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in the Humanities & Social Sciences



**Øystein Tunsjø.** *Security and Profit in China's Energy Policy: Hedging against Risk.* New York: Columbia University Press, 2013. 336 pp. \$50.00 (cloth), ISBN 978-0-231-53543-4.

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**Published on** H-Asia (November, 2015)

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For more than two decades, China's relentless quest for energy security has attracted much media attention and intense scholarly scrutiny, often polarizing observers into extreme ends of a spectrum of perspectives. International relations experts often tend to view China's energy security initiatives, especially the acquisition of overseas oil assets, as part of the larger strategy of an aspiring global superpower while others view them as little more than mercantilist, profit-oriented ventures undertaken by its business-savvy national oil companies (NOCs). While it is difficult to dismiss outright either viewpoint, Åystein TunsjÅ attempts to bridge the two approaches into a conceptual framework but has resisted the temptation to mechanically combine them into a comprehensive whole. Maintaining that the security and profit motives that drive Chinese energy policies are not necessarily irreconcilable, he essays an analysis of the tense relationship between the two.

Innovatively applying the idiom of financial markets to the security landscape, TunsjÅ makes important distinctions between threats (which can be eliminated) and risks (which can only be managed), between peacetime concerns and wartime contingencies. With 90 percent of its energy coming from domestic sources, the threats to China's energy security, according to the author, are less significant than the risk of supply disruptions. The latter can be hedged to provide insurance against supply disruptions. He argues that China has happily and deliberately married state control with commercial autonomy of its national oil companies to successfully hedge the risks to energy security. He cites three main examples to buttress his point: the maritime strategy wherein China has

consciously elected to build a tanker fleet rather than a blue-water navy, the going-out strategy where its NOCs have built up an impressive array of oil and gas assets all over the world with the active support of their government, and the continental pipeline strategy where China has enhanced its energy security by constructing a welter of oil and gas pipelines from the neighborhood.

Chapter 3 devotes considerable attention to China's domestic energy sector, briefly discussing all sources of energy but singling out oil as the one fuel where supply risks can be managed through hedging. According to the author, this is because oil constitutes less than 10 percent of the country's energy basket and as such, is not so significant in the country's energy security calculus: "since China's current and future oil imports today reflect automobile use, this is not a significant energy security vulnerability; personal automobile use can be curtailed" (p. 58). However, firstly, if we consider the absolute quantum, the country's oil insecurity is not as negligible as it is made out to be since China is now the second largest oil consumer in the world, with imports amounting to half of domestic consumption. Secondly, having groomed an entire generation on the seductions of a capitalist economy, whether the Chinese political leadership, powerful as it is, can turn the clock back to wean its increasingly prosperous and influential middle classes from automobiles is a moot question. After all, if China is aspiring to global superpower status, can its citizens be asked to go back to bicycles anymore?

Of all the energy security measures adopted by China, the one that has attracted much international atten-

tion (read, opprobrium) is its going-out strategy. For some years now, the global energy security discourse has grown increasingly strident on the subject. The advent of China and to a lesser extent, India, onto the global oil equity scene has rung alarm bells everywhere. North American scholars have been particularly concerned about how Chinese NOCs have locked up oil assets all over the world and as such, are putting the already delicately balanced oil market in jeopardy. They cite the frenetic pace of Chinese NOCs' acquisitions through various means and their ubiquitous presence in more than two hundred upstream oil and gas projects worldwide, financed generously by soft loans from China's state-owned banks, and supported by political maneuvers, concerns that find detailed treatment in Tunsj's book.

The author allays such concerns and points out that under normal circumstances, Chinese overseas oil acquisitions must be viewed as profit-seeking ventures of its globally savvy NOCs. According to the Paris-based International Energy Agency, Chinese NOCs' overseas oil production was 2.5 million barrels of oil equivalent in 2013, which means it could potentially supply a quarter of China's domestic demand. Yet, this production is sold in the global markets even as China buys and ships its oil from other sources for practical reasons elucidated below. With oil prices staying high this last decade, the NOCs' profit strategy seems to have paid off, not to mention the collateral gains in the form of jobs and training for a huge Chinese workforce which is deployed in these assets.

But the author goes on to suggest (as do many other scholars) that the commerciality of China's overseas ventures does not detract from the centrality of energy security considerations that drive them in the first place. After all, the Chinese government has thrown its political weight behind the efforts of its NOCs to acquire oil equity in diverse and difficult regions such as Sudan and Myanmar. One cannot but agree with the author's contention that the Chinese NOCs are subject to the control of their political bosses even as they act in their own best commercial interests. Even as Chinese NOCs come to resemble IOCs, at the end of the day, they will be controlled by the central government and will serve China's national interests when they are called upon by the Chinese leadership (p. 230).

Tunsj believes that by reserving marketing rights to themselves, China's NOCs have the capability and the leeway to ship their overseas oil production home

and this, he argues, is an insurance against any future oil supply disruptions. No doubt, China's NOCs are usually operators in the oilfields in which they hold equity and can exercise their marketing rights to ship oil home. That they have not chosen to do so for now blunts the hedge factor to some extent, especially in the event of sudden supply disruptions. Other than spot sales which represent a very small proportion of the oil trade, suddenly diverting term-contracted production may invite consequences. Term contracts—whether production-sharing, buy-back or management—are legal instruments with watertight clauses, violation of which can have financial penalties as well as geopolitical costs. Often, oil field contracts confer overriding rights to host governments in the event of force majeure causing supply disruptions. Besides, oil equity is of little use if supply disruptions occur on account of domestic conflicts in the host countries, as in the case of Sudan, where production is at a prolonged standstill. If there is a generalized supply disruption as in the case of conflict-affected Syria, once again, the insurance of equity oil is of little value. Creeping expropriation or outright nationalization by sovereign host governments is also a possibility that cannot be wished away. After all, Evo Morales of Bolivia threw out powerful multinational corporations to seize control of the country's energy assets. Then there is the matter of refinery capacity at home, which is usually geared to handle only certain grades of crude whereas equity oil may be of different grades, although China is concurrently working on enhancing the versatility of its refineries. Considering all the above factors, it is not a foregone conclusion that equity oil constitutes a hedge against peacetime supply disruption risks.

More than 80 percent of China's oil imports pass through the congested Malacca Straits, considered China's Achilles Heel by many experts. Tunsj points out how China has resorted to strategic management of this passage without ruffling feathers, which the acquisition of a blue-water navy might have done. After all, according to Tunsj, even if it does possess a blue-water navy, China has little chance of success in the event of a confrontation with the United States. Therefore, the Chinese leadership has focused on managing peacetime risks on the maritime front—oil spills, congestion, and piracy. He goes on to argue that the building of a large tanker fleet, apart from providing a boost to the domestic economy through a large ship-building industrial complex, has also provided the means to ferry oil from China's equity assets in distant lands in the event of a supply disruption. However, as stated earlier, if supply disruptions occur on

account of political instability, as is happening in Syria or Sudan now, owning a tanker fleet does not provide insurance against such risks.

China has effectively pursued land-based diversification of supplies by tapping into abundant neighborhood energy resources and constructing some of the longest energy pipelines anywhere in the world, a strategy Tunsj  calls "short" in financial parlance. He argues that pipeline supplies are less secure than maritime supplies in peacetime, but during wars, they provide a secure source of uninterrupted supply. Most of China's domestic energy markets are on the eastern seaboard whereas pipeline supplies flow from the west, south, and north, necessitating the construction of several phases of west-to-east pipelines straddling virtually the entire width of the country. That the Chinese government has persuaded its NOC to undertake the construction of this costly and expansive infrastructure that a purely commercially oriented company might have balked at, is, as Tunsj  points out, indicative of a purposeful security strategy where profit is relegated to the background.

Inasmuch as the book presents the reader with a new tool to discern distinct and logical patterns in seemingly disconnected or even contradictory initiatives,  ystein Tunsj  has made an important contribution to the existing literature on China's energy policies. However, China is not unique in combining security and profit

strategies in pursuit of energy security. Many developed and rapidly developing oil-importing nations in Asia and elsewhere undertake a gamut of measures. Maintenance of a strategic petroleum reserve, diversification of supply sources, intensification of domestic exploration efforts, pursuit of neighborhood pipelines, and construction of oil and gas import infrastructure are all instruments of a universal tool kit used by almost all energy-importing nations. Where the developing countries differ from their developed counterparts is in grooming and supporting their respective NOCs to be global players even as they discharge their domestic market commitments. Thus we have an Oil and Natural Gas Corporation (ONGC) in India, Korea Gas Corporation (KOGAS) in Korea, Petrobangla in Bangladesh, Petrobras in Brazil, etc., all jockeying for space in the global marketplace alongside international oil companies, but with the express mandate to subserve national energy security objectives. Even in the West where energy is considered a commodity best left to markets to deliver, security considerations persuaded a consortium of international oil companies (with a little nudge from their respective governments, no doubt) to build the expensive and circuitous Baku-Tbilisi-Ceyhan gas pipeline that dodges the economically sensible Russian and Iranian routes to ferry Caspian gas to Europe and beyond. After all, energy is too strategic to be left entirely to markets and yet, too global a commodity to be controlled entirely by the state. What China does varies in degree rather than in kind.

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**Citation:** Sudha Mahalingam. Review of Tunsj ,  ystein, *Security and Profit in China's Energy Policy: Hedging against Risk*. H-Asia, H-Net Reviews. November, 2015.

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