



UNDERSTANDING CHINA'S ENERGY SECURITY STRATEGY.

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SYNOPSIS

Beijing has realised that it can no longer rely on unilateral and bilateral policies for energy security, so it is beginning to engage in multilateral energy cooperation. Until very recently, China's energy security strategy relied almost exclusively on initiatives that it can direct: foreign oil deals, pipeline construction, and a national tanker fleet. In 2015 China signed a historic association agreement with the International Energy Agency (IEA) and held its first-ever emergency response exercise with the organisation. The central government signed the agreement in order to improve China's energy security, which underpins the economic growth that justifies the Communist Party's right to rule. The IEA agreement can serve as a case study for Western countries – especially Australia – that still hope that China can be socialised into the role of a responsible stakeholder in the international system. The West must position its institutions such that China has no alternative but to join them. This is why Beijing is finally participating in the IEA – multilateral engagement has become China's only realistic option for countering future oil supply shocks.

CHINA'S GROWING DEPENDENCE

China's thirst for oil continues to grow at a frenetic pace while domestic production has plateaued. In the last decade, demand increased by 60 per cent, over half of which is imported. China will become the world's largest oil consumer by 2017, and since 2007 it has accounted for around one-third of

[world growth](#) in liquid fuels consumption. By the 2030s, China's reliance on petroleum imports could be as high as [80–90 per cent](#). The key to Chinese energy security is securing access to liquid fuels – while China does import coal and natural gas, its vast coal reserves and [limited gas use](#) make them minor factors in the country's current energy security needs. In fact, in 2010 China was almost 80 per cent self-sufficient in its energy needs, and most of the [remainder](#) constituted oil imports. In order to slow demand growth, the government has raised fuel economy standards, expanded its high-speed rail network, and is promoting electric vehicles.

However, even if these plans are fully [realised](#), the country will still rely on imports for [60per cent](#) of its oil consumption in 2030. This vulnerability is compounded by the fact that [45per cent](#) of all of the oil that China consumes flows through the Strait of Malacca, which represents a potential chokepoint. Various events could slow or block the flow of Chinese oil through the Strait: a terrorist attack, a major oil spill, or a US embargo. The latter scenario is the most worrisome for Beijing, but it is actually the [least likely](#). The Chinese leadership is certainly aware of Washington's past use of oil embargoes. The American oil embargo against Japan in 1941 convinced it to go to war, and the U.S. used its position in the world's energy and financial systems to bend France and Britain to its will during the Suez Crisis in 1956. However, those embargoes were fundamentally different from a modern-day blockade, which would be rendered infeasible by the sheer magnitude of the operation necessary to stop the 2,000 supertankers that supply China each year. The risk of a blockade, combined with other potential supply disruptions – Middle Eastern wars, blockage of the Malacca Strait, and severe oil price spikes – led China to pursue a range of measures to reduce its vulnerability to oil supply disruptions. These measures have been largely ineffective.

UNILATERAL AND BILATERAL ENERGY SECURITY MEASURES

Soon after China began importing oil in 1993, its national oil companies (NOCs) were told to go out into the world and take an active role in securing petroleum supplies. The NOCs now boast growing and substantial [production](#) in Iraq, Kazakhstan, and a host of other countries. But the going out of the NOCs has proven to be inadequate in guaranteeing oil supply security – Chinese foreign oil production only equals half of domestic demand. More importantly, much of this oil does not flow to China. Beijing also has demonstrated a [limited ability](#) to control the NOCs – which are publicly listed and motivated by profit – so it is uncertain whether their overseas assets would be of much use to China in an energy crisis.

Beijing intends to have up to 75 per cent of Chinese oil imports hauled by Chinese-flagged tankers by 2020. This policy could enhance energy security because interdicting Chinese-owned and flagged

tankers would violate China's sovereignty, which Beijing would consider grounds for war. Chinese firms could also secure oil supplies from war-stricken countries because they would be able to forego paying astronomical sums for insurance (operating a supertanker in a war zone costs [1,000 times](#) more than in a non-war zone – insurance can cost \$8.9-13.3 million per day). These tankers would ideally be protected by the People's Liberation Army Navy (PLAN), which in 2015 committed to [protecting](#) China's overseas interests, including its energy security. However, the PLAN's modernisation program is still a work in progress, and it will take time before the navy can credibly protect all Chinese tankers that ply the Indian Ocean.

China has also sponsored the construction of oil pipelines from Russia, Myanmar, and Central Asia. However, these pipelines only carry about 20 per cent of total imports (and they cannot be built fast enough to keep up with demand growth), so China will remain dependent on tankers for its oil. Construction and transportation costs also make oil pipelines inherently uneconomical; maritime transportation of petroleum is [always cheaper](#).

Despite these unilateral and bilateral measures, China remains as dependent as ever on oil imports, and it has hardly decreased its vulnerability to a major oil supply shock. Beijing appears to have finally realised this, which is why it is now engaging with the IEA.

COOPERATION WITH THE INTERNATIONAL ENERGY AGENCY

Until 2015, China hardly engaged in multilateral energy security measures. It had avoided the IEA, declined to join the Washington-led Global Maritime Partnership Initiative and the 31-nation Combined Maritime Forces, both of which enhance maritime security. Beijing instead chooses to conduct its anti-piracy operations independently. In 2015 China became one of the first IEA [Association](#) countries, together with Thailand and Indonesia. Association countries obtain many of the benefits of IEA membership – training, data sharing, capacity-building, and coordination in times of oil supply disruption – without the fixed oil reserve requirements required of full members. [According](#) to the IEA, “China has formed a view that global energy governance is for mutually beneficial cooperation, not a zero-sum game.” Beijing has [committed](#) itself to coordinate the use of its new [strategic petroleum reserve](#) (SPR) with the IEA during emergencies and to work with the organisation “to test [its] level of preparedness to meet supply disruptions through IEA Emergency Response Exercises” (EREs). China has already begun to follow through – in 2015, it held an [ERE](#) at Ningbo, which hosts one of its SPR facilities. This ERE was the first time that Beijing allowed the international community such a close look into its SPR system, and it was one of the few IEA EREs conducted outside the organisation's headquarters in Paris.

LESSONS FOR LIBERAL DEMOCRACIES

Beijing now appears to have realised the inadequacy of its old energy security strategy, so it has deepened its engagement with the IEA. This is a weighty step that has required the leadership to overcome its traditional distrust of Washington-led institutions. This might reflect increased confidence in international institutions more generally, but it is more likely that the IEA Association Agreement was born out of necessity. Chinese social stability is undergirded by economic growth—the de facto mandate of the Communist Party of China and growth requires energy. Energy security, in turn, can only be ensured by guaranteeing reliable supply, which is only possible through international cooperation.

This suggests a possible way to draw China into more Western institutions. It has long been the West's hope that China would become a responsible stakeholder in the international system. Unfortunately, Beijing's economic nationalism, its relations with pariah states, and its flagrant violations of international law in the South China Sea have largely scuppered that hope.

However, China's nascent embrace of the IEA shows that it will engage with Western institutions if they provide some good that Beijing would not be able to obtain elsewhere. In this case the good provided is an insurance policy against catastrophic oil supply disruptions. A similar mechanism was at work when China applied for World Trade Organization membership. China had to [loosen](#) over 7,000 rules and laws in order to join, but in Beijing's eyes it was well worth the cost: the country secured access to the world's largest trade governance organisation, which unlocked otherwise inaccessible avenues to growth.

If the signatory members of the Trans-Pacific Partnership (TPP) eventually want to draw China into their binding framework of trade rules, they must follow the example of the WTO and IEA and make TPP indispensable to China. However, before talks can even begin Beijing would be required to implement some of the high-standard practices (such as liberalising state-owned enterprises) that TPP mandates. China would [likely only do this](#) if TPP grows to include an even greater portion of the world economy, particularly in Europe. Regional supply chains will retool themselves to take advantage of the preferential trade terms between TPP members, which could threaten China's competitive advantage at a time when Chinese labour costs are rising. TPP signatories must first pass ratification in their national parliaments to cement the deal, and afterwards they should concentrate their efforts on bringing an ever greater number of countries into the fold. In this way they can progressively tilt China's cost-benefit analysis for membership. The economic price of staying outside TPP would eventually outweigh the cost of the painful reforms needed to join the bloc. Chinese social stability is undergirded

by economic growth, which is what justifies semi-authoritarian Communist Party rule, so tying enhanced economic performance to Chinese acceptance of another liberal institution is a logical tactic.

In this way China's recent acquiescence on multilateral energy governance can be instructive for all future efforts that liberal democracies make to cajole Beijing into becoming a full-fledged supporter of the liberal international order. New agreements and institutions should be crafted with an eye towards making them indispensable to China. Australia can play a valuable role in this. As the only Western nation located near China – and as the Western country most dependent on China for its economic well-being – Canberra should vocally support crafting multilateral agreements such that Beijing will eventually feel compelled to join. By functioning as an intermediary in this way, Australia can maximise its influence as a middle power.

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