

**Oversea Trumps Overland:****China's Oil Supply Future is Maritime**

In the latest of sporadic attacks on infrastructure associated with Burma's junta, bombs recently exploded at a controversial hydropower project being built jointly with Beijing's state-owned China Power Investment Corporation. This underscores the challenges China faces in helping to construct an oil pipeline through restive Burmese minority regions. A senior scholar informs us that China has been particularly careful in addressing issues surrounding Burma's Wa minority because of the politically and physically vulnerable pipeline.

So why allow such sensitive issues to condition Beijing's foreign policy? A major factor: oil. Chinese demand, growing rapidly, has reached 8.5 million barrels per day (mbpd) and the country likely became a net gasoline importer by the end of 2009. While still a very significant oil producer, China is now the world's second-largest oil user. It imports more than half of its crude oil, with imports of 4.9 million bpd in March 2010. Seaborne imports constitute more than 80 percent of this total. At present, therefore, 40 percent of China's oil comes by sea.

China's oil security concerns will determine to what extent China will seek to transform itself from a continental to a continental-maritime power. China's dynamic maritime development already demonstrates significant movement in the maritime direction.

Chinese security analysts and policy makers worry about their nation's "excessive" reliance on seaborne oil shipments. Many believe that by investing in pipelines from neighboring oil producers like Russia and Kazakhstan and building additional lines to "bypass" the Malacca Strait, China can protect its oil imports from possible interdiction during a conflict. A robust internal debate is being waged within China at multiple levels regarding how to ensure access to oil supplies. At stake is the extent to which China should cooperate with international economic institutions versus seeking unilateral military solutions; should develop as a maritime versus continental power; and should focus on defending against state, as opposed to non-state, actors.

Despite this diversity of opinion, a wide variety of influential Chinese experts, including scholars, policy analysts, and members of the military, believe that the United States can sever China's seaborne

energy supplies at will and in a crisis might well choose to do so. It is widely claimed, for instance, that “whoever controls the Strait of Malacca effectively grips China’s strategic energy passage, and can threaten China’s energy security at any time.”

Such views are widely cited to justify the development of a nationally-flagged tanker fleet, as well as pipeline construction, which is proceeding rapidly. China already has seventy thousand kilometers of oil and gas pipelines and aims to reach ninety thousand km during the Twelfth Five- Year Plan (2011–15).

Yet China’s overland oil supply plans appear largely to be driven by a combination of incomplete assessment of security issues and lobbying by sectoral and local commercial and political interests of an overtaxed national energy policy-making apparatus.

At present, the Kazakhstan–China pipeline is operational, a Russia–China line could become operational by late 2010 (and is likely to be in commercial operation by 2011), the Burma–China pipeline is now under construction, and a China–Pakistan pipeline remains entirely aspirational.

Some projects—such as the line from Russia that is now under construction and an existing line from Kazakhstan—are indeed economically viable overland conduits that will bring at least limited diversity to China’s oil supplies. Others, however, like the Burma pipeline and especially the proposed line via Pakistan, make much less economic and security sense.

In the end, pipelines are not likely to increase Chinese oil import security in quantitative terms, because the additional volumes they bring in will be overwhelmed by China’s demand growth; the country’s net reliance on seaborne oil imports will grow over time, pipelines notwithstanding. Chinese decision makers must face the fact that, barring discovery of an economically viable large-scale substitute for crude oil, their nation’s dependence on seaborne imports will likely only increase. Cooperative steps to safeguard free markets and the seaborne flow of energy imports will best support Chinese access to reliable, affordable oil supplies in the future.

The U.S. and China, now the world’s two largest oil consumers, share an interest in maintaining secure, stable, and affordable oil supplies.

They should consider establishing a joint petroleum inventory reporting system. Their navies should address maritime crises in areas far from sensitive areas surrounding China and the U.S. (e.g. preventing Somali pirates from hijacking tankers in the Gulf of Aden). While it is indeed developing anti-access capabilities that could threaten the presence of the U.S. military and those of its allies and friends in the Western Pacific, China is also commissioning and deploying surface platforms that enable it to make positive contributions to the security of the global maritime commons.

Since 26 December 2008, China's navy has dispatched twelve ships in five counter-piracy task forces to the Gulf of Aden. As of 20 March 2010, these forces had escorted 1,768 ships in 179 convoys. Sixteen Chinese naval operations have rescued 10 Chinese and 13 foreign-flagged vessels from pursuit by pirates.<sup>1</sup> As of 25 December 2009, 3,300 Chinese naval personnel had participated and 405 foreign vessels had been escorted.<sup>2</sup> China's purpose-built hospital ship, the Type 920 *Daishandao/Peace Ark* (岱山岛号, AHH 866), is now operational, having completed an initial mission in the South China Sea. As the first of what will reportedly be annual international deployments, *Peace Ark* is slated to conduct humanitarian operations in the Middle East and Africa in 2010.<sup>3</sup>

Admiral Robert F. Willard, Commander, U.S. Pacific Command, recently testified before Congress that he "expect[ed]" China's former Ukrainian *Kuznetsov*-class aircraft carrier *Varyag* "to become operational around 2012 and likely be used to develop basic carrier skills."<sup>4</sup> The Office of Naval Intelligence estimates that "the PRC will likely have an operational, domestically produced carrier sometime after 2015."<sup>5</sup> Scott Bray, Senior Intelligence Officer-China, ONI, assesses that "China likely intends to use aircraft carriers to bring the air component of maritime power to the South China Sea and other regional areas to protect Chinese sea lanes, shipping, and enforcing maritime claims. Additionally, an aircraft carrier would likely be used in regional humanitarian assistance and disaster relief missions."<sup>6</sup> As they pursue shared interests even amid areas of strong disagreement, Washington and Beijing should also consider establishing a joint threat reporting database for vital Sea Lines of Communication (SLOCs). Washington should also encourage Beijing to join the International Renewable Energy Agency (IRENA); as well as the International Energy Agency (IEA), to facilitate closer SPR management cooperation.

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China Signpost© founders Dr. Andrew Erickson and Mr. Gabe Collins have more than a decade of combined government, academic, and private sector experience in Mandarin Chinese language-based research and analysis of China. Dr. Erickson is an associate professor at the U.S. Naval War College and fellow in the Princeton-Harvard China and the World Program. Mr. Collins is a private sector commodity specialist focused on China and Russia.

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<sup>1</sup> "Sailing into the Storm: International Praise for Chinese Escort Fleets Protecting Merchant Ships against Somali Pirates," *Beijing Review*, 19 April 2010.

<sup>2</sup> Li Xiaokun and Peng Kuang, "Anti-Piracy Special: Calming Troubled Waters," *China Daily*, 29 December 2009.

<sup>3</sup> Senior Captain Duan Zhaoxian, Assistant Chief of Staff, PLA Navy, presentation in "Session 5: Humanitarian Assistance and Disaster Relief," Maritime Security Challenges Conference 2010, Maritime Forces Pacific, Canadian Navy, Victoria, British Columbia, 29 April 2010.

<sup>4</sup> Statement of Admiral Robert F. Willard, U.S. Navy, Commander, U.S. Pacific Command Before the House Armed Services Committee on U.S. Pacific Command Posture, 23 March 2010.

<sup>5</sup> *The People's Liberation Army Navy: A Modern Navy with Chinese Characteristics* (Suitland, Md.: Office of Naval Intelligence, July 2009), p. 19.

<sup>6</sup> Quotation obtained from ONI Public Affairs Office.