

The Dilemmas of China's Energy Governance: Recentralization and Regional Cooperation

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Before 2003, Sino-Japanese-Russian energy relations held promise of multilateral cooperation, yet in the last two years, cooperation turned to competition as China and Japan promoted alternative oil pipeline projects to Moscow. The rivalry began with an oil pipeline from Angarsk, shifted to the East China Sea dispute over the Senkakus/Diaoyutai, and threatened to spread into further issues and spiral out of control. The image of Chinese competitive behavior was fueled by the Going-Out Strategy of the Chinese national oil companies—China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), China Petrochemical Corporation (Sinopec)—collectively referred to as the National Oil Companies (NOCs).

The way in which this intense rivalry coexists with ongoing discussions on energy cooperation requires some explanation. Japan offered a set of rules for competition and cooperation. Russia, which had originally spurred this Sino-Japanese rivalry, rethought the impact this would have on Russian long-term objectives for Northeast energy relations, and developed a pipeline project that would satisfy both Tokyo and Beijing. China would eventually offer their own rules. Many pundits have noted the competition for energy resources while few have studied the simultaneous efforts at cooperation. The primary factor that allows cooperation and competition to occur simultaneously is the nature of the East Asian multilayered security order.¹ Japan and China maintain one layer for U.S.-China-Japan strategic competition, and another layer for Asian multilateralism and regional cooperation such as ASEAN+3.² Each layer is occupied by different sets of Chinese and Japanese actors with different foreign policy preferences.

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¹ Muthiah Alagappa, ed., *Asian Security Order: Instrumental and Normative Features* (Stanford: Stanford University Press, 2004).

² ASEAN+3 is a regional framework in the process of evolving into an East Asian community. Members include the 10 members of the Association of Southeast Asian Nations and the 3 Northeast Asian countries—China, Japan and South Korea.

This article will examine Sino-Japanese competition for Russian oil resources and the steps that were taken to manage the rivalry through the issuance of principles, norms and rules that would eventually form the basis of a regional regime.

The Struggle for Angarsk and Pipeline Routes

The concept of a Northeast Asian regional energy regime has a long history.³ China, Japan and Russia, in what could be called a two-level bargaining game, each took a path towards regional cooperation that involved reconciling conflicting domestic interests into a national consensus, necessary before there could be a regional consensus. When Prime Minister Junichiro Koizumi announced in January 2002 that Tokyo intended to form an Asian Energy Community, using ASEAN+3 as the framework, he appeared to be in the process of forming an East Asian regional regime based on norms, principles and rules, that would create an "international public good," regional energy security, for all Northeast Asian countries. From 2002 to the present, the idea of an East Asian Energy Community has continued to evolve.

The year 2003 was a difficult time for those following the workings of Northeast Asian regional energy cooperation as endless meetings in Moscow by delegations from Beijing and Tokyo produced no agreement on the direction of oil and gas pipelines from Angarsk. Russia developed a plan for Siberian and Russia Far Eastern oil and gas resources but postponed decisions on pipelines. Japan's Ministry of Economy, Trade and Industry (METI) had announced in spring 2003 that a 10-year long-term energy policy that would consider alternatives to dependency on Middle Eastern supply would be finished by the summer. By September, Japan's plan was still not published because it was awaiting decisions made in Moscow. China had announced the formulation of an Energy Security Plan with Chinese Premier Wen Jiabao personally overseeing its prompt formulation, but domestic planning was contingent on regional energy plans and decisions made in Moscow. Each of these three countries had domestic plans requiring coordination with the other countries in a regional framework that did not exist in 2003.

Russia's domestic plan, Main Provisions of the Russian Energy Strategy to 2020, originally approved in November 2000, with a newer revised version approved May 22, 2003, seemed to settle Russian domestic priorities. However, the question of which pipeline to give priority to was not finalized in a clear manner at that time. It seemed to be a long, drawn-out convoluted process, mixing geopolitics with technical

³ See Gaye Christoffersen, "Socialist Integration and Energy Regimes," *Pacific Review* 3, 1 (1990).

questions, with lots of simultaneous domestic and international bargaining. Moscow had conducted parallel negotiations with CNPC and the Japan National Oil Company (JNOC) during 2003 without a means to make the two dialogues coherent.

There were actually 3 proposals on the table:

1. Japanese proposal: Angarsk to Nakhodka 50 million metric tons (MMT) capacity with export possibilities to all of Asia-Pacific including the U.S. [preferred by Japan, Rosneft, and Transneft]; called the “northern route.”
2. Chinese proposal: Angarsk to Daqing 30 MMT capacity, confined to China market [preferred by China and Yukos]; called the “southern route.”
3. Russian Energy Ministry and energy experts' proposal: A compromise to combine Japanese and Chinese projects into one project that would first go to Daqing, and then when there was sufficient oil, extend to Nakhodka. Beijing was agreeable to the compromise but Tokyo was not.

The Chinese had thought that the feasibility study was finished, and that the Sino-Russian agreement that had been signed in Moscow in May 2003 was a final contract, but it was only a general agreement on basic principles signed between Yukos, a private oil company, and CNPC without a final decision by the Russian government on the pipeline feasibility study. According to *Nezavisimaya Gazeta*, controlled by Boris Berezovskiy, private Russian companies were required to act on their own because the Russian state continued to fail to formulate energy policy.⁴

Political struggles over the three proposals all took place within Russia—struggles over the Russian Energy Strategy to 2020, struggles between Transneft and Yukos, struggles between the Russian government and the Russian oil companies. In May 2003 the Russian Energy Strategy to 2020 had been “largely approved.” It was originally reported to have an Angarsk-Nakhodka pipeline in it. Some reports claimed it included both projects. Thus the Russian government seemed to have opted for the compromise proposal. And yet everything depended on the unending feasibility study (or perhaps numerous feasibility studies) that after nine years still did not have closure. Transneft claimed the decision would be made 2 weeks after the energy strategy was final. Rosneft proposed that its gas pipeline be integrated with the Yukos oil pipeline in the southern route as a means to make the project more economically feasible.

⁴ M. Borisova and P. Orekhin, “China will Grow on Russian Oil,” *Nezavisimaya Gazeta*, May 29, 2003.

Rosneft, however, was more supportive of the northern route. Tyumen Oil Co. Manager Sergei Tulinov claimed, "A feasibility study has not yet been carried out for any project in the region and as there are no feasibility studies, there is no sense in talking about transport schemes."

The original rationale for a Sino-Russian oil pipeline years ago was that, because Sino-Russian trade driven by market forces had not expanded as expected, what it needed was a "mega-project" to "kick-start" bilateral economic and trade relations. The proposed pipeline became the mega-project. Why a nine-year feasibility study can never find closure is a consequence of both sides evolving away from planned economies, but not necessarily in coordination with each other, so that the concept of "economic feasibility" has different meanings over time. In the past, Soviet and Chinese planners would have worked out a mega-project without a cost-benefit analysis. However, unlike Russian and Chinese energy decisions made under the old systems, economic feasibility is a more important criterion than it was in the past.

Entering into the equation during summer 2003 was the "Yukos Affair," which came to be referred to as the "Kremlin versus Yukos war" and indicated a crisis in relations between the Russian state and business. Although there were much larger issues involved than the question of pipelines, this attack on Yukos made the southern route seem less viable.⁵

The pipeline became an issue for Primorski Krai in the Russian Far East during summer 2003. Primorye Governor Sergei Darkin, in trips to Tokyo and meetings with Japanese officials in Vladivostok, lobbied for the northern route. A Primorye delegation on a visit to Tokyo met with Japan's Foreign Minister, the METI Minister, and the Japan National Oil Corporation. Possibly as a result of his efforts, the northern route came to include an oil refinery in one of Primorye's ports. Although the decision would not be made in Primorye, the Japanese lobbied at all levels of government. A delegation from the Japanese Association for Trade with Russia and Eastern Europe (ROTOBO) and Keidanren visited in June 2003 to further economic links between Primorye and Japan. Governor Darkin expressed his distrust of Yukos, accusing the company of intentionally underestimating resources as a means of promoting the southern route.

Zolotoy Rog reported that the Russian public had little information about the choice of a Chinese or Japanese pipeline and believed that the Russian oil companies were withholding information. Conferences were organized by the krai administration and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) to discuss local

⁵ "The YUKOS Affair and the Consequences for Russia's Future," *Novoe Vremya*, August 24, 2003.

financial and environmental impacts of the project. In a July meeting between Russian President Vladimir Putin and Darkin, the Primorye Governor argued for the need for a political solution, which would define Primorye's future and integrate the krai into the Asia-Pacific.

In August 2003, a joint Russian-Japanese group began work on a feasibility study for the northern route with the promise the study would be finished by December 2003, remarkably fast given the nine years the Sino-Russian feasibility study had taken. The Russian Energy Ministry in late August 2003 asked the Chinese side to postpone the August 27-29 scheduled meeting of the Subcommittee for Energy Cooperation of the intergovernmental commission. The committee's agenda would have focused on the pipeline in preparation for the September 22 meeting between Prime Minister Mikhail Kasyanov and Premier Wen Jiabao. Officially the Ministry claimed the feasibility study for the pipeline was not yet finished, but also confirmed speculation that Moscow would shift to the northern route, not a decision the Ministry would have made, giving the appearance of a highly politicized decision-making process. Rather than being in control of the bargaining, Russians were worried that Russia was allowing itself to be a card to be played in a high-stakes geopolitical game between Japan and China.⁶ Prime Minister Kasyanov signed the Russian Energy Strategy 2020 on September 5, and had announced on September 6, 2003 that further deliberations were needed on the pipeline decision.⁷

In early February 2004, the Russian Deputy Foreign Minister Aleksandr Losyukov announced that Russia was considering several options, not mutually exclusive, and would "give priority to its own interests when selecting which option to follow" rather than posing it as a choice between China and Japan.⁸ Transneft presented a plan that it announced was a completely new export pipeline: it begins at Taishet, extends to Buryatia further away from Lake Baikal, and then follows the path of the earlier Angarsk-Nakhodka route. The pipeline would be 4,130 kilometers, transport 56 MMT/year, and have 32 pumping stations [13 will have storage facilities]. This Transneft plan had gotten the approval of local governments in Primorye, Khabarovsk, and the Amur region. An alternative plan had been drawn up by the Sakha Republic [Yakutia], Gazprom, Surgutneftegaz, and the Natural Resources Ministry. Their route would construct a single network, combining oil and gas pipelines,

⁶ Yuriy Aleksandrov, "Japan Counterattacks: Intensity Rises in Battle between Two Asian Superpowers over Russian Oil Pipeline," *Nezavisimaya Gazeta*, August 22, 2003, in Foreign Broadcast Information Service (hereafter FBIS), CEP20030822000231.

⁷ *Interfax*, September 5, 2003.

⁸ *ITAR-TASS*, February 11, 2004, in FBIS, CEP20040212000278.

6, 224 kilometers, that linked all oil and gas fields in Yakutia, Irkutsk, and Krasnodarsk, ending in Nakhodka.⁹

On December 31, 2004, Russian Prime Minister Mikhail Fradkov approved the Taishet-Nakhodka oil pipeline without mentioning a branch to China. It appeared to be a clear win for Japan. However, when Japan and Russia held ministerial talks on the Taishet-Nakhodka pipeline in April 2005, unresolved historical issues, the northern territories issue, impeded further progress. In April 2005 Khristenko announced that there were two stages to construction of oil pipelines that would create a unified system across Eastern Siberia to the Pacific Ocean. The system would achieve two strategic goals: comprehensive regional development and diversification of energy export routes. This plan was presented as benefiting both China and Japan.¹⁰

The first stage goes from Taishet, Ust-Kuta and Kazachinskoye in the Irkutsk region to Tynda and Skovorodino in the Amur region. This oil would be shipped by rail to China's Daqing from Skovorodino. Work would begin in 2005 and finish in 2008. The second stage goes from Skovorodino to Primorye's Perevoznaya Bay, exporting oil to Japan and other Asia-Pacific importers. Japanese fear the oil will never make it to the Pacific port.

NE Asian energy cooperation – Formulation of rules

While Tokyo and Beijing competed for the pipeline, the Japanese press referred to a Sino-Japanese resource war over the pipeline.¹¹ At the same time, Japanese energy experts continued to strategize a regional energy regime. In July 2003, the Managing Director of the Institute of Energy Economics Japan (IEEJ), Tsutomu Toichi, pointed out that because of several trends—the insecurity of 9/11, increasing regional economic integration—Japanese energy policy was in transition, thus “...new energy security measures that include the greater Asian region are needed to replace those based on unilateral thinking.”¹² Toichi argued Japan needed to coordinate energy policy with security policy, and coordinate energy diplomacy and environmental diplomacy. Japan needed to develop greater influence with Middle Eastern producers by building up cooperative relations with China, Korea, and Taiwan to increase the bargaining leverage of a Northeast Asian bloc. Oil and natural gas

⁹ *Interfax Oil & Gas*, March 25-April 1, 2004.

¹⁰ Alela Kornysheva and Evgenia Sokolova, “Russia has chosen an Eastern draw: Oil will flow both to China and Japan,” *Kommersant*, April 29, 2005.

¹¹ *Kyodo*, August 27, 2003.

¹² Tsutomu Toichi, *Energy Security in Asia and Japanese Policy*. The Institute of Energy Economics Japan, July 2003 <<http://eneken.ieej.or.jp/en/data/pdf/200.pdf>> (November 1 2005).

pipelines from the Russian Far East would also increase leverage with the Middle East.

His proposals included an Asian version of the International Energy Agency (IEA). He expressed frustration with the China-Russia negotiations for a pipeline as “mired in disagreements over selection of a pipeline route, pricing, and various other issues,” which he claimed had led Russia to encourage South Korea and Japan to become more actively involved rather than passively waiting to participate in a Sino-Russian pipeline.¹³ This suggests the motivation for the northern route pipeline is not simple Japan-China rivalry but rather a Japanese impatience in waiting for private companies, and concern that the southern route would undermine rather than support an East Asian multilateral energy regime.

Suspicion of Japanese intentions emerged in the popular Chinese press. In summer 2003, *China Daily* was openly referring to a Sino-Japanese rivalry for Russian oil, recognizing that Japan had lobbied heavily, and dangled financial incentives. The Chinese suspected that Japan was “playing on Russian historical fears of China.” The newspaper referred to Governor Darkin’s office as stacked with Japanese electronics, gifts from the Japanese lobbying for the northern route. Nevertheless, the Chinese had felt the southern route had the best chance because it was the most cost-effective and furthest along in planning.¹⁴ *Jingji Cankao* claimed “Japan’s muddling” in the Yukos-CNPC deal was testing China’s energy strategy, which was still in the process of being formulated. Japan was at an advantage because it had a “matured energy strategy” and a strategic reserve of 172 days [China had not yet created a strategic reserve].¹⁵

In the midst of heated rhetoric in both the Chinese and Japanese press, the Institute of Energy Economics Japan published a paper in early 2003 stating the “rules of cooperation” for Northeast Asian energy cooperation meant to address the challenge of whether to cooperate or compete.

The IEEJ “rules of cooperation” for Northeast Asian energy cooperation were:

1. Cooperation should happen at the governmental level, with government support for markets and private companies, creating an even playing field for competition, which should happen at the business level. [cooperation-competition rule];

¹³ *Ibid.*

¹⁴ “Old Rivalry Flares as China, Japan Vie for Russian Oil,” *China Daily*, July 13, 2003.

¹⁵ Li Dingxin, “Fighting for Oil Pipeline Tests China’s Energy Policy,” *Jingji Cankao Bao*, August 8, 2003.

2. Every country must clearly recognize that each benefited from cooperation as all were in the same situation and in the same region. [regional identity rule];
3. Every country should take “equitable responsibility” if it were to obtain its share of benefit [the no free-rider rule];
4. Regional institutional design for cooperation must realize a win-win situation. [co-prosperity rule];¹⁶

At the November 2003 Northeast Asia Petroleum Forum, one Japanese analyst suggested additional rules that included the Angarsk issue:

5. Energy security through cooperation between East Asian and West Asian countries, between energy consumers and producers. [the rule of Northeast Asian unity in dialogue with the Middle East];
6. Preparation of energy infrastructure, especially in “continental inland region.” [the rule regarding Northeast Asian infrastructure as an international public good];
7. Construction of an international framework covering the upstream to downstream supply network in East Siberia and Russian Far East. [the rule regarding Russian resources as an international public good];
8. Preparation of international rules as a foundation for work with East Siberia and Russian Far East. [the rule that Russian resource development would follow mutually agreed upon rules];
9. Strategic issues for regional cooperation: oil stockpiles; stabilization of crude oil prices and oil market; development of a Northeast Asian oil market. [the rule that oil is both a strategic and market issue];
10. Asia’s three E’s: energy investments must simultaneously promote economic growth, energy security and environmental conservation. [three E’s rule];
11. Formation of a common perception among Asian consumer countries that would unite them in government and private sector policymaking.¹⁷ [the rule regarding policymaking based on common identity].

¹⁶ Kensuke Kanekiyo, *Toward Energy Cooperation in Northeast Asia*, Institute of Energy Economics Japan (March 2003) <<http://eneken.ieej.or.jp/en/data/pdf/189.pdf>> (November 1 2005).

¹⁷ Yoshiki Ogawa [IEEJ], “Long-term Views and Strategic Issues on Oil Supply-Demand in Asia,” *Northeast Asia Oil Forum* (Tokyo: November 2003), <<http://eneken.ieej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>> (November 1 2005).

Another presentation insisted that China, South Korea, and Japan were not mere competitors but had common concerns and goals including diversification of supply through projects such as Angarsk (both pipelines), and relations with the Middle East (Saudi Arabia and Iran). It proclaimed that co-prosperity in Northeast Asia was possible.¹⁸ Still another Japanese presentation analyzed the Taishet-Nakhodka pipeline project as comparable with Sakhalin I & II projects, which would benefit all of Asia by increasing the region's bargaining power with the Middle East and consequently reducing the "Asian premium" for all Northeast Asian countries.¹⁹

Chinese participants at the November 2003 Forum offered principles, discussed achieving win-win solutions;²⁰ and implementing the "Going Out" Strategy further;²¹ but it was unclear whether they contributed to rule formation for a Northeast Asian multilateral energy regime. Chinese have previously commented favorably on a Northeast Asian energy community but referred to the formula (regional division of labor) rather than specified rules for cooperation. Also with regard to Russian resources in this formula, Chinese analysts have stated "China has the geographical advantage to utilize the energy resources of these [Russian] adjacent areas,"²² reflecting the principle of *zhoubian waijiao* [good neighborly relations] rather than abstract rulemaking for the region.

Chinese Lessons from the Angarsk Struggle

The Russian retreat from the southern route posed problems for Chinese domestic planning. China had put oil imports from the Russian pipeline into its five-year plan (2000-2005). During Hu Jintao's May 2003 visit to Moscow, Putin had expressed much optimism on future energy cooperation and partnership, but also seemed to distance the issue from

¹⁸ Yasushi Kono [Nippon Oil Corp.], "From Competition to Co-prosperity," Northeast Asia Oil Forum (Tokyo: November 2003), <<http://eneken.iecej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>> (November 1 2005).

¹⁹ Taro Shoji [Japan Petroleum Dev. Assoc.], "Energy Related Projects in Northeast Asia" Northeast Asia Oil Forum (Tokyo: November 2003), <<http://eneken.iecej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>> (November 1 2005).

²⁰ Shen Wenxiang [CNOOC], "Holding onto Opportunities, Enlarging Cooperation, Promoting the Development of China Offshore Oil Industry," Northeast Asia Oil Forum (Tokyo: November 2003) <<http://eneken.iecej.or.jp/en/seminar/other/NAPF/NAPFrecords.htm>> (November 1 2005).

²¹ Zhao Houxue [Sinopec], panel "Present situation and development strategies of the oil industry," *Ibid.*

²² Qingzhe Jiang and Lei Song, "Establishing a Northeast Asian Energy Community: China's Perspective," in *A Vision for Economic Cooperation in East Asia: China, Japan, and Korea*, Lee-Jay Cho *et al.*, eds. (Seoul: Korea Development Institute, 2003): 226.

politics when he said "it is up to experts to decide on the construction of oil & gas pipelines from Russia to China and their routes." A few days later, Putin and Koizumi in St. Petersburg also talked energy projects.

In June 2003, China's oil strategy had required adjustment. The "struggle for Angarsk" challenged the "Going Out" Strategy and led Chinese to rethink whether the bilateral Sino-Russian strategic partnership could ensure Chinese energy security. This had followed several other incidents: CNPC was forced to give up participation rights in the auction of Russia's Slavneft company; CNOOC was shut out of the North Caspian Sea Project. Analysts argued that China would have to draw lessons from other major oil-consuming nations, the US and Europe, for methods for dealing with oil-producing nations, and change its oil strategy.²³ Criticism of the Going-Out Strategy was indirect criticism of the Chinese NOCs and their supply-side energy policies.

The Energy Research Institute (ERI) in Zhongguo Nengyuan [China Energy] promoted domestic strategies as the solution including energy conservation, clean coal technology, and optimization of energy utilization, as it has always done since the 1980s.²⁴ In May 2003, a report was initiated under Premier Wen Jiabao by the Strategic Research Group for Sustained Development of Petroleum in China.²⁵ In June 2003, another report by a different group mapped out a long-term energy strategy to be used for planning by the National Development and Reform Commission (NDRC). The report had identified ten new oil and gas development zones domestically. The research groups emphasized development of both domestic and international resources.²⁶ A meeting of the Chinese Society of Asia-Pacific Studies in August 2003 promoted the establishment of an East Asian energy community as a logical follow-on in regional institution building to the financial network already created.²⁷

In September 2003, it was announced that China was "gradually formulating a brand new plan for its energy strategy" because the Angarsk-Daqing project was unreliable. A report, "China's Strategy on Sustainable Development of Oil and Gas Resources," was presented to Wen Jiabao. In November 2003, the publication *Guoji Luntan* published

²³ Zhou Yonggang, "China's Oil Strategy Needs to be Repositioned," *Zhonghua Gongshang Shibao*, June 3, 2003, p. 2, in FBIS, CPP20030709000153.

²⁴ Zhang Jianmin, "Sustainable Energy Strategy to Meet the Goal to Quadruple China's GDP by 2020," *Zhongguo Nengyuan* 25, 8 (2003): 1.

²⁵ Chen Ting, "Sino-Russian Oil Pipeline has Obstacles and Takes Time; China Initiates New Energy Strategy," *21 Shiji Jingji Baodao*, September 22, 2003.

²⁶ *Ibid.*

²⁷ Yu Xintian, "East Asian Cooperation in the Early 21st Century," paper presented at the Fifth Annual Meeting of the Chinese Society of Asia-Pacific Studies, in *Dangdai Yatai* 10 (2003): 3-9.

a piece which claimed that the struggle for Angarsk demonstrated that China's oil diplomacy lacked capacity to respond to crises. Suggestions for strengthening capacity all focused on greater integration with the world oil economy and strengthening cooperation with major oil-consuming states and international oil organizations by joining the IEA. All of this would augment China's capacity to withstand oil shocks.²⁸ Cooperation with Japan was presented by reformers as a source of solutions for Chinese energy conservation.²⁹

At a November 2003 conference on "China's Energy Strategy and Reform," energy planners blamed the current crises on the abolishment of the Ministry of Energy a decade before. They felt the "petroleum crisis" demonstrated the need for a unified state institution to manage energy. The Energy Bureau established in March 2003 lacked authority and a clear mandate. It was not the strong institution needed.³⁰ The Energy Bureau had been examining other countries energy strategies for lessons. Chinese have expressed the view that Russian, American, and Japanese energy diplomacy and oil security strategies are more fully developed than China's, leaving China to face competition in an uneven playing field.³¹

By late 2003, Chinese contemplated responses to what was considered a looming oil crisis. The State Development and Reform Commission Minister, Ma Kai, stressed energy conservation, which had been officially promoted for 24 years but neglected in investment priorities that continually expanded supply instead. Energy conservation was now constituted as an energy security issue that required better state planning in the 11th five-year energy conservation plan.³² Energy reformers criticized the planning approach, calling for the government to move from making project decisions to a coherent energy policy framework.³³

In November 2003, the State Council's Development Research Center issued an initial draft of the National Energy Plan to senior leaders at the China Development Forum which proposed making energy efficiency a

²⁸ Gong Xuzheng, "Viewing China's Oil Diplomacy from the 'Angarsk-Daqing Line' Tussle," *Guoji Luntan* 6 (November 2003): 46-52, in FBIS, CPP20031217000209.

²⁹ Zhang Jifeng, "Chinese-Japanese cooperation in auto industry will create win-win situation, reduce competition for energy," *Guoji maoyi*, January 20, 2004, p. 32-36, in FBIS, CPP20040213000167.

³⁰ Wang Yichao, "China's Energy Woes," *Caijing*, December 10, 2003.

³¹ Feng Yujun, Ding Xiaoxing and Li Dong, "Russia's New Energy Diplomacy and Its Impact," *Contemporary International Relations* 12, 10 (2002).

³² Ma Kai, "Vigorously Push Forward Energy Conservation Work, Strive to Build Energy Conservation Society," *Jingji Ribao*, Nov. 4, 2003, p. 6, in FBIS, CPP20031110000135.

³³ Xie Ye, "Energy Sector Reform Urged," *China Daily*, Jan. 8, 2004.

priority in China's energy strategy.³⁴ This was a victory for demand-siders over supply-siders (the NOCs). The senior leaders endorsed the draft which then underwent revising for several months while the Chinese media aired many of the disputes.

Although China has always been dependent on the Sea Lines of Communication (SLOCs) passing through the Malacca Straits since it first started importing oil from the Middle East, it was in December 2003 that Hu Jintao mentioned a "Malacca Strait Predicament" which constituted a "crisis" requiring several measures:

- Construction of routes into Southeast Asia: the Bangkok-Kunming Mekong waterway, the Kunming-Bangkok highway, the Pan-Asian railroad, and the Nanning-Hanoi highway. All of these would "pave the way for China's oil strategy."
- Construction of a supertanker fleet with sufficient capacity; China depended on chartered vessels giving other countries control.
- Construction of a powerful naval force to ensure security of the SLOCs.
- A governmental report suggested that China, Japan, and South Korea jointly construct a canal, the Kola Canal, through Thailand's Isthmus of Kra, an "Asian Panama Canal" of approximately 90-100 kilometers, depending on which route is chosen, which would reach the Andaman Sea.³⁵

The China Institute of Contemporary International Relations (CICIR, Xiandai guoji guanxi yanjiusuo) merged energy and maritime security issues in an analysis supportive of regional energy cooperation and People's Liberation Army (PLA) naval development. In an article published in the Chinese journal *World Economics and Politics* (Shijie jingji yu zhengzhi), Zhang Wenmu from CICIR argued that under the impact of globalization, a nation's energy security is both an economic and military issue. The author further argued that China's position was becoming increasingly vulnerable as its oil import dependence grew because it lacked the diplomatic and military influence of a country such as the U.S. Because the Chinese navy could not secure the SLOCs from the Middle East as the U.S. navy could, the author felt China should not adopt an energy security policy modeled on the U.S., at least until it had expanded its naval capacity. Rather, "China must consider the needs of

³⁴ Development Research Center of the State Council, *China's National Energy Strategy and Policy 2000-2020* (Beijing: November 2003).

³⁵ Zhang Yuncheng, "The Malacca Strait and World Oil Security," *Huanqiu Shibao*, Dec. 5, 2003, in FBIS, CPP20031217000202. Guo Ling, "Experts Suggest Need to Build a 'Panama Canal' in Asia," *Wen Wei Po*, Jan. 14, 2004.

other energy-hungry countries in Asia, especially in northeastern Asia, as it formulated its energy security policy.” Japan in particular should benefit from China’s east-west natural gas pipeline, building a common bond through energy cooperation.³⁶

It was unusual to discuss energy cooperation and military security in the same analysis but it was the Iraq War that had changed the rules, indicating increasing securitization of energy issues. CICIR published a volume related to the energy-maritime security nexus: *Global Energy Structure* (quanqiu nengyuan da qiju) which examined the energy security strategies of the U.S., Japan, India, the EU, and South Korea, none of which it perceived to be market-driven. China’s energy security strategy was presented as both an economic, political and military issue.³⁷

In June 2004, the State Council adopted the Medium and Long-term Energy Development Program from 2004 to 2020. Emphasis was on recentralization of control over energy policy, energy security, diversification of oil supply, regional energy cooperation, and the need to build a Strategic Petroleum Reserve.

The lessons from the struggle for Angarsk were added to the lessons from the Iraq War. Both contributed to the securitization of Chinese energy issues. Even before 9/11, the need for an oil security system was widely discussed in the Chinese press, including participating in international energy regimes, APEC conferences on energy, dialoguing with OPEC, and strengthening cooperation with the Middle East, Russia, Central Asia, and Africa.³⁸ Following the beginning of the Iraq War, the need to map out a new oil strategy became even more urgent.³⁹

The Iraq War influenced China as it did Japan, motivating it to consider better strategies for oil security. Chinese knew that with the U.S. military present in Iraq, Chinese NOCs had no hope they would develop petroleum projects there. Middle Eastern turmoil had led Chinese oil companies into panic buying. Chinese examined numerous attempts to invest overseas that had suffered setbacks. The SLOCS from the Middle East were fragile. The Caspian Sea had become an empty promise. And Beijing was surprised when “Japan and Korea tried to derail the Angarsk-

³⁶ Zhang Wenmu, “China’s Energy Security and Policy Choices,” *Shijie jingji yu zhengzhi* 5 (2003): 11-16, in FBIS, CPP20030528000169.

³⁷ Zhongguo xiandai guoji guanxi yanjiuyuan, jingji anquan yanjiu zhongxin. *Global Energy Structure* (quanqiu nengyuan da qiju). (Beijing: shishi chubanshe, 2005).

³⁸ Wang Chun and Qi Yanqiu, “Strategic Considerations on Establishing China’s Future Oil Security System,” *Duiwai Jingji Maoyi Daxue Xuebao* 2 (2001).

³⁹ FBIS Report, “China: Mapping Out New Oil Strategy to Avert Oil Crisis,” in FBIS, April 4, 2003, CPP20030404000159.

Daqing oil pipeline” after so many years of discussing regional energy cooperation.⁴⁰

In April 2003, a roundtable discussion at People’s University focused on the impact of the Iraq War on Chinese energy interests. The meeting identified five questions on China’s energy security requiring further research: finding the appropriate energy mix, determining the greatest threat to Chinese oil imports and security of the SLOCs, promoting an East Asian Energy Community, the appropriate governmental organization for managing energy (either an energy commission or an energy bureau), and creating strategic oil reserves.⁴¹ The Iraq War had a major impact on Chinese perceptions on what were the rules of the world oil market. The U.S. was perceived to be less market-oriented, and more willing to use military force whenever it was deemed necessary (clearly stated in the Carter Doctrine), which heightened anxiety regarding Chinese dependence on the SLOCs from the Middle East. Chinese analysts widely believed that the American Grand Strategy and motive for the Iraq War was hegemony over the Middle East and control of the region’s oil resources.⁴² The Chinese NOCs were encouraged to diversify the Going-Out Strategy away from the Middle East. Some analysts downplayed an East Asian Energy Community and did not view it as a primary means to energy security.

Domestic and Foreign Criticism of the Going-Out Strategy

The NOCs were forced to explore overseas as China’s onshore production failed to meet domestic demand, and offshore production was lower than expected. CNPC’s China Petroleum Economics and Information Research Centre claimed in December 2004 that, “It is increasingly difficult for Chinese oil companies to find good assets overseas as the good ones are already taken by western companies...So Chinese companies are increasingly going into less developed countries and offering infrastructure in order to secure oil and gas assets.”⁴³ If Western countries monopolized global oil resources, China’s niche would be in LDCs such as Sudan or Iran that the West shunned. CNPC’s corporate expansion into these areas would create tensions between Beijing and Washington.

⁴⁰ Wang Yiwei, “China’s Foreign Oil is Hanging by a Thread,” *Zhonghua Gongshang Shibao*, June 30, 2003, p. 5, in FBIS, CPP20030730000198.

⁴¹ Zha Daojiong, “China’s Energy Security after the Iraq War: summary report of a roundtable discussion,” Center for International Energy Security, Renmin University of China, Beijing, April 8, 2003.

⁴² Peter S. Goodman, “Big Shift in China’s Oil Policy: With Iraq Deal Dissolved by War, Beijing Looks Elsewhere,” *Washington Post*, July 13, 2005, p. D 1.

⁴³ “China looks further away for oil,” *The Standard (HK)*, December 7, 2004.

Zhang Dawei, deputy director of the Oil and Gas Strategy Research Centre under the Ministry of Land Resources, claimed that because onshore oil and gas resources were limited, China must focus on offshore oil and gas exploration. The South China Sea, with more than 200 oil & gas-bearing structures was one of China's 10 major oil and gas strategic sites.⁴⁴ China has begun joint exploration of the disputed areas in the South China Sea with the Philippines and Vietnam.

Most of China offshore is managed by CNOOC. However, PetroChina in July 2004 was granted a licence to explore oil and gas blocks offshore. The only areas left for PetroChina are in disputed territories such as the Spratlys.⁴⁵ Thus PetroChina's corporate expansion could nudge China into confrontations in the South China Sea. Also in 2004, Sinopec was granted a license for offshore exploration. Both newcomers lacked experience and technology in offshore and were thus needed to form joint ventures with foreign companies. However, only CNOOC was authorized to explore in domestic waters with foreign oil companies. Forced to go overseas, Sinopec is looking at Saudi Arabia, Iran, Nigeria, and the Ivory Coast. Petrochina looked to Indonesia, Kazakhstan, Venezuela, Sudan, Iraq, Iran, Peru and Azerbaijan.⁴⁶

Chinese analysts recognize that China's energy diplomacy had ramifications for a new activism in foreign policy especially in the Middle East. As a result of the effect of the Iraq War on Chinese energy thinking, Beijing had shifted to a much more activist Middle East policy. Chinese claim some Middle Eastern countries encouraged Beijing to become more activist to counter the U.S., such as Syria's President Assad. Ambassador Wu Jianmin, now president of China Foreign Affairs University, asserted that China's diplomacy was shifting from responsive diplomacy (*fanying shi waijiao*) to proactive diplomacy (*zhudong shi waijiao*).⁴⁷

The logic of China's Going-Out Strategy was clear yet there were critics. Japanese media referred to China's Going-Out Strategy as an aggressive strategy for securing energy supplies internationally that caused anxiety in Japan. Japanese journalists advocated a more aggressive Japanese oil

⁴⁴ "South China Sea one of China's 10 major oil and gas strategic sites," *AsiaPulse*, April 13, 2005.

⁴⁵ *Ibid.*

⁴⁶ "Sinopec looking across the globe for overseas acquisitions," *The Standard (HK)*, November 15, 2004.

⁴⁷ Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly* (Spring 2005), <<http://www.meforum.org/article/694>> (November 1 2005).

strategy as counteroffensive to “China’s aggressive oil offensive.”⁴⁸ This securitization of energy issues in the media focused on the Sino-Japanese struggle for the Russian oil field, Angarsk, and the Sino-Japanese struggle for the resources surrounding the Senkaku/Diaoyutai islands. Japanese media linked energy security to another issue, maritime transport security, especially in the Malacca Strait, which has taken on enormous symbolic importance for Japan, China and the U.S.⁴⁹ Japan had been as unsuccessful as China in 2004-05 in convincing the littoral states—Malaysia, Indonesia, and Singapore—that Japan should have a military role in the Malacca Strait. One Japanese rightist newspaper promoted zero-sum thinking, proclaiming “Asia is an oil battleground,” and quoting a Chinese researcher on the East China Sea dispute as stating, “Chinese people think Japan is destroying China’s energy security.”⁵⁰ It implied that China was destroying Japan’s energy security.

While Japanese journalists securitized Sino-Japanese energy issues, Japanese energy specialists did not. According to Ken Koyama, a senior researcher at the Institute of Energy Economics Japan (IEEJ), Japan and China are so tightly linked that a Chinese energy crisis would become a Japanese crisis. Thus, “Japan should take actions to enhance energy security in the whole Asian region by helping China and other Asian countries set up systems to stockpile energy resources and provide them with energy-saving technologies.”⁵¹

Within the United States, it is the Pentagon and Congress that are securitizing China’s oil demand, viewing China’s Going-Out Strategy as a strategic challenge.⁵² The Department of Defense (DoD) claims that China’s need for secure oil supply is a key driver in Chinese foreign policy. Additionally, DoD expects China to expand its naval capability to protect assets overseas. And it is the Pentagon that has found what it believes is China’s Achilles heel—dependence on oil imports. The Pentagon’s “Annual Report to Congress: The Military Power of the People’s Republic of China 2005,” repeated this theme that resource needs drove China’s foreign policy in Africa, Latin America, and the Middle

⁴⁸ Asahi Shimbun Editorial, “Energy diplomacy: Diversification is needed to secure stable sources,” *Asahi Shimbun*, August 24, 2005, <<http://www.asahi.com/english/Herald-asahi/TKY200508240140.html>> (November 1 2005).

⁴⁹ See the author’s paper on “Chinese and ASEAN Responses to the U.S. Regional Maritime Security Initiative,” presented at conference on “China’s Diplomacy of Multilateralism,” University of Victoria, British Columbia, December 2004.

⁵⁰ “Japan and China face off over energy,” *Asia Times* July 2, 2005. This is a summary of a series of articles in the *Yomiuri Shimbun*. <<http://atimes01.atimes.com/atimes/Japan/GG02Dh01.html>> (November 11 2005).

⁵¹ *Ibid.*

⁵² David Zweig and Jianhai Bi, “China’s Global Hunt for Energy,” *Foreign Affairs* 8, 4 (2005): 25-38.

East, and led China into conflict with Japan in the East China Sea. The Pentagon report mentioned the “Malacca Straits Dilemma” and Chinese concern over the SLOCs.⁵³

The U.S.-China Economic and Security Review Commission contributed to securitization in its Report to Congress 2004, taking note of China's growing sense of insecurity regarding the SLOCs from the Middle East that passed through the Malacca Straits. The Commission was critical of the Chinese NOCs Going-Out Strategy with pariah states. The report questioned whether the U.S. should assist China with energy conservation since this would reduce Chinese oil imports which might “reduce U.S. energy leverage in the event of any U.S.-China conflict.”⁵⁴ “U.S. energy leverage” is the U.S. Navy's capacity to interdict the SLOCs China depends on for oil imports. A former American government official has advocated integrating US-China discussions on energy security with discussions on non-proliferation and maritime security, and to create a new modality for a multilateral, senior level energy security dialogue, or strengthen APEC's energy dialogue.⁵⁵ The Center for Naval Analyses has published similar suggestions.⁵⁶ These American analyses mirror CICIR's analysis of the energy-maritime security nexus.

In contrast, the U.S. Department of Energy (DoE) continues US-China energy cooperation that it began soon after normalization of diplomatic relations in 1979. Cooperation focused on U.S. DoE-funded technology transfer with training programs, scientist exchange, and demonstration projects. In 1995, DoE began bilateral consultations with China's State Planning Commission [now National Development and Reform Commission (NDRC)]. This continued technology transfer in energy efficiency, nuclear energy and fossil energy. Most recently, in May 2004 China and the United States signed a Memorandum of Understanding for a bilateral energy forum, the China-U.S. Energy Policy Dialogue. The Dialogue included energy policymaking, supply security and regulatory reform. Specifically, the Dialogue will exchange views on international energy markets, assess the ways in which China's energy practices and policies impact US energy security, technology transfer,

⁵³ Office of the Secretary of Defense. Annual Report to Congress: The Military Power of the People's Republic of China 2005, <<http://www.defenselink.mil/news/Jul2005/d20050719china.pdf>> (November 1 2005).

⁵⁴ 2004 Report to Congress of the U.S.-China Economic and Security Review Commission. 180th congress, 2nd session, June 2004 (Washington, DC: GAO, 2004): 152.

⁵⁵ Written Statement of Randall G. Schriver, before the U.S. Senate Committee on Foreign Relations. Hearing on *Energy Trends in China and India: Implications for the U.S.*, July 26, 2005.

⁵⁶ Henry J. Kenny, “China and the Competition for Oil and Gas in Asia,” *Asia-Pacific Review* 11, 2 (2004): 36-47.

and environmental mitigation. The first meeting was held June 30, 2005 to discuss common challenges. DoE announced it will open an office in Beijing which will assist in assessing the impact of Chinese energy policymaking on US energy security.⁵⁷

The most spectacular failure of the Going-Out Strategy was CNOOC's bid on Unocal, an American oil company, setting off a firestorm in the U.S. American analysts suspected Beijing of strategic motivations in acquiring Unocal's Southeast Asian fields rather than purely commercial motivations. But, in the end, CNOOC was outbid by Chevron.⁵⁸ There had been other failures including CNPC's failure to acquire the North Caspian Sea Project in Kazakhstan in 2003 when ENI Agip, Shell and ExxonMobil exercised pre-emptive rights.

The domestic Chinese criticism of the Going-Out Strategy claimed it focused excessively on physical control of oil and gas irrespective of international political consequences.⁵⁹ *Caijing's* editor, Hu Shuli, noted that the years of energy dialogue between the U.S. DoE and the Chinese NDRC had shifted recently from energy conservation to a focus on energy security. The Unocal affair indicated a preference for zero-sum competition in US policy even though CNOOC was emulating US oil corporations in pursuit of oil resources. Fu Chengyu, President of CNOOC, reflected a similar sentiment after failing to acquire Unocal, claiming "We are following a system that was set up by Western leading companies, especially the United States. We are walking along a path that they paved, so we thought, 'This is natural.'"⁶⁰ Fu implied he would have to rethink everything he had learned about markets and free trade from working with American companies. The rules Fu had learned were the old American rules regarding dependence on markets. Since the U.S. began securitizing energy relations with China, the rules had changed.

Recentralizing Control over Energy Policy

The Angarsk-Daqing pipeline project's failure provided a lesson regarding dependence on increasing oil supply and dependence on too few suppliers, enhancing the sense that China had an energy crisis.

⁵⁷ Statement of David K. Garman, Under Secretary of Energy, before the U.S. Senate Committee on Foreign Relations. Hearing on Energy Trends in China and India: Implications for the U.S., July 26, 2005.

⁵⁸ Bill Powell, "The Energy Game: A Chinese oil company is thinking of bidding for a U.S. one. Does that make sense?" *TIME*, May 30, 2005.

⁵⁹ Hu Shuli, "CNOOC, Unocal and the 'Going-Out Strategy,'" *Caijing Magazine* 139 (July 2005) <<http://caijing.hexun.com/english/detail.aspx?issue=139&id=1251372>> (November 1 2005).

⁶⁰ Peter S. Goodman, "China Oil Exec Dismayed Over U.S. Reaction to Unocal Bid," *Washington Post Foreign Service*, July 6, 2005.

Numerous measures would have to be taken beyond increasing supply. China's energy bureaucracy had sufficient capacity to manage a bilateral arrangement, the Angarsk-Daqing pipeline, but since that was at risk, greater state capacity was needed.

Although China's energy crisis could be dated from mid-2003, it was only in 2005 that Beijing reacted by reorganizing the government. In 2004, China imported 120 million tons of crude oil, an increase from 2003 of 34.8 percent. China was severely impacted by high oil prices in 2005 as prices went over \$50/per barrel (bbl), with some analysts predicting that the country would need to pay 2% more of its GDP for oil imports in 2005 than it did in 2004.⁶¹ Moreover, outside pressure from other net importers (especially Japan and the U.S.) and the IEA, made Chinese domestic oil demand an international issue. Oil imports constituted 40% of total Chinese oil supply. Moreover, outside pressure from other net importers (especially Japan and the U.S.) and the IEA, made Chinese domestic oil demand an international issue.

Key to recentralizing control and mapping out an energy strategy was a joint study by the NDRC's Energy Research Institute and the State Council's Development Research Center that outlined an energy strategy for China to 2020, suggesting China's economic development pattern be transformed, domestic demand better managed, with China joining international cooperation frameworks to purchase oil from the international oil market. The initial draft had come out in November 2003, but the final draft was issued in June 2004.⁶² The report, *China National Energy Strategy and Policy 2020*, summed up the lessons of the past two decades, most of which focused on the lack of governance capacity: lack of comprehensive national energy strategies with legal authority, lack of scientific decisionmaking, lack of law enforcement capacity for energy laws, and lack of policy coordination between oil, coal, electricity and nuclear. The report was critical of the Chinese NOCs which it claimed had inappropriate control of oil policy formulation and implementation.

China's most important response to its energy crisis in 2005 was to reorganize the energy bureaucracy and policymaking process. Premier Wen Jiabao created a Leading Group on Energy to take charge of China's fragmented, decentralized energy industry. The Group's purpose was to provide macro leadership for a uniform, nation-wide energy plan while

⁶¹ Andy Xie, "Asia/Pacific: Oil Is a Bubble," Morgan Stanley's *Global Economic Forum*, March 1, 2005, <<http://www.morganstanley.com/GEFdata/digests/20050301-tue.html#anchor1>> (March 1 2005).

⁶² Development Research Center of the State Council and the Energy Research Institute, *China National Energy Strategy and Policy 2020* (June 2004).

not interfering in the work of the nation's oil companies.⁶³ The Leading Group on Energy includes 13 top leaders from the country's major ministries and agencies, Vice Premier Huang Ju and Zeng Peiyan. Responsibilities include: energy exploitation and conservation, security and emergency systems, and international cooperation. The Group will make proposals to the State Council.

A ministerial-level State Energy Office (SEO) will provide administrative support and strategic planning. Ma Kai, head of the National Development and Reform Commission, was appointed Director of the Office. Ma Fucai, former president of China National Petroleum Corp and Xu Dingming, director of NDRC's Energy Bureau were appointed Vice Directors. The SEO will not replace the NDRC's Energy Bureau but rather coexist. The SEO will focus on policymaking and the Energy Bureau on policy implementation. The reorganization addressed the need for stronger management and greater institutionalization. The SEO will supervise energy companies, design an energy master plan, and monitor potential energy crises both domestic and international. The State Energy Office's mandate in overseas energy will be to secure foreign gas and oil, supervise China's oil companies and the newly created strategic petroleum reserve. The Office's domestic mandate will be to manage coal supply, electricity shortages, pollution, and energy efficiency. Of all the responsibilities the new SEO will have, management of international cooperation augers well for Chinese multilateral cooperation. Without this strengthening of the Chinese energy bureaucracy, multilateral energy cooperation could not progress.

It was difficult to assess during most of 2005 how much of a shift in control over energy policy from the supply-side NOCs to the demand-side ERI and the SEO had occurred. The Unocal Affair during summer 2005, where China's CNOOC bid of \$18.5 billion to takeover Unocal had failed, demonstrated that the shift had real consequences. The Chinese government never gave CNOOC official support in its daring takeover bid of Unocal, which contributed to the bid's failure. Chinese official support for the Going-Out Strategy seemed weak due to the strategy's construction of an image of China as a "thirsty oil dragon." During the uproar caused by the Unocal Affair, the U.S. Department of Energy met with officials from the National Development and Reform Commission. They did not discuss the Unocal bid and no one from CNOOC was present. Instead they discussed energy efficiency and management of Chinese energy demand.

⁶³ "China to set up task force dealing with growing energy crisis," *Petroleumworld*, May 2, 2005.

The need for an oil law had been under consideration since 1996 after China became a net importer of crude oil in 1995, which was more of a shock than when it became a net importer of petroleum products in 1993. In October 2001, an energy analyst from the National Development and Reform Commission claimed to have submitted a draft for an oil law to the National People's Congress to ensure Chinese oil security and to create a regulatory framework for the domestic oil market.⁶⁴ In March 2004, China's National People's Congress was still calling for new laws to control petroleum demand and create a strategic oil reserve in order to respond to "the oil crisis." NPC lawmakers wanted oil conservation slogans to be codified into law so that those that squander oil were punished.⁶⁵ In October 2005, the National Development and Reform Commission's Energy Bureau indicated it would be another two years before a general law on energy security could be drafted. There were numerous specific laws on electricity, coal, renewable energy, energy conservation, and oil that needed to be rationalized and made compatible with a general law on energy. The law was needed to provide a legal foundation for establishing a strategic petroleum reserve.⁶⁶

Chinese Rules for Cooperation

Prior to Chinese President Hu Jintao's visit to the United Nations and meeting with President Bush, the Chinese Foreign Ministry announced that "China has followed the rules of the international oil market" in its oil interactions, and that "China has no intention to scramble for world energy supply with other countries." Instead China intended to achieve energy relations that were "mutually beneficial and win-win through cooperation."⁶⁷

But whose rules was China following—American or Japanese? The U.S. and Japan have had an ongoing dispute over what constitutes energy security and how it is best achieved. Americans promote market solutions while Japanese promote regional cooperation such as the East Asian Energy Community based on ASEAN+3. Chinese NOCs maintain they had followed U.S. rules in their "Going-Out Strategy." Foreign critics claim the Chinese NOCs' Going-Out Strategy ignored

⁶⁴ Gong Zhengzheng, "PRC Analyst Views State Law Proposed to Strengthen Oil Security," *China Daily*, (Business Weekly Supplement), October 30, 2001.

⁶⁵ "Chinese Legislators Propose Law on Development of Oil Resources," *Xinhua*, March 11, 2004.

⁶⁶ "New Law to Strengthen Energy Security," *China Daily*, October 22, 2005.

⁶⁷ "Chinese president to convey message of peaceful development during US visit," *People's Daily*, August 31, 2005, <http://english.people.com.cn/200508/31/eng20050831_205404.html> (November 1 2005).

regional energy cooperation.⁶⁸ Up until 2005, regional cooperation has been constructed according to Japan's rules. Chinese needed to contribute their own ideas and rule-making.

The domestic energy security debate was fundamentally between the NOCs on one side promoting supply-side solutions to energy security, while on the other side were energy experts based at the Energy Research Institute and other institutes promoting a more balanced approach between supply-side and demand management as a means to greater security. The implementation of China's Medium and Long-term Energy Development Program From 2004 to 2020 was a victory for the ERI energy experts. The impact this would have on international cooperation was apparent. Supply-side energy strategies were inherently competitive, a zero-sum game as oil consumed by one country is not available to another. Supply-siders would rationally pursue bilateral agreements with producing countries, viewing China's national interest in very narrow terms. Demand management requires technology transfer from the very countries supply-siders would compete with—Japan and the U.S. Recognizing the condition of interdependence between the economies of China, Japan and the U.S., Chinese energy experts took a broader non-zero sum view of China's national interest, a win-win or lose-lose situation.

Adoption of the Program, and recentralization of control over energy policy, strengthened the position of experts who promoted multilateral cooperation with Northeast Asia [and the U.S.] rather than bilateral oil deals. By summer 2005, experts from Energy Research Institute and the State Council's Development Research Center would articulate further their logic to regional audiences, citing the Program. The Program prioritizes energy conservation, adjusts the energy structure towards less emphasis on oil, emphasizes domestic exploration while drawing on overseas resources and markets. Construction of a strategic petroleum reserve would be accelerated. Energy security would be attained with better energy policies and broader, more democratic input in the decision-making process on energy issues.⁶⁹

The Sino-Japanese "struggle for Angarsk," because of its destructiveness on the overall relationship, had produced a lesson for Chinese energy experts: "[It] taught us that the basic principle of Northeast Asian oil development and trade is strengthened dialogue and cooperation...

⁶⁸ Philip Andrews-Speed and Ma Xin presentation at the China Environment Forum, Woodrow Wilson Center, "The Role of the National Oil Companies in China's International Energy Policy," May 26, 2005.

⁶⁹ Gao Shixian, "National Energy Security and China's Perspective on Regional Energy Cooperation," Paper presented at Northeast Asia Economic Conference, June 2005, Niigata, Japan.

countries concerned should understand, cooperate, and tolerate each other, and balance the interest of the major stakeholders.”⁷⁰ This suggests that there is a learning curve for Chinese energy analysts which produced a principle that was not operative under Chinese NOC operations.

Further lessons came from energy cooperation in Europe, suggesting an Asian Energy Charter based on the European Energy Charter. The learning process produced a Chinese rule: “China and Japan should not take energy as a tool to contain the other’s development.”⁷¹ Economic interdependence between them is too pervasive. Japan’s economic recovery depends on China’s economic growth, while China’s status as the world’s factory is a consequence, in part, of Japanese and Korean investment. An additional Chinese rule produced: it is impossible for a single country to guarantee its energy security. Security is only attained in a regional or international framework, guaranteeing energy security in common.⁷² A third Chinese rule: Northeast Asian cooperation is only possible with government participation. This permits cooperation to include not only trade and investment, but also energy conservation and environmental protection, market stability and uninterrupted supply security [SLOC security]. These areas are the international public good that all Northeast Asian countries benefit from. It is governments that have the capacity to devise a multilateral cooperative framework, not the Chinese NOCs.⁷³

Due to shared interests in market stability and SLOC security which were collective goods, China, Japan and South Korea should jointly analyze and formulate an oil security strategy, emphasizing overlapping interests and avoiding vicious competition.⁷⁴ This could only be carried out within an intergovernmental framework. Chinese suggestions for principles of the regional framework include: recognition of sovereign rights over energy resources, promotion of free trade, collaboration in

⁷⁰ Zhang Jianping, “Prospects and Possible Scenarios of Cooperation in Developing and Trading Oil in Northeast Asia,” paper presented at Northeast Asia Economic Conference, June 2005, Niigata, Japan.

⁷¹ *Ibid.*

⁷² Gao Shixian, “National Energy Security and China’s Perspective on Regional Energy Cooperation,” Paper presented at Northeast Asia Economic Conference, June 2005, Niigata, Japan.

⁷³ Zhang Jianping, “Prospects and Possible Scenarios of Cooperation in Developing and Trading Oil in Northeast Asia,” paper presented at Northeast Asia Economic Conference, June 2005, Niigata, Japan.

⁷⁴ *Ibid.*

emergencies, and enterprises (the NOCs) should be involved through government-enterprise coordination.⁷⁵

A Chinese proposed roadmap to attaining a Northeast Asian Free Trade Agreement (FTA) suggested a four phase process:

1. Regional cooperation on energy supply and demand;
2. A Northeast Asian oil community for oil development and trade;
3. A Northeast Asian energy community of diversified energy sources;
4. A FTA that would emerge from the process of energy cooperation.

In October 2005, Japan's Ministry of Economy, Trade and Industry had made a policy shift from market liberalization to a more mercantilist policy for ensuring security of supply, justifying it as a reaction to the Chinese and Indian drive to secure resources. And yet, ASEAN+3 was still the framework Japanese hoped to use for regional cooperation with China, especially in energy conservation.⁷⁶ Also in October 2005, a Japanese energy analyst proposed a roadmap on steps that needed to be taken in the process towards the formation of a regional energy regime. China and Japan would begin with a non-binding dialogue, followed by a joint study on the regional energy outlook. From the dialogue and joint study, a road map would be constructed which would eventually lead to creation of a regional organization.⁷⁷

Conclusion

The primary lesson for Russia, Japan and China is that it is difficult to make domestic energy plans when planning is contingent on other countries' domestic plans. The real utility for Chinese oil security of the "Struggle for Angarsk" was the way it mobilized the country to address oil scarcity issues coherently, a step necessary for China to implement the Medium and Long-term Energy Development Program From 2004 to 2020, to finally take conservation seriously, and to participate with greater transparency in a Northeast Asian energy regime.

⁷⁵ Gao Shixian, "National Energy Security and China's Perspective on Regional Energy Cooperation," Paper presented at Northeast Asia Economic Conference, June 2005, Niigata, Japan.

⁷⁶ Tsutomu Toichi, *Japan's Energy Situation: Present and Future*. Tokyo: October 2005, <<http://eneken.ieej.or.jp/en/data/pdf/303.pdf>> (November 1 2005).

⁷⁷ Kensuke Kanekiyo, *Energy Outlook of China and Northeast Asia and Japanese Perception toward Regional Energy Partnership* (Tokyo: IEEJ, October 2005) <<http://eneken.ieej.or.jp/en/data/pdf/302.pdf>> (November 1 2005).

In summer 2005, the Chinese Energy Research Institute felt that U.S.-China cooperation since 1979 had been only minimal as it moved from project to project rather than a relationship that strengthened over time. ERI had expectations that with the 2005 government reorganization and implementation of the Program, it would become a more stable relationship.⁷⁸

A reading confined only to the popular press in China, Japan and the U.S. on China's struggle for oil in the Going-Out Strategy would be misleading, as it focused on only one layer of the East Asian order. Unlike sentiments in the popular media, the epistemic community of Northeast Asian energy experts from China and Japan continued on as they had before 2003, meeting periodically and continuing to construct rules for energy regime formation. The pipeline issue, rather than interrupt this process of regime formation, was a crisis that required participants to adapt the regime to the challenges presented, incorporate the issues into the rules, and in the process strengthen the regime.

These two layers of the East Asian order coexist uneasily as Northeast Asian geopolitical struggles become more heated and proposals for energy cooperation keep emerging. Both Chinese and Japanese energy experts have a shared expectation that energy mega-projects are the means to lessen the geopolitical tensions between Russia, Japan and China, suggesting that in the long-term, the layer of regional cooperation could displace the layer of regional competition.⁷⁹

⁷⁸ Interview in Beijing, June 2005.

⁷⁹ Zha Daojiong, Vladimir Ivanov, and Shoichi Itoh, "China, Japan and Russia: Towards a New Energy Security Nexus," *ERINA Report*, 62 (March 2005).