cronies of former Nigerian President Olusegun Obasanjo, just before he left office.[42]

Oil-for-infrastructure deals have not won China's NOCs many attractive assets in Africa.

Similarly, an arrangement under which CNOOC would receive the right of first refusal on several Nigerian oil blocks, in exchange for China Eximbank lending $2.5 billion for a railroad in Western Nigeria, also failed to materialize because of disagreements between CNOOC and Abuja over the amount of interest each would pay on the loan.[43] In Kenya, CNOOC has returned four of the six exploration blocks that it received for free amidst infrastructure development deals struck during President Hu Jintao's April 2006 visit.[44]

China's pursuit of oil assets through state-to-state financial deals has sounded alarm bells in Western capitals because it is unfair to oil companies that do not receive similar benefits from their governments. The United States, for example, has a longstanding policy of limiting government intervention on behalf of

American oil companies. If the United States were to engage in such behavior, it would encourage other countries to do the same, creating a race that no one can win because there will always be a state willing to provide more. Indeed, it was precisely the high costs of the export credit competition among the industrial states in the 1950s and 1960s that led them to develop rules to manage official trade finance.[45]

Such deleterious competition has begun to emerge among Asian NOCs operating in Africa, such as Korea National Oil Corporation (KNOC) and India's ONGC. This phenomenon has been particularly notable in Nigeria, where Edmund Daokoru, minister of state for petroleum, has indicated that right of first refusal[46] on oil blocks will be awarded to those companies whose governments can offer attractive economic packages.[47] To date, this race has not substantially tilted the playing field against the IOCs as Asian NOCs do not yet have the capabilities needed for exploration and production for most of the assets attractive to IOCs. However, state financial support for China's NOCs will pose more of a challenge to the IOCs when the Chinese oil companies eventually acquire these capabilities or if they compete against the IOCs through joint bids with companies that do have them, such as Petrobras, the Brazilian NOC that ranks among the world's largest deepwater producers. Indeed, the IOCs have already encountered Beijing's deep pockets elsewhere. The $18.5 billion bid from CNOOC for the U.S. firm UNOCAL in 2005 included $7 billion in loans from its wholly state-owned parent company on terms unavailable to its rival, Chevron.

While Beijing's financial support for China's NOCs is disadvantageous to the IOCs, it has not limited the latter's access to oil reserves to the extent that interventions in the world oil market by other governments have.[48] U.S. sanctions on countries such as Iraq, Iran and Libya have constrained the ability of Western oil companies to invest in these nations. Similarly, recent moves by the governments of major oil producers, such as Russia and Venezuela, to reduce the presence of the IOCs within their borders have limited the investment opportunities for the IOCs much more than the competition from China's NOCs.

"China's loans to Angola weaken the IMF's efforts to improve oil revenue transparency."

Probably, but they are only part of the story. It is highly likely that, as some observers have stated, Chinese loans have undermined efforts of the International Monetary Fund (IMF) to ensure that Angola's oil wealth is used to improve the economic livelihood of the many rather than to fill the bank accounts of the few. However, most explanations of Angola's diminished interest in a financial arrangement with the IMF, which would require detailed accounting of the country's oil revenues and expenditures, neglect to mention an even more important factor: the wealth generated by windfall profits from the increase in world oil prices and Angolan oil production in recent years.

The conventional wisdom about why the IMF's leverage over Angola on oil revenue transparency and management issues has weakened is that China emerged as an alternative benefactor.[49] After the end of Angola's 27-year civil war in 2002, Luanda indicated to the IMF that it wanted to work toward establishing a formal financial arrangement. This would aid the reconstruction of the country's economy by giving Angola access to lending facilities from the IMF and other donors, including countries belonging to the Paris Club, an informal group of official creditors whose permanent members include 19 of the world's wealthiest nations. When the Angolan government's negotiations with the IMF over the creation of a Staff Monitored Program – the first step toward a formal financial arrangement – stalled on the issue of revenue transparency, China Eximbank made Luanda an offer it reportedly couldn't refuse: billions of dollars in loans (the current amount committed is estimated at $12 billion) with low interest rates, long maturities, and no questions asked about management of oil monies. The only condition imposed by China Eximbank, at least on the initial $2 billion loan offered in 2004, was that the money be released on a project by project basis with 70 percent of the construction to be performed by Chinese firms.

The near-myopic focus on China's role in changing Luanda's position on pursuing a formal financial arrangement with the IMF has obscured the more substantial impact on Luanda's decision-making process that stems from Angola's soaring oil revenues. Between 2001 and 2006, the price of oil increased from $26 to $66 per barrel and Angola's oil production nearly doubled from 742,000 b/d to 1.4 million b/d.[50] Although Luanda has not made complete information about the country's oil revenues available to the public, the increase in the value of Angola's annual oil output over this period – from $7 billion to $34 billion, with a cumulative value of $100 billion – provides a rough indicator of the extent to which windfall profits from rising oil prices and production have driven Angola's change in fortune over the past five years.[51] The dominant role played by soaring oil revenues in reducing the Angolan's government's interest in IMF and other lending facilities provided by Western donors – and the greater transparency required to access them – is underscored by the fact that only a small fraction of the credit lines committed by China Eximbank have actually been dispersed, mainly due to Angola's limited capacity to undertake the construction of huge infrastructure projects.

However, declarations that windfall profits and Chinese money have sapped forever the Angolan government's willingness to be more forthcoming about its oil revenues and expenditures may be premature. First and most importantly, whether Angola's future is that of Nigeria (where oil wealth has impoverished the country) or Malaysia (where oil wealth has enriched the country) is ultimately up to Luanda to decide.[52] While the government of Angola, like those of many other oil-rich nations, has been reluctant to disclose their oil revenue and how they spend it, the country has taken some steps to improve its oil sector transparency. The Ministry of Finance, for example, has published more information on its website about its oil revenue and production and the payments it receives from oil companies on a block-by-block basis.[53] Additionally, the country's 2005-2006 licensing round was quite transparent, with details of the signing bonuses and commitments to social projects made publicly available.[54]

Second, although Luanda has decided against pursuing a program with the IMF in the short term, this still remains an objective over the long term for reform-minded government officials.[55] They are eager to further integrate Angola into the global economy, diversify its sources of credit and broaden its commercial relationships. One way to achieve these objectives is through programs with international financial institutions.

"Chinese oil investments in Sudan undermine international efforts to end the Darfur crisis."

Yes, but China's behavior is evolving. While CNPC's substantial investments in the Sudanese oil sector have been a factor in Beijing's reluctance to press Khartoum to stop the atrocities in Darfur, arguments that China's oil interests are prompting Beijing to turn a blind eye to the Darfur crisis are becoming slightly outdated. Within the past year, concerns about China's international reputation and the realization that China could not deter Western governments from increasing pressure on Khartoum have prompted Beijing to play a more active role in finding a solution to the crisis in Darfur.

CNPC's operations in Sudan have pride of place in China because they are considered by Chinese oil analysts to be the most successful foreign investments made by China's NOCs to date. CNPC first entered Sudan in 1995, eight years before the Darfur crisis erupted.[56] The company took advantage of the dearth of competition from other oil companies (due to Sudan's north-south civil war and U.S. sanctions) to establish itself as the largest oil producer and investor in Sudan. CNPC pumps more oil in Sudan than it does in any other country with the exception of Kazakhstan.[57] The company's Sudanese assets are valued at about $7 billion.[58] The crown jewel among them is a 40 percent stake in the Greater Nile Petroleum Operating Company (GNPOC) – a joint venture that includes Malaysia's Petronas, India's ONGC and Sudan's Sudapet – which produces most of the country's oil (see Table 2). CNPC's investments helped transform Sudan from a net importer to a net exporter of oil in 1999, just as world oil prices began to rise from less than $15 per barrel in 1998.[59]

CNPC's oil interests in Sudan and Beijing's extreme view of sovereignty lay

Table 2: CNPC's Exploration and Production Assets in Sudan

Block(s)	Year Acquired	Share (percent)	Partners (percent)
13	2007	40	Pertamina (15), Sudapet (15), Dindir Petroleum International (10), Express Petroleum (10), Africa Energy (10)
15	2005	35	Petronas (35), Sudapet (15), Express Petroleum(10), HiTech (5)
3/7	2004	41	Petronas (40), Sudapet (8), Sinopec (6), al-Thani Corp. (5)
1/2/4	1997	40	Petronas (30), ONGC (25), Sudapet (5)
6	1995	95	Sudapet (5)
Partner Companies' Countries of Origin **China (Sinopec); India (ONGC); Indonesia (Pertamina); Malaysia (Petronas); Nigeria (Africa Energy, Express Petroleum); Sudan (Dindir Petroleum International, HiTech Group, Sudapet) and United Arab Emirates (al-Thani Corp.)**			

Source: CNPC Website and Upstream

behind China's initial reluctance to pressure the Sudanese government to end the atrocities in Darfur. Beijing has repeatedly obstructed the efforts of members of the United Nations Security Council (UNSC) to threaten Khartoum with economic sanctions over the Darfur issue. In the summer of 2004, Zhou Wenzhong, China's then-deputy minister of foreign affairs, invoked the longstanding Chinese foreign policy principle of noninterference to justify Beijing's hands-off approach to Darfur. In his oft-quoted remark, "[b]usiness is business. We try to separate business from politics. Secondly, I think the internal situation in Sudan is an internal affair, and we are not in a position to impose on them."[60]

Beijing, however, rapidly learned that separating business from politics is easier said than done. The operations of an oil company in a foreign country, especially one divided by internal conflict, often entangle the company – and its home government – with the politics of the host country. CNPC entered Sudan with the intention of restricting itself to a purely commercial role. Yet, both the company and the Chinese government discovered that they could not ignore the atrocities in Darfur because of international perceptions that CNPC's activities in Sudan are facilitating the regime's policies of ethnic killings.[61]

The damage done to China's international reputation by the Darfur atrocities has been substantial. The view in many Western capitals is that China has been shielding Khartoum in the UNSC, filling Khartoum's coffers with oil revenues, and selling arms that government forces are using indiscriminately against the Darfur rebels as well as civilians.[62] As China has come under increased criticism for its actions, the country has begun to shift its policy on Sudan. By persuading Beijing that pressing Khartoum to end the violence in Darfur would help redeem its reputation, a variety of international actors – including governments, non-governmental organizations and celebrities – have facilitated the Chinese government's gradual move away from its principle of noninterference.[63] Some pressure has come in the form of carrots. The U.S. government has been encouraging China to demonstrate that it is a "responsible stakeholder" by using whatever leverage it has over Khartoum – through CNPC's investments and China's permanent seat on the UNSC – to prod Sudanese president Omar al-Bashir to moderate his position on Darfur. Other pressure has come in the form of sticks. For example, Hollywood actress Mia Farrow has threatened to launch a worldwide campaign against the Beijing "Genocide Olympics" because of China's stance on Sudan. Additionally, Beijing is aware that many African countries are upset over the situation in Sudan and does not want to offend them.[64]

A second factor behind the evolution of China's Sudan policy was the realization that regardless of Beijing's position, the international community was going to step up its efforts to resolve the Darfur crisis.[65] The Chinese government decided that it would rather play a role in crafting a solution than sit on the sidelines. Beijing's involvement enables it to ensure that the any U.N. actions do not harm China's economic interests and also help to redeem its international reputation.

Beijing has increased its efforts to persuade Khartoum to cooperate with the international community on Darfur over the past year, winning praise from

Washington, London and the United Nations. Both Chinese and American government officials have stated that Beijing played a critical role in convincing Khartoum to allow a U.N.-African Union hybrid peacekeeping force to deploy to Darfur.[66] Beijing has also agreed to send 275 military engineers to Sudan as part of that force. During his testimony before the U.S. Senate Foreign Relations Committee in April 2007, U.S. Special Envoy for Sudan Andrew Natsios complimented China's subtle behind-the-scenes diplomacy toward Sudan as a useful complement to the blunt, highly-visible approach taken by the United States.[67] His remarks echo those made in private conversations by Chinese foreign policy officials and analysts who maintain that the United States, which usually plays the "bad cop," needs China to assume the role of "good cop" for progress to be made in negotiations with countries such as Sudan, Iran and North Korea.

Beijing has offered two justifications for its continued economic engagement with Sudan at a time when some international observers contend that threatening to cut the Chinese purse strings would force Khartoum to re-evaluate its stance on Darfur. First, Chinese foreign policy experts and officials maintain that such linkages provide China with a source of leverage over Khartoum that other members of the international community, notably the United States, do not have. Second, there is a widespread perception in Beijing that the Darfur crisis is rooted in poverty and China's aid and investment can help resolve the crisis through economic development.[68]

How can China improve its international reputation and at the same time protect CNPC's oil investments in Sudan? This dilemma may become more acute for Beijing as resolving the Darfur crisis moves up the foreign policy agendas of governments around the world. The status quo benefits CNPC by providing a level of political risk that is high enough to deter the IOCs and other oil companies from competing with CNPC for assets in Sudan, yet low enough not to seriously jeopardize CNPC's operations (Chinese oil workers, however, do face security threats and several have been kidnapped or murdered).[69] The downside of this is that

Hopes that China alone can resolve the Darfur crisis are almost certainly misplaced.

the current situation is doing serious harm to China's global image. Yet, while actively seeking an end to the violence in Darfur and reintegrating Sudan into the international community would enhance China's reputation as a responsible power, it would also threaten CNPC's dominant role in Sudan's oil industry by making Sudan more attractive to other oil companies. Indeed, Khartoum has already indicated that it would like to diversify the foreign players in its oil patch by awarding acreage to CNPC's rival, Sinopec. Also, Total has been allowed to maintain its non-producing Block B (by payment of $1.5 million per year), much to the dismay of some Chinese analysts who have interpreted such decisions as demonstrating a lack of respect for all that China has done for Sudan.[70]

Hopes that China alone can resolve the Darfur crisis are almost certainly misplaced. Beijing probably has more economic leverage over Sudan than any other country and certainly could have done more in recent years to pressure Khartoum to cooperate with the international community. However, Beijing's support is necessary but not sufficient for a multilateral effort to succeed in ending the violence. Other governments, whose weak responses to the crisis have largely escaped international scrutiny as China has served as a convenient scapegoat, also need to take more decisive action.[71]

Ending the "Fuzzy Thinking"

Conventional wisdom about the increasing involvement of China's NOCs in Africa is a mix of fiction and fact. Falling squarely into the fiction category are views that Chinese oil companies are prevailing in the scramble for African oil. In terms of production and investment value, China's NOCs trail the IOCs, which in turn lag far behind the major African NOCs. Additionally, the oil produced by China's NOCs in Africa and elsewhere expands rather than contracts global supplies. Another perception largely without factual basis is that the foreign investments of China's NOCs reflect a highly-coordinated strategy devised by a government mistrustful of the world oil market and bent on controlling supply. Beijing does encourage China's NOCs to acquire oil assets abroad and has taken a page from the playbook of other governments and employed a variety of political and economic tools to help Chinese oil companies expand overseas. But the capacity of the Chinese government to control its NOCs is limited and the emerging rift between the commercial objectives of the companies and the political objectives of Beijing is likely to continue to widen in the years to come.

One piece of prevailing wisdom that confuses fact and fiction is the assertion that the Chinese government's financial support for its NOCs is seriously hurting the IOCs in the competition for assets in Africa. It is true that such financial support is unfair to Western oil companies and that Beijing's deep pockets have triggered an "arms race" between Asian NOCs. (Chinese and other Asian NOCs have attempted to use government largesse to compensate for their lack of cutting-edge technologies and project management skills that make the IOCs highly attractive to African oil producers.) However, a serious threat to the IOCs will only emerge when China's NOCs acquire deepwater capacities, which is unlikely in the short term.

Popular perceptions that are more firmly rooted in fact include concerns that the ambitions of China's NOCs to expand their activities in Africa have prompted Beijing to pursue policies that undermine the efforts of the IMF to promote good governance in Angola and those of Western governments to end the human rights abuses in Sudan. However, narratives about how China's search for oil is seriously threatening Western interests and influence on the continent overlook the role of other, more powerful factors. The billions of dollars that China Eximbank has extended to Luanda have not helped the IMF's revenue transparency agenda, but these loans are a small fraction of the value of Angola's oil production over the past five years. The funds are also being used to develop desperately needed infrastructure. Similarly, CNPC's substantial investments in Sudan have undoubtedly contributed to Beijing's obstruction of U.N. efforts to increase pressure on Khartoum, but so has the country's longstanding adherence to the principle of noninterference in the internal affairs of other countries.

The activities of China's NOCs in Africa have loomed large in analyses of China's overall deepening engagement with Africa. The NOCs' quest for reserves and profits and China's growing demand for oil are key drivers of Beijing's African diplomacy. Yet, the higher profile of oil security on the foreign policy agendas of many countries – due to high oil prices and rising resource nationalism – has also focused international attention on Africa. The oil industry is often the subject of "fuzzy thinking." Separating fact from fiction with respect to the growing footprint of China's NOCs in Africa is important for policy-makers and opinion leaders around the world seeking to understand the implications of deepening Sino-African engagement for their own countries.

Notes

[1] China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec), China National Offshore Oil Corporation, Ltd. (CNOOC) and Sinochem.

[2] For recent assessments of the implications of China's growing role in Africa for the United States and Europe, see Gill, B., Huang, C. and J. S. Morrison, *China's Expanding Role in Africa: Implications for the United States* (Washington, D.C.: Center for Strategic and International Studies, January 2007); Tjønnestand, E. with Brandtzæg, B., Kolås, A. and G. Le Pere, *China in Africa – Implications for Norwegian Foreign and Development Policies* (Oslo, Norway: Chr. Michelsen Institute, October 2006); *More than Humanitarianism: A Strategic U.S. Approach Toward Africa*, Task Force Report No. 56 (New York: Council on Foreign Relations, 2006) pp. 40-54; Alden, Chris. "Africa and China: Terms of Endearment: From Marxism to Materials," CLSA Asia-Pacific Markets Special Report, September 2006; and Spencer, Sarah. "Promoting Growth and Stability in Sub-Saharan Africa: The Role of the United States in the Face of Expanding Sino-African Relations," John F. Kennedy School of Government, Harvard University, Cambridge, MA, April 2006.

[3] This article is modeled after the "Think Again" articles in *Foreign Policy*. See, for e.g., Harding, Harry. "Think Again: China," *Foreign Policy* (March/April 2007) pp. 26-32.

[4] The term "IOCs" refers to BP, Chevron, ConocoPhillips, ENI, ExxonMobil, Royal Dutch/Shell and Total.

[5] Barrels of oil equivalent refers to the production of oil, natural gas and condensate.

[6] Chassany, Anne-Sylvaine, "Total Taps Africa's Oil Reserves In Bid to Outdo Rivals' Growth – Social, Political Unrest May Complicate Effort; Success Found Offshore," *Wall Street Journal*, May 22, 2007; and "Algeria's Sonatrach Announces Provisional Output Estimates," *International Oil Daily*, Apr. 19, 2007.

[7] "Table – West African oilfields due on stream in 2007 and beyond," *Reuters News*, July 4, 2007.

[8] BP, *BP Statistical Review of World Energy 2007* (London: BP, June 2007), p.6.

[9] "Oil importers look toward West Africa," Lloyd's List, Feb. 16, 2007.

[10] "Energy Insecurity," testimony of J. Robinson West, Chairman of PFC Energy, before the U.S. Senate Committee on Commerce, Science and Technology, Sept. 21, 2005, http://www.odac-info.org/bulletin/documents/PFCSenateTestimony.pdf.

[11] Yao Guimei, "Zhongguo yu Feizhou de shiyou hezuo" ("Sino-African Petroleum Corpora-

tion"), *Guoji shiyou jingji (International Petroleum Economics)*, No. 11 (2006), p.36.

[12] Equity oil refers to an oil company's individual ownership share of the total amount of oil produced by a project. I thank Mike Herberg for this definition.

[13] Rosen, D. and T. Houser, "China Energy: A Guide for the Perplexed," Washington, DC: Peterson Institute for International Economics, May 2007, pp. 32-33.

[14] Ibid., p. 33.

[15] Dar Blend, produced from the Adar and Yale fields (Blocks 3 and 7) and difficult to process, has been trading at discounts of as much as $35 per barrel on dated Brent crude. David Winning, "China Energy Watch: Equity Oil Behind CNPC Refinery Decision," *Dow Jones News Service*, Feb. 28, 2007.

[16] For other articles that debunk the myth of China, Inc., see Gill, B. and J. Reilly, "The Tenuous Hold of China Inc. in Africa," *The Washington Quarterly* (Summer 2007), pp.37-51; and "The Myth of China Inc. – Chinese industry and the state," *The Economist*, Sept. 3, 2005.

[17] The countries whose oil and gas sectors Chinese firms are encouraged to invest in are Kuwait, Qatar, Oman, Morocco, Libya, Niger, Norway, Ecuador and Bolivia. See the Ministry of Commerce, Ministry of Foreign Affairs and the National Development and Reform Commission, "*duiwai touzi guobie chanye daoxiang mulu*," Foreign Investment Industrial Guidance Catalog, February 2007, http://www.sdpc.gov.cn/zcfb/zcfbtz/2007tongzhi/W020070227622797287359.doc. For more on CNPC's continued investment in Sudan, see Ng, Eric, "PetroChina parent joins Sudan oil venture; CNPC entrenches position as top foreign investor in country targeted over rights," *South China Morning Post*, July 3, 2007.

[18] Wu Qiang, "*Sudan weiji tiaozhan Zhongguo haiwai shiyou liyi*" ("The Sudan crisis is challenging China's overseas oil interests"), *Nanfangchuang (Southern Window)*, Sept. 16, 2004, pp.23-25; "*Zhonggguo shiyou de 'haiwai luxiantu,'*" ("The 'overseas map' of China's oil interests"), *Sanlian shenghuo zhoukan (Sanlian Lifeweek)*, Sept. 16, 2004, http://lifeweek.com.cn/2004-09-16/000559678.shtml; and "*Liang da shiyou jutou haiwai da xiang zaoyu zhan jingxiang yajia liangbaijushang*" ("The two oil giants fight loudly overseas, competition forces prices down and both sides suffer"), *Jingji cankao bao (Economic Reference News*), June 28, 2004, http://www.southcn.com/news/china/china04/petroleum/latest/200406280680.htm.

[19] Sinton, J., Stern, R., Aden N., and M. Levine, et al., *Evaluation of China's Energy Strategy Options*, LBNL-56609, May 16, 2005, 4, http://china.lbl.gov/publications/nesp.pdf.

[20] For more information on China's fractured energy bureaucracy, see Downs, Erica. "China," *The Brookings Foreign Policy Studies Energy Security Series*, December 2006, pp.16-24. See http://www.brookings.edu/fp/research/energy/2006china.htm; Kong Bo, "Institutional Insecurity," *China Security* (Summer 2006), pp.65-89; and Lester, R. and E. Steinfeld, "China's Energy Policy: Is Anybody Really Calling the Shots?" Working Paper Series, Industrial Performance Center, MIT-IPC-06-002, MIT (Cambridge, MA: January 2006).

[21] Downs, Erica, "Business Interest Groups in Chinese Politics: The Case of the Oil Companies," in Cheng Li, ed., *China's Changing Political Landscape: Prospects for Democracy* (Washington, D.C.: Brookings Institution Press, forthcoming).

[22] I thank Jing Huang for this point.

[23] Interview with source close to CNOOC, Washington, D.C., Apr. 3, 2007.

[24] Gough, N., Ng, E. and M. O'Neill, "CNOOC gains tactical edge from battle; Higher profile will help no. 3 producer take on 'big brothers,'" *South China Morning Post*, Aug. 4, 2005.

[25] Interviews with oil industry insiders, Washington, D.C., Feb. 15, 2006 and Beijing, China, Sept. 19, 2006.
[26] "The two oil giants fight loudly overseas," *Jingji cankao bao (Economic Reference News*), June 28, 2004, http://www.southcn.com/news/china/china04/petroleum/latest/200406280680.htm.
[27] Zeng Qinghong, "*Guanyu dangqian jingjji xingshi he dang jian gongzuo*" ("The Current Economic Situation and Party Construction Work"), *Xuexi shibao (Study Times)*, No. 301 (September 2005), http://www.studytimes.com.cn/chinese/zhuanti/xxsb/962507.htm.
[28] Email correspondence from a Beijing-based industry analyst, July 6, 2007.
[29] I thank Edward Morse for this point.
[30] For more on the history of Shell and other IOCs in Nigeria, see Manby, Bronwen. "The Role and Responsibility of Oil Multinationals in Nigeria," *Journal of International Affairs*, Vol. 53, No. 1 (Fall 1999), 281-301; and Atsegbua, Lawrence. "The development and acquisition of oil licenses and leases in Nigeria," *OPEC Review* (March 1999), pp.55-77.
[31] "*Fu Chengyu: 'shenxin zouchuqu' de zhengzhi jingjixue*" ("Fu Chengyu: the political economy of 'cautiously going abroad,'" *21 Shiji jingji daobao (21st Century Business Herald)*, Dec. 29, 2004, www.nanfangdaily.com.cn/southnews/zt/2004nztk/21ren/200412290045.asp.
[32] "Nigeria to offer new blocks in late February; Indian companies expected to bid and to move downstream," *Platts Oilgram News*, Jan. 17, 2007; and "Angola, Nigeria seek development as India eyes more oil blocks," *Indo-Asian News Service*, Sept. 30, 2005.
[33] *China Eximbank Annual Report 2004*, p.13. See http://www.eximbank.gov.cn.
[34] "*Zhongguo jinchukou yinhang hangzhang: xu zeng duiwai touzi yuanzhu lidu*" ("China Eximbank President Li Ruogu: We need to strengthen foreign investment and aid"), *Zhongguo xinwen wang (China News)*, Jan. 9, 2006, http://finance.dayoo.com/gb/content/2006-01/09/content_2368581.htm; and "'zou chu qu' shiguan zisun houdai" ("'Going out' concerns future generations"), *Guoji xianqu daobao (International Herald Leader)*, Oct. 14, 2004. See http://news.xinhuanet.com/herald/2004-10/14/content_2088513.htm.
[35] This paragraph is based on Evans, P. and E. Downs, "Untangling China's Quest for Oil through State-backed Financial Deals," Brookings Institution Policy Brief #154, The Brookings Institution, Washington, DC, May 2006.
[36] National Development and Reform Commission and China Export Import Bank, "*Guanyu dui guojia guli de jingwai touzi zhongdian xiangmu jiyu xinhuo zhichi zhengce tongzhi*" ("Notice on the Policy of Giving Credit Support to the State Encouraged Key Overseas Investment Projects"), Oct. 27, 2004, www.ndrc.gov.cn/wzly/jwtz/jwtzzn/t20050714_35633.htm; and Wang Xiaobing, Cao Haili, He Yuxin, Zhang Fan and Huang Shan, "'*zou chu qu' zhi dao*" ("The path to 'going abroad'"), *Caijing*, no. 142, Sept.19, 2005.
[37] "CNOOC gets low-rate 12.8b yuan loan," *South China Morning Post*, June 3, 2006.
[38] I thank Peter Evans for this point.
[39] "Angola Carries Out Earlier Threats to Total over French Arms Allegations," *World Markets Analysis*, Nov. 8, 2004.
[40] Remarks of Jorge Vandeste to Nicholas Shaxson of the *Financial Times*. Interview with Nicholas Shaxson, Washington, D.C., July 27, 2007.
[41] This deal was part of a broader Memorandum of Understanding signed by President Hu for China to provide billions of dollars for investment in Nigerian infrastructure. Information

about the disintegration of the "package deal" involving CNPC is based on email correspondence from a Beijing-based oil analyst, July 1, 2007.

[42] CNPC made a low bid for the 51 percent stake in the Kaduna refinery in the May 2007 auction ($102 million versus the winning bid of $160 million offered by Bluestar Oil) because the company had been told in advance that it would not win. There are, however, rumors that newly-elected President Umaru Yar'Adua is likely to prevent the sale and that the whole process will start over. E-mail correspondence with Beijing-based oil industry analyst, July 1, 2007.

[43] Winning, David, "China CNOOC Deal for Four Nigeria Oil Blocks Hits Snags," *Dow Jones International News*, Nov. 2, 2006.

[44] Pearmain, Thomas, "CNOOC Returns Four Oil Blocks to Kenya; Concentrates Efforts on Two Blocks," *Global Insight Daily Analysis*, July 26, 2007.

[45] Evans, Peter, "International Regulation of Official Trade Finance: Competition and Collusion in Export Credits and Foreign Aid," unpublished Ph.D. dissertation, Department of Political Science, MIT (Cambridge, MA: June 2005), pp.108-159.

[46] The right of first refusal "grants the preferred company the right to match the highest bid, which has been determined in an open and competitive bidding practice. Should the company granted the right elect not to match the highest bid, the block goes to the highest bidder." "Transparency, Oil Bids," *All Africa*, May 18, 2007.

[47] Tom Ashby, "Interview – Nigeria ties Korea, Taiwan oil deals on bidding eve," *Reuters*, Aug. 26, 2005.

[48] I thank Peter Evans for this point.

[49] See, e.g., Kurlantzick, Joshua. "Beijing's Safari: China's Move into Africa and its Implications for Aid, Development and Governance," Carnegie Endowment for International Peace Policy Outlook, Nov. 1, 2006, http://www.carnegieendowment.org/files/kurlantzick_outlook_africa2.pdf; and Schiller, Ben, "The China model of development," *openDemocracy*, Dec. 20, 2005, 1, http://www.opendemocracy.net/democracy-china/china_development_3136.jsp.

[50] *BP Statistical Review of World Energy 2007*, p.8 and p.16.

[51] Ibid.

[52] World Bank, "Avoiding the Resource Curse," *Petroleum Sector Briefing Note*, No. 3 (May 2007).

[53] Mouawad, Jad. "Nowadays, Angola is Oil's Topic A," *New York Times*, Mar. 20, 2007.

[54] For information on the bid results, see Wood Mackenzie, "Angola 2005-2006 Licensing Round," *Upstream Insights*, May 2006.

[55] Interview with an informed source, Washington, DC, July 27, 2007.

[56] Good discussions of the history of CNPC in Sudan include Jakobson, L. and Z. Daojiong, "China and the Worldwide Search for Oil Security," *Asia Pacific Review*, Vol. 13, No. 2 (2006), 60-73; Daojiong, Zha. "*Zhongguo zai Feizhou de shiyou liyi: Guoji zhengzhi keti*" ("China's Oil Interests in Africa: International Political Issues"), *Guoji zhengzhi yanjiu (International Politics Quarterly)*, No, 4 (2006), pp.53-67; and CNPC, "*Haiwai chuangye xianfeng – Sudan xiangmu*" ("Pioneering overseas enterprise – the Sudan projects."), http://www.cnpc.com.cn/CNPC/xwzx/xwygg/0b2b85d2-9a46-4faf-b216-cf9418f0b91f.htm.

[57] China's production rates in 2006 equaled 213,000 b/d and 216,000 b/d in Sudan and Ka-

zakhstan respectively. Data provided by Wood Mackenzie.

[58] Estimate based on data provided by Wood Mackenzie.

[59] *BP Statistical Review of World Energy 2007*, 16.

[60] French, Howard. "China in Africa: All Trade, With No Political Baggage," *New York Times*, Aug. 8, 2004, p.4.

[61] This lesson was also learned by the Swedish company, Lundin Petroleum. See Batruch, Christine. "Oil and Conflict: Lundin Petroleum's Experience in Sudan," document prepared for publication in A.J.K. Bailes and I. Frommelt, eds., *Business and Security: Public-Private Sector Relationships in a New Security Environment* (Oxford: Oxford University Press, 2004), Nov. 24, 2003, p.13. See http://www.lundin-petroleum.com/Documents/ot_sudan_oil&conflict_24-11-03.pdf.

[62] Goodman, P. "China Invests Heavily in Sudan's Oil Industry; Beijing Supplies Arms Used on Villagers," *Washington Post*, Dec. 23, 2004, A1. For the remarks of Liu Guijin, China's special envoy on Darfur, on China's arms sales to Sudan, see Le, Tian, "China's Arms Sales to Sudan are Limited: Envoy," *China Daily*, July 6, 2007.

[63] For an excellent discussion on how the need to influence policies in countries in which China's NOCs are invested is eroding Beijing's principle of non-interference, see Jakobson, Linda. "The Burden of 'non-interference,'" *China Economic Quarterly*, Quarter 2 (2007) pp. 14-18. See also, Evans, G. and D. Steinberg, "Signs of Transition," *Guardian Unlimited*, June 11, 2007, http://commentisfree.guardian.co.uk/gareth_evans_and_donald_steinberg/index.html.

[64] Telephone interview with a Western diplomat, July 18, 2007.

[65] Conversation with a Western diplomat, Washington, DC, July 5, 2007.

[66] Alfred de Montesquiou, "China's Darfur envoy says Beijing has done its best to solve crisis, considers sending peacekeepers," *Associated Press*, June 21, 2007.

[67] "Senator Joseph R. Biden Jr. Holds a Hearing on the Situation in Darfur," *CQ Transcriptions*, Apr. 11, 2007.

[68] See the remarks of China Eximbank President Li Ruogu in Dyer, G. and W. Wallis, "Beijing promotes Africa ties ahead of talks," *Financial Times*, May 16, 2007 and the remarks of China's special envoy for Darfur, Liu Guijin, in "Liu Guijin: Zhongguo fandui jiang tong Sudan zhengchang shiyou hezuo 'zhengzhihua'" ("Liu Guijin: China opposes the 'politicization' of normal oil cooperation with Sudan"), *Xinhua*, May 30, 2007, http://www.gov.cn/zwjw/2007-05/30/content_629991.htm.

[69] Interview with Chinese foreign policy expert, Beijing, China, Apr. 23, 2007; and "Zhongshiyou zai Sudan shou kaoyan; Zhongguo nengyuan waijiao ying bianhuan xin silu" ("CNPC is tested in Sudan; China's energy diplomacy should change course"), *Diyi caijing ribao (First Financial and Economic Daily)*, Dec. 8, 2004, http://finance.sina.com.cn/j/20041208/08311209418.shtml.

[70] Wu Qiang, "*Sudan weiji tiaozhan Zhongguo haiwai shiyou liyi*" ("The Sudan crisis is challenging China's overseas oil interests"), *Nanfangchuang (Southern Window)*, Sept. 16, 2004, pp.23-25;

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