



Wildcats & Tigers: China's Oil Acquisition Strategy

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The following is a review of US Air Force Major Patrick Sullivan's 2006 thesis for a Master of Science in Strategic Intelligence from the National Military Intelligence College (NMIC). The thesis examines China's strategy to "buy equity oil interests" around the globe, the methods that they employ in that task, and the resulting impacts on global oil production and US national security concerns.

This review should also be of interest because it offers a window into the strategic thinking of the US intelligence community. NMIC is the training ground for the next generation of American strategic decision makers. I have searched every thesis paper in the NMIC system for the last 9 years—*no paper deals specifically with Peak Oil*. This is the only thesis that deals with the geopolitics of global energy scarcity—in this case, the rise of resource mercantilism in China.

Maj. Sullivan's thesis is unclassified, however NMIC does not provide public access to their thesis database. I have scanned a hard-copy, and made the PDF available for download:

[Wildcats And Tigers: China's Oil Acquisition Strategy and Potential Outcomes \(WARNING 3MB, 130 page PDF\)](#)

Sullivan begins by noting that in 1993, China went from being an oil exporter to an oil importer, and is today the world's second-largest consumer of oil after the US. In response, China's leadership directed the nation's oil companies to pursue a 'go out' strategy to acquire equity positions in both private and state owned oil companies worldwide. [Source](#). Many of the resulting deals support regimes with leadership generally unfavorable to the US, such as Sudan, Iran, Venezuela, and Angola. Sullivan asks: to what extent will China's equity-based oil acquisition strategy affect US national interests?

Sullivan's focus on the 'equity' nature of Chinese oil acquisition illustrates the inherently mercantilist approach to securing future energy supplies—while China's participation in the race to produce more oil may bring more overall resources to bear in this struggle, their ultimate aim is to lock-down a secure share of oil for their own domestic consumption. Sullivan documents their willingness to pay a premium beyond what a rational market actor would pay to secure these equity interests to ensure their future supply at the expense of others.

Sullivan reviews the various attempts by China's several National Oil Companies to acquire stakes in foreign projects. This is largely a well sourced overview of acquisitions, attempted acquisitions, and partnerships. However, a few novel bits of information do pop up. For example, Sullivan leverages the US government's Open Source Center to scour Chinese-language press

releases, revealing an otherwise under-reported \$2.6 billion dollar deal between CNOOC and the Nigerian government to develop a new deepwater block—particularly significant because the 1800 meter depth, and lack of other foreign partners in the deal, suggests that CNOOC's deepwater technical capabilities may be much more advanced than commonly assumed in the West.

In Sullivan's literature review, he references Paul Roberts' 'The End of Oil,' Michale Klare's 'Resource Wars,' and Samule Huntington's 'Clash of Civilizations.' He also discusses the USGS report placing Peak Oil after 2030, and briefly mentions the phrase 'peak oil.' In the face of Peak Oil, Sullivan concludes that 'China's perceived quest to 'lock up' supplies creates a potential that they may run afoul of U.S. efforts to sustain its supplies of the hydrocarbon pie.' He then proceeds to discuss China's oil acquisition strategy through the lens of US national security interests. Sullivan specifically frames his analysis in terms of the 9 'tasks' laid out in the 2006 National Security Strategy document, highlighting particular areas of conflict, such as 'work with others to defuse regional conflicts,' and 'ignite a new era of global economic growth through free markets and free trade.'

Finally, Sullivan summarizes by answering several 'key questions,' such as:

1. Will China's oil strategy actually guarantee it a steady flow of oil by virtue of its commanding equity position in foreign oil firms? Yes, but at barely 12 percent of its annual imports (by Chinese admission) this flow of equity oil is a poor return on investment made in the preceding decade. Nonetheless, this flow does represent the success that China had in diversifying its supply well beyond just its three principle suppliers of a decade ago.

2. What are the political, economic, and military perquisites, if any, attached to recent Chinese equity deals in foreign oil companies and how might they influence regional security? China certainly "packages" political and economic perquisites to varying degrees with some—though not all—of its equity deals. The most frequently used inducements are large signing bonuses, "soft loans," and infrastructure development. Interestingly, the Chinese official view is that these are "gifts" indicative of its international goodwill as opposed to unfair trade "sweeteners." Much less common, though, are overt political patronage (i.e. lobbying the UNSC on behalf of the regime in Sudan to soften the United Nations' stance on Darfur) and military largesse relative to arms sales and political support to oil states by other nations, in particular Russia, France, and the United States.

Sullivan continues with several more summations.

While Sullivan's thesis doesn't break new theoretical ground—at least for readers familiar with growing Chinese energy demand and the issues of Peak Oil—it is by far the best summary of the issue that I have read. It is thorough and well sourced, and will likely point even the most versed reader to some new arguments, new sources, or new interconnections and causal relationships. Its chief weakness is the failure to more explicitly discuss the impacts of peaking global oil production on China itself, such as the potential for demand-destruction in Chinese domestic consumption. Still, I highly recommend it as a summary of both history and current thinking on the subject.



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