

The dragon's oil politics in Latin America

The China-Latin American relationship has numerous strategic implications in the current international political and economic power transformation, whereby the world's economic centre of gravity is gradually shifting towards the emerging economies. Particularly, the energy-related ties between China and Latin America have gone through great developments within the oil and gas intra-industry collaborations, including crude oil trade, investments, loans-for-oil, technical equipment purchases, mergers and acquisitions, etc. Without a doubt, the Sino-Latin American energy cooperation is a significant aspect of the emerging new energy order currently witnessed in the Western Hemisphere.

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CHINA'S PARTNER COUNTRIES in this region include Venezuela, Brazil, Ecuador, Mexico, Cuba, Costa Rica, Peru, Argentina and Columbia, with the first three of those countries involved in nearly 80% of the Chinese oil-linked projects. Politically, China's above-mentioned partners range widely from the left to the right of the spectrum. With respect to their style of strategy, Chinese oil companies in Latin America are often described by media and scholars as aggressive, risk-loving and opportunistic.

Chinese oil companies made opportune use of three significant occurrences in the Latin American countries (LAC): the open hydrocarbon industry and privatization in the 1990's, the nationalization by leftwing governments (2003-2007), and the international financial crisis (2008-2011). In 1993, CNPC, one of China's national oil companies, won exploration rights in Peru; it proved to be a milestone for China's energy cooperation with LAC. In addition to a large number of loan-for-oil deals with Venezuela, Brazil and Ecuador, in 2010, thirteen new big deals were made by Chinese oil companies in LAC, including the mergers and acquisitions of the regional assets of international oil companies such as Repsol, Pan American Energy, and Occidental Petroleum.

LAC in itself cannot safeguard China's energy security. However, China regards LAC as a potential region to diversify her crude oil import. According to the BP Statistical Review of World Energy, China imported 25.3 million tons of crude oil from LAC in 2010, accounting for 8.6 percent of Chinese

global imports and 10 percent of Latin American world exports. Taking into consideration the new offshore discoveries in Brazil and the huge proven reserves in Venezuela, without a doubt, the two countries could be viewed in the future as China's and India's sustainable strategic crude oil suppliers. It should be emphasized that the volume of oil trade between Asian countries and LAC has been steadily rising. From 2004 to 2010, LAC's oil export to Asia increased from 4.38 percent to 18.80 percent of its total global export.

China's 'Going Global Strategy'

The guarantee of energy security, and the Chinese national 'Going Global Strategy', which encourages national enterprises to invest overseas, are fundamental factors highly integrated into Chinese policy towards Latin America. A new trend emerging from this situation is the increased cooperation between financial organizations and national oil companies. Their commercial patterns in LAC can be summed up with seven key fields of cooperation: 1) crude oil trade, 2) technical services, 3) joint development, 4) infrastructure-building participation, 5) loan-for-oil, 6) heavy technical equipment transactions, 7) bio-fuels technology joint research.

The bulk of the cooperation between China and LAC is still in a primitive development stage and can hardly be defined as a mature pattern. In comparison with other Latin American countries, the Sino-Venezuelan Model stands out as a unique representative example that can explain the dynamics of the two countries' oil cooperation from governmental and corporate perspectives. I have also previously noted that the Sino-Venezuelan Model is a plural collaboration pattern with energy as the cooperation axis and extended to infrastructure, high-tech, agriculture and other fields under the intergovernmental institutionalized cooperative framework. It is financed by Chinese banks or oil companies in the form of credit or investment. Chinese participatory companies in this model will be repaid by Venezuelan crude oil.

The Sino-Venezuelan Model is a special case in China's energy collaboration landscape with Latin America. This model's architecture can be deconstructed into three integrated parts: a policy-making centre, an open participatory pivot, and a financing pool. The China-Venezuela High Level Mixed Joint Committee works as the inter-governmental institutionalized cooperative framework, functioning as a political decision-making centre for cooperation; oil is the pivot in this cooperation mechanism with high participatory openness beyond oil, extending to other fields and attracting non-oil companies to join in; for solving capital shortage, the China-Venezuelan Joint Fund operates like a financing pool with large amounts of credit provided by Chinese financial institutions or companies. Chinese companies are repaid in the form of crude oil or by the Joint Fund.

In essence, its innovative design lies in multiple contractual arrangements. Combined with Venezuelan interest, this kind of bilateral cooperation architecture design is an extraordinary trial with the economic strength of China's rise at the regional level. It is, however, too early to say that this model has reached maturity, because of Venezuelan's political uncertainty. Strictly speaking, the core of this broad cooperation mechanism absolutely focuses on Venezuelan oil production. Only if Venezuela can continue to produce crude oil and maintain the political willingness to export oil to China, will this model operate well.

The Sino-Venezuelan energy cooperation began in November 1985, when the two countries signed the protocol on scientific and technological cooperation in oil survey and exploration. This period was a trial process for both countries to explore the possibilities of collaboration, but the agreement clearly expressed that they were aware of the fact that the hydrocarbon cooperation could not be ignored. In November 1996, during Chinese Premier Li Peng's visit to Venezuela, the two governments signed an agreement on joint oil exploitation. Since then, the cooperation between the two countries materialized and has been successfully deepened. Among the cooperation partner countries, Venezuela has been a unique one in South America. Its relationship with China has witnessed an unprecedented leap-forward since the beginning of Hugo Chavez's presidency in 1999. Venezuelan oil has been a driving force, propelling their bilateral ties during Chavez's administration.

The Sino-Venezuelan energy cooperation has become an important component of bilateral cooperation, as it has increased considerably over the past decade. At present, both countries have been working towards establishing Venezuela as one of China's leading partners in terms of crude oil production and by-products. Thanks to the support of the two governments and the joint efforts of enterprises, both sides have deepened the fruitful cooperation in oil exploration and development, engineering technology services, trading, transportation and refining, etc. Another new important trend in the Sino-Venezuelan energy cooperation model is the integration of hydrocarbon upstream and downstream between the both countries.

China has also attached great importance to renewable energy cooperation with LAC. Since the 1980s, China has provided technical and financial assistance to build small-hydro power plants in Cuba, Ecuador, Guyana, Columbia, and others. In 2006, China helped Cuba to build a solar cell production line with Chinese photovoltaic technology. In 2009, China and Brazil founded China-Brazil Center for Climate Change and Innovative Technology for Energy. In the 3rd China-Caribbean Economic and Trade Cooperation Forum in September 2011, China announced that it will help the Caribbean countries to build small-scale new energy projects, such as those with solar power.

With her booming economy and rapidly rising influence on the international stage, China has been increasingly attractive to Latin American countries and has become an important destination for them to diversify their external political and economic relations. It is not surprising that Latin America, with its abundance of hydrocarbon resources, views China as an important partner for its international energy cooperation. The primary goal of all governments involved is to maximize their oil import or export security by implementing geopolitical diversification strategies; for oil companies it is to maximize profits by adopting different commercial operation patterns in resource countries.

Although there are no explicit official documents available, China's detailed energy cooperation policies in LAC can, to some extent, be understood by analyzing its policy intentions and the national oil companies' behaviour. From the Chinese governmental perspective, policy-makers regard LAC as a strategic alternative to diversify crude oil import to maximize energy security, and national oil companies are able to act as agents to realize this target at low costs through corporative operations in this region.

While opportunities for investment are present for both China and Latin America, China's national oil companies are confronted with risks of social conflict at the local level, political instability, intense commercial competition, environmental clauses, and the uncertain US response to China's presence in the region. In order to cope with the relatively complex business environment in Latin America, Chinese companies need to improve their learning capacity to increase localization and gain more expertise in human resource management. In fact, China's growing energy interest in Latin America goes far beyond the performance of oil companies. Therefore, it is essential for China and Latin America to establish inter-governmental policy dialogues and information exchange mechanisms.

When operating in LAC, China's oil companies should consider not only China's domestic energy needs and their own international operational interests, but also regional politics, specific policy changes, and other diverse factors. China should seek out cooperative opportunities in LAC, but must approach steadily and carefully; avoid going in blind, and beware of the tendency toward 'swarming'. China should be cautious, which involves successful risk assessment and a responsible examination of country-specific investment opportunities.

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