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## **China's Angst over Iran Sanctions**

Beijing's go-it-alone oil security could fail during any U.S.-Iran conflict

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- Brief Bio follows article, below. (Article total 1,984 words)

Beijing is putting up serious resistance to U.S. plans for what President Obama has called "crippling" yet "targeted" sanctions on Iran's nuclear program. This is a significant change. For many years, China has avoided any such confrontation with the U.S. in order to stay focused on problems at home. However, nearly fifty percent of its imported oil now comes from the Persian Gulf, and any U.S.-Iran clash could not only interrupt these supplies—a matter of understandable angst in Beijing—it could also mark a humiliating failure for the go-it-alone energy geostrategy that China has followed for almost two decades.

If the U.S.-Iran confrontation heats up, as it appears to be doing, any U.S.-Iran conflict, whether sparked by escalated sanctions, or by an Israeli or U.S. attack, would likely disrupt Iranian exports to China, and the considerable investments that Chinese national energy companies have been making in Iranian oil and natural gas projects could suffer losses and setbacks. What is more, any conflict would very likely prompt Tehran to retaliate by blocking oil exports of all Gulf producers to the outside world—primarily these go to the Far East—by mining the Straits of Hormuz, and it is not impossible that major Saudi facilities, across the Gulf, could be damaged. Depending on the course of events, it could take the U.S. Navy some days or weeks to clear mines and reestablish control of this all-important chokepoint; and, whatever security assurances U.S. commanders might offer, supertanker operators are notoriously risk adverse. While, for example, Japan, as part of the OECD's cooperative emergency oil reserves system has a rather well thought-out security plan in place should such a disaster occur, what is Beijing's game plan should such a day come? What if there is insufficient substitute non-Gulf oil available for China to buy in the global marketplace? There are two possibilities.

First, China would draw on oil stored at home in its new strategic reserves. This year China is completing the second of two storage facilities that together hold 100 million barrels. Both OPEC producing states and OECD consuming states have wanted China to be prepared for any such emergency. A few years ago, the U.S. sent advisors to help build these reserves as part of assistance organized by the International Energy Forum (IEF), a joint consuming-and-producing states' organization located in Riyadh in which the IEA and OPEC, and many other states and major energy companies are active. The Saudis even offered to fill these reserves for free, to help allay their very important customer's oil-security fears—so long as Beijing would agree to pay the going price when the oil gets used. However, these new reserves amount to only about a month's worth of China's imports, not yet a great cushion.

As these reserves were pumped out, Beijing would immediately begin looking for oil elsewhere. Aside from scrounging some deliveries here and there from producers, it's only real option would be to request deliveries from the OECD's strategic reserves. These huge reserves presently contain over four billion barrels of public

and commercial stocks held in the U.S. and other first world states as part of their obligations as members of the OECD's International Energy Agency (IEA). However, to access these stocks, Beijing would be at least *de facto* joining the IEA. This is a move that Henry Kissinger, architect of the IEA in the 1970's, and various U.S. and European leaders have strongly advocated in recent years, for everybody's sake, not just China's. After all, any crisis that undermines China's oil supply would not only cause a shock to its own economy, but to the global economy.

Interestingly, it just happens that Henry Kissinger was the person the Obama administration sent to China, during the third week of March, to hold discussions with China's top foreign affairs official on the two countries' impasse over imposing new sanctions on Iran and related difficulties.

If China were to somehow join the IEA reserve system, it would become reliant on a totally different scheme for energy security than that which it had till now hoped to establish. China's "Go Abroad" strategy started out as an effort to build up bi-lateral mercantilist-like ties with oil-producing developing states so as to escape dependence on the global oil market and the IEA reserve system where, in both instances, the U.S. is clearly the dominant player. Especially in places like Sudan and elsewhere in Africa, the Go Abroad strategy has taken on a marked neo-colonial-like appearance, for which it has been often strongly criticized. However, by joining the OECD's IEA, Beijing would instead be seeking oil-delivery security be joining the global, collective market-centered oil-security system. The problem with this is that China has always thought of itself as being on a more autonomous trajectory in its international relations, especially on sensitive energy-supply matters. Just as China had never considered coming under the U.S. nuclear umbrella during the Cold War, so too, ever since it has developed such a voracious and growing appetite for oil, it had never aspired to come under some U.S.-dominated global oil-security umbrella.

Today's global oil market is traded in dollars and centered in New York and London. For one thing, China has always feared that, during any geopolitical confrontation—say, for example, over Taiwan—its access to the market could be subject to U.S. prerogatives exactly as Iranian access to the market for refined petroleum products is now being quietly, but systematically shut down by Washington by eliciting the cooperation of major refined-products marketing companies. Chinese leaders also know their Asian history well, and are aware of the existential crisis that was faced by oil-impoverished Japan before WWII. As Japan aggressively expanded its Greater East Asian Co-Prosperity Sphere southward, FDR eventually cutoff Japanese access to oil deliveries. As the imperial Japanese energy clock began to tick down, it attacked Pearl Harbor to protect its flank as it grabbed oil fields in the southwestern Pacific. In the greatest naval battles that followed, the Japanese fleet often had only enough fuel to go directly out and engage American ships, but not for evasion or sometimes not even enough to get back home. Its air force was eventually reduced to one way, fuel-conserving Kamikaze attacks and making aviation fuel from pine resin. Not to get too histrionic here, but, the reality is that China's growing foreign oil dependency is without a doubt seen by its present leadership as a potential Achilles heel to ever establishing itself as an independent world power.

It was for this reason that, when China's domestic oil demand overtook domestic production, around 1993, and the previous Maoist policy of "self-reliance" was clearly no longer feasible, Beijing adopted its Go Abroad policy as seemingly the next best thing. Ever since, its national oil companies have strongly preferred, wherever possible, to sign bi-lateral, state-to-state deals for oil that could be brought directly back to China. To Beijing, such bi-lateral, captured-oil deals seemed to offer more energy security than the energy-security umbrella that other major consuming states were under. This other system is market-centered and includes joining the IEA emergency reserve system—both *de facto* protected by the U.S. Indeed, U.S. Gulf hegemony, which has involved its "special relationship" with Saudi Arabia, two Iraqi Wars, and, now, its confrontation with Iran's nuclear plans, is part and parcel of its role as protector and hegemon of this market-centered global oil system. In its day, Rome derived great influence as builder and guarantor of safe passage over its

exquisite roads—all of which quite literally "led to Rome." So too, today the U.S. hyperpower derives influence over and above the secure delivery of oil to its homeland by acting as protector of today's globalized oil order. After almost two decades of its go-it-alone Go Abroad policy, all of China's national oil companies working abroad together produce only about one-third of what a single private giant like Exxon-Mobil or BP each produce. And, what is even more sobering is the fact that, if the U.S. decides to engage Iran in a conflict that risks shutting down the Persian Gulf, China cannot independently guarantee itself reliable oil supplies during the crisis. The reality is that energy independence is just as impossible for China as for any other consuming state today. Its only alternative may be to simply join the global energy-security system centered about the market.

Is there any other way China could draw on OECD reserves? In principle, rather than being supplied directly from IEA reserves, its shortfall could be supplied by, say, Japan, which could, in turn, receive proportionally larger than its normally expected IEA quota in compensation. In the present diplomatic confrontation, the U.S. might offer China just such an arrangement in return for China not blocking a UN sanctions resolution against Iran. One wonders what Dr. Kissinger had to offer in return for China cooperating on the Obama administrations new, "crippling" sanctions?

One should realize the ultimately rather unequal nature of any such negotiations. In the end, what could China actually do to block such sanctions? If it really did, for the first time, actually veto a U.N. resolution on Iran, the U.S. could move forward and enforce sanctions via other venues if Russia were onboard (It should not escape notice that during the same week Dr. Kissinger was in China, Secretary Hillary Clinton was meeting personally with Russian Prime Minister Vladimir Putin about these matters, doing some old fashioned, coldwar—type horse trading to get Moscow onboard against Tehran.)

This is clearly not an easy decision for Beijing: any energy-security guarantees by the U.S. in return for its support at the U.N. for sanctions would move China another big step into the cooperative "one global barrel," market-centered energy security system. It would mark a geopolitical win for the U.S.-OECD collective energysecurity regime vs. China's bi-lateral deals avoiding New York and London oil markets. The Obama administration has already taken some decisive palliative measures to help insulate China from any Iranian oil cut. During February and March, working with the Saudis and the UAE, it has gotten the UAE to increase its exports to China from 50,000 to 120,000 barrels per day with an eventual aim of 500,000 barrels per day, an amount equal what China now gets from Iran. But, of course, should the Straits of Hormuz be closed, this does not help.

Integration into the global oil-security system may not be the vision of energy security China had when its companies began to Go Abroad; but, Beijing may decide that, if it cannot prevent a U.S.-Iran conflict, joining the globalized energy security regime, where the U.S. hyperpower is clearly the dominant actor, would be better than trying to go it alone. In any case, it is no wonder China is experiencing such angst over U.S. plans to confront Iran's nuclear program.

Tom O'Donnell teaches at The New School, Graduate International Affairs in NYC. He is presently writing a book "The One Global Barrel" on the political economy of oil and its geopolitical consequences. He was a recent U.S. Fulbright Scholar in Venezuela, studying its oil sector and U.S. relations.

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