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How Will China's Energy Sector Prominence Affect the Region?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Will China's Energy Sector Prominence Affect the Region?

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In 2010, Chinese oil companies spent more than $15 billion on upstream deals in Latin America, including Sinopec's December acquisition of Occidental Petroleum's Argentine operations for $2.45 billion, and analysts expect that the trend will continue. What would be the effects of China's continued prominence in Latin America's oil and gas sectors? Which countries and companies in the region are Chinese investors most significantly interested in and how do they differ from other foreign companies' investment strategies? How will China's increasing profile in the region affect Latin American political and economic policies?

A: Paul Isbell, visiting senior fellow at the Inter-American Dialogue:
"China's energy demand will grow dramatically in the coming years, making it the world's largest oil importer sometime within a few decades. This trend nearly guarantees that Chinese companies will continue to secure hydrocarbon assets around the world. But Chinese companies have already been turned away from the U.S. market, as Congress made it clear it would not allow CNOOC to buy Unocal back in 2005. Furthermore, certain obvious partners for China-like Russia, Iran or Venezuela-may prove to be too volatile and unpredictable with respect to access, taxes, royalties and legal security. In this context, it makes sense that the Chinese would seek out the energy-rich states of the Southern Cone. It is here where a more amenable equilibrium (particularly in terms of policy stability, stable incentives for development and predictable investment security) might still be achieved between oil-producing states and foreign oil companies. Brazil's on-going modifications to its energy legislation suggest that it is headed precisely toward such an equilibrium in fiscal and access terms. Meanwhile, Argentina will likely attempt to seduce foreign companies-including those from China-back into the exploration and production game by developing more attractive terms than those that have made available in recent times. Indeed, the Southern Cone appears to be the one subregion of Latin America most uniquely suited to a deepening investment partnership with China, both within the energy sector and beyond."

A: Jiang Shixue, professor at the Chinese Academy of Social Sciences and vice president of the Chinese Association of Latin American Studies in Beijing:
"One of the major problems for Latin America's energy sector is a lack of capital. China needs energy from external sources and seems to have enough funds for its 'going out strategy.'

Therefore, China's presence in Latin America's energy sector should be a welcome sign. China's presence would make Latin America's energy sector more competitive, and this is favorable for the region as it will acquire a better position of bargaining with foreign energy companies, including those from China. Regarding the question of which countries and companies in the region Chinese investors are most significantly interested in, it seems that China has no special preference for certain countries or companies. Wherever there is oil or gas, there is the possibility of Chinese entry. Whether in Latin America or elsewhere, China is a late-comer. Consequently, it is extremely hard for China to set up an energy company with 100 percent ownership. Thus, the best way to enter would seem to be the traditional merger and acquisition. In the process of 'going out' to Latin America, China needs to deal with two issues: one from the west and the other from Latin America. In the age of globalization, cooperation in the energy sector is no strange thing. Some people in the West tend to believe that energy in Latin America or Africa is 'ours.' This kind of selfish mentality is not correct. The West should not look at China's presence in Latin America's energy sector as a threat. In some Latin American countries, policy uncertainty surrounding its energy sector, along with some other obstacles in the region's investment climate, is not a small issue. This issue will definitely pose hardships for Chinese energy companies."

A: Roger Tissot, independent energy economist:

"Chinese investments in Latin America have evolved from hype to reality. During the early years of this decade, as China's rise started to make headlines and commodity prices moved higher, Latin America started to finally pay attention to China. Countries that highlighted China's importance were usually those such as Venezuela which, for political reasons, were also trying to reduce their dependency from the United States. Countries more closely aligned to the United States were slower and generally more cautious about China's investments. For China, the issue was not about geopolitics or the erroneous idea of replacing one 'imperial power' for another, but rather a quest for commodities to ensure its rapid industrialization process. Since Venezuela contains one of the largest oil reserves in the world, China's presence in that country will have important geopolitical and market implications. As Alejandro Grisanti points out, Venezuela could increase output by 1 million barrels per day by 2016, a clear reversal of the trend observed since Chávez was elected president. If we take into account Chinese capital and technology and the clear urgency to reverse production decline, the forecasts become much more credible; giving a much-needed second life to Chávez's administration. Now that Ecuador has settled its contract negotiations with foreign oil companies, Chinese investments may resume and help output increase in that country, too. In short, Chinese investments have and will continue to play a very important role as substitutes to large IOC's that grew wary of political risks in Latin America. The question is if Chinese investments are aligned with Latin American industrialization strategies. After years of neglect, Latin American countries are rediscovering the importance of industrialization policies, and the need to establish stronger linkages between their extractive industries and the rest of the economy."

A: Jeremy Martin, director of the energy program at the Institute of the Americas:

"China has developed a strategy to deal with spiking demand and insufficient domestic production, which is focused globally on securing access to reserves, promoting increased oil production and diversifying its supply sources. Recently in Latin America, the strategy relied heavily upon China's economic windfall to provide oil credit swaps ranging from $1 billion in

Ecuador to $10 billion in Brazil and $20 billion in Venezuela. More recent Chinese activity points to a longer-term investment strategy. Indeed, Chinese national oil companies (NOCs) fanned out across Latin America in search of direct access to reserves and production by way of partnerships and acquisitions. In many ways, their efforts are much like international oil companies. But it is clear that their decision-making is heavily influenced by Beijing's geopolitical strategy and composed of factors that are uniquely Chinese. These include less rigorous profit expectations, a greater willingness to not be deterred by high levels of political and local market risks and, some say, a relative lack of concern about issues of the environment and corporate social responsibility. The recent Chinese high-value acquisitions in Argentina have placed that nation alongside Venezuela and Brazil as ground zero for Chinese oil interest in the region. But the Argentina deals differ and move away from what seemed to be China's oil credit swap inclination. At the same time, they also underscore that Chinese NOCs are hewing to Beijing's prioritization of reserve access and diversity of supply over more traditional evaluations that might not have viewed the vagaries of the Argentine market with such optimism. Diversification of supply remains an unchanged linchpin. China's clear priorities coupled with the resources of its firms are surely adding some new wrinkles to oil deals in the region-if not slowly altering the landscape altogether. China is likely to increase its Latin activism and be on the lookout for more acquisitions for the foreseeable future."

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