

China's foreign energy policy towards Iran

Following the establishment of the People's Republic of China (PRC), the Middle East was not among the priorities of China's foreign strategy. After the Bandung Conference in 1955, however, China started promoting relations with Arab states. Between 1956 and 1990, China established official relations with all Arab states. The first was Egypt in 1956, the last was Saudi Arabia in 1990. China established diplomatic relations with Iran in 1971.

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The Sino-Iranian relation is an integral part of China's Middle East diplomacy

The Sino-Iran relationship is often influenced by the US-Iran and the China-US relationships. For a long time China's position towards the Middle East was politically motivated, in which the two polities routinely supported each other. For example, China has always supported the Arab states' quest against the Israeli occupation of the Palestinian territory, while the Middle-Eastern states recognize the PRC as the sole legal government of China. But now, due to China's rapid economic growth, China and the oil-producing states of the region also have great interests in the field of energy cooperation.

In 1994 China became a net oil importing country, and the Arab oil-producing states, including Iran, became increasingly important for China's energy security strategy. In 2000, the President of Iran, Mohammad Khatami, visited China; as a result, China and Iran issued a joint communiqué in which both states agreed to establish a long, stable, and friendly cooperation.¹ During the visit of China's President, Jiang Zemin, to Iran in 2002, the two states signed six governmental cooperation agreements. In 2004, China and the Arab states set up the China-Arabia national cooperation forum; ever since, the relationship between China and Iran has developed steadily, and officials from the two states have met regularly in the international arenas. In 2006, the President of Iran, Mahmoud Ahmadinejad, joined the summit of SCO in Shanghai and met with his Chinese counterpart, Hu Jintao. On 15-16 June 2009, shortly after the post-election turmoil in Tehran, Ahmadinejad joined the leadership summit of the SCO in the Russian city of Yekaterinburg, and again held a meeting with Hu Jintao. On 11 June 2010, he again visited China and attended the ceremony of the Iranian National Pavilion Day at the Shanghai Expo. In April 2012, Faro Lathief Zande, the Vice President of Iran, visited China.

Energy cooperation is becoming the core of China's foreign policy towards Iran

In 1995 China began to import large volumes of crude oil from Iran. In 2002, China and Iran signed 10-year long-term oil trade agreements. By 2008 the total volume of trade between China and Iran reached US\$20 billion and approximately 65 percent of this was oil trading. In 2008 and 2010, Iran was the third biggest exporter of oil to China (after Saudi Arabia and Angola).

The Sino-Iranian oil cooperation has made substantial progress in the past decade, due to the fact that Iran has allowed Chinese companies to exploit its oil and gas fields. CNPC, China's largest national oil company, was given exploitation rights in 2004,² while Sinopec signed a US\$70 billion oil and natural gas agreement with Iran (China's biggest energy deal with Iran). Under a MoU signed in 2004, Sinopec Group will buy 250 million tons of liquefied natural gas over 30 years and develop the giant Yadavaran field.

Iran is also committed to export 150,000 barrels per day of crude oil to China for 25 years at market price, after the commission of the field. Official figures show that China imported 226 million tons of oil in 2003, 13 percent of which came from Iran. On 15 January 2009, CNPC signed a US\$1.76 billion contract with the National Iranian Oil Company to develop an oil field in western Iran, while Petro China Co. will develop the North Azadegan oilfield, which holds six billion barrels. On 3 August 2009, CNPC signed a US\$4.7 billion contract with the Iranian national oil company to exploit the South Pars gas field. Interestingly, the original deal was supposed to be signed with the French company TOTAL.³

Sino-Iran energy cooperation: domestic and geopolitical factors

The Sino-Iranian energy cooperation is greatly advantageous for both China and Iran. But why is it that Chinese oil companies have even defeated some western oil companies in obtaining oil business in Iran? First of all, Chinese state-owned oil companies have great advantages in obtaining overseas oil contracts. In the last twenty years, there has been an obvious international trend of many state-owned oil companies surpassing many traditional western private oil companies in oil reserves and market occupation. For example, in 2006, the world's ten largest oil reserves were all state-owned oil companies, while China's Petro China was the fourth largest oil company in the world in investing on oil exploitation. In order to fulfil the national interest, Chinese state-owned oil companies seek not only commercial profit, but also seek to obtain strategic oil reserves and resources, for which the national banks of China provide sufficient funds and credit support to Chinese oil companies. When it comes to Iran, the fact that oil and gas reserves are state-owned is highly relevant. Following the nationalisation of oil and gas reserves and infrastructure in the 1950s, the National Iranian Oil Company (NIOC) has the right to decide on its oil cooperation partners. In fact, almost all Chinese oil companies present in Iran have signed their oil contracts with NIOC.

The Chinese oil companies will certainly consider chasing oil business in Iran, but at the present time they are more concerned with securing long-term oil reserves and a high volume of market occupation. The commercial action and business deals in Iran reflect the intent of China's oil security strategy. In this sense, the commercial interest of the oil companies, energy security, and China's national interest in Iran are compatible. Another reason for the Chinese oil companies to develop oil business in Iran is the fact that Iran links two important oil-producing regions: the Middle East and the Caspian Sea/Central Asia region. The states in both regions are among China's most important oil exporters, and Iran controls many international oil pipelines that grant access to Central and South Asia. China has already built an oil pipeline from Central Asia to China's northwest territories, and so China is able to import oil from Iran to China via Central Asia.

The future challenges and opportunities for the Sino-Iranian relationship

China should realize that Iran finds itself in a complicated geopolitical situation. Firstly, Iran's nuclear issue still needs to be resolved. While the US president, Barack Obama, pursues engagement with Iran, Iranian leaders seem to continue their hard policy towards the US. Additionally, the UN has passed several resolutions sanctioning Iran, and the US and some European Union member states plan to impose further sanctions. If such sanctions include the ban of oil and gas business between Iran and external partners, the Sino-Iranian energy cooperation will of course be adversely affected. In fact, for both China and Iran, the most important thing is how to deal with such sanctions and to prevent any possible military action targeting Iran's nuclear facilities, since this too would undermine the Sino-Iranian energy cooperation.

On 9 June 2010, the UN Security Council (UNSC) decided on further sanctions against Iran. Resolution 1929 is the fourth set of UN sanctions against Iran since December 2006. It prohibits Iran from investing abroad in nuclear and enrichment operations and imposes new restrictions on the import of conventional arms. Shortly after the UNSC passed the resolution, the spokesman for the Chinese Foreign Ministry reiterated that "the UN's adoption of a new resolution on the Iranian nuclear issue does not close the door on diplomatic efforts".⁴

Though the UNSC has passed several resolutions sanctioning Iran, China believes that the Sino-Iranian oil cooperation does not violate them. For China, the unilateral sanctions imposed by the US, the EU, and other Western states cannot restrain China from cooperating with Iran. Iran still appreciates China as an important oil cooperation partner. On 11 June 2010, two days after the UNSC imposed further sanctions on Iran, Ahmadinejad visited China and attended the Shanghai Expo.

How can one assess the impact of the UNSC resolutions on Iran? So far, four resolutions sanctioning Iran have been passed, but Iran seems indifferent towards the consequences.

The US government is still considering building a broader coalition of partners for sanctions. By doing this, the US hopes to accomplish two, potentially irreconcilable, goals: forcing Iran to negotiate its nuclear program (which the US and its allies suspect is aimed at creating nuclear weapons), and at the same time winning the support of Russia and China, which are eager to preserve their significant economic ties with Iran.

The different geopolitical situations and international statuses of China and Iran mean that they also have different considerations. China is a rising power with important international influence and good relations with almost with all countries. Additionally, it is a permanent member of the UNSC and is committed to broad international responsibility. For example, on the Iran's nuclear issue, China will certainly consider Iran's interests and legitimate demands, but will also take into account the international appeals, hoping that Iran obeys the conditions of the IAEA and the resolutions of the UNSC. Iran often overestimates its own importance as an ally, and underestimates its liabilities. It can try to play the China card against the West, threatening a strategy reorientation. Such a policy may be credible as a simple and natural recalibration of Iran's diplomacy and commercial interests, but in an interdependent, globalized world, playing the China card is very risky and self-defeating.

The most serious challenge for the future of the Sino-Iranian relationship depends on two factors. The first one is the status of Iran's energy cooperation with China. Since 2011, as a result of the sanctions and some technical causes, China has reduced its oil imports from Iran. However, considering China's huge energy investments in Iran in the past, Iran will keep the status of one of the main oil exporters in the world. The second factor is the future development of Iran's nuclear issue. China will follow two parallel tracks: consider its own interests, while taking into account other national requirements and compliance with UNSC resolutions.

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Notes

- Liu Qiang, 2007. *Iran's International Strategic Position: A Global and Multi-perspective Analysis*, Beijing: World Knowledge Press, p.342
- For more on the presence of Chinese oil companies in Iran see the CNPC website: www.cnpc.com.cn/cn/ywzx/gjyw/iran/
- Zahra Hosseini, "CNPC replaces Total in Iran deal," *Wall Street Journal*, 4 June 2009.
- Wang Xiangjiang and Gu Zhengqiu, "UN resolution on Iran not end to diplomacy," *China Daily*, 10 June 2010. Available from tinyurl.com/9tz6rqz (accessed 1 October 2012)