

# Countering China's Expansionary Maritime Oil and Gas Pursuits

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## KEY TAKEAWAYS

Despite some new energy objectives, China has never wavered from its quest to secure the fossil resources that make up the overwhelming majority of its energy mix.

China is now shoring up its core fossil-fuel interests in contravention of international law, including by encroaching on its neighbors in the South China Sea.

Washington should take a more proactive and immediate approach to counter China's expansionary maritime oil and gas pursuits.

China's strategic emphasis on low-carbon energy has captured the attention of U.S. analysts, prompting some to call for a commensurate focus stateside. But while China has indeed invested heavily in critical minerals, solar panels, and batteries, its energy appetite is decidedly omnivorous.

From a broader energy perspective, the People's Republic of China (PRC) seeks resource security. Despite adding new energy objectives, China has never wavered from its quest to secure the fossil resources that make up the overwhelming majority of its total energy mix.

In the case of oil and gas, part of China's strategy involves connecting its prodigious demand with Russian and Central Asian supply through its Belt and Road Initiative (BRI).<sup>1</sup> But because China's population and oil-refining centers are situated along the coast, it

This paper, in its entirety, can be found at <http://report.heritage.org/ib5230>

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is now committing significant attention and effort toward the development of maritime oil and gas access, including by infringing on the exclusive economic zones (EEZs) of its South China Sea neighbors.

While current U.S. politics might give the impression that the world is singularly focused on winning the green energy race, China is shoring up its core fossil-fuel interests in contravention of international law. Washington should take a more proactive approach to counter China's expansionary maritime oil and gas pursuits.

## China's Energy Appetite

China's primary total energy consumption continues to climb each year,<sup>2</sup> more than doubling between 1989 and 2004, then doubling again between 2005 and 2019. Growth in solar, wind, and nuclear power generation has satisfied some of that new demand, but increases in the use of fossil energy have been, and continue to be, more substantial.

According to BP's 2021 "Statistical Review of World Energy," while China led the globe in renewables growth in 2020, its coal production growth exceeded its renewables growth on an exajoule basis by 10 percent.<sup>3</sup> Sometimes overlooked amid the coal-spree chastisements and the renewables and electric-vehicles cheerleading is that China is also thirsty for more oil and natural gas. In 2020, China's additional use of oil and gas exceeded its additional renewables use on an exajoule basis by 30 percent.<sup>4</sup>

To Beijing's consternation, China's production of oil and gas has failed to keep pace with its swelling appetite. As the country's economic activity boomed in the wake of Deng Xiaoping's market reforms, foreign oil became a key productivity and standard-of-living input, with imports rising from a paltry 12 million tons in 1990 to 100 million tons by 2000.<sup>5</sup>

In 2019, imported oil met 72 percent of China's total demand.<sup>6</sup> According to a March 2021 Wood Mackenzie report, that figure now stands at 75 percent.<sup>7</sup> In 2020, more than 45 percent of China's crude imports were supplied from the Persian Gulf, and another 11 percent came from Africa, leaving China glaringly vulnerable to geopolitical supply disruptions at both the Hormuz and Malacca Straits bottlenecks.<sup>8</sup> By 2030, Wood Mackenzie estimates, China will depend on imports for 80 percent of its oil and half of its natural gas.

As has now been articulated through Xi Jinping's dual-circulation doctrine, China seeks a greater measure of self-sufficiency across a range of economic spheres.<sup>9</sup> Increasing China's oil and gas production is essential to this goal, and Xi issued a directive in 2018 to that end.<sup>10</sup>

Since the Xi directive, state-owned national oil companies (NOCs) PetroChina, Sinopec, and China National Offshore Oil Corporation (CNOOC) have constructed thousands of new oil and gas wells in Xinjiang, Sichuan, and in the South China Sea. Material support for the objective came in 2019 in the form of a new subsidy extended to the development of technically challenging tight natural gas.<sup>11</sup> That year, the aforementioned NOCs increased upstream spending by a combined 23 percent.<sup>12</sup> Annual natural gas production is now close to 200 billion cubic meters, satisfying about 58 percent of China's demand.<sup>13</sup>

According to a September 2021 report from Rystad Energy, China's NOCs are expected to spend over \$120 billion on nearly 120,000 new wells by 2025 to mitigate this long-term trend.<sup>14</sup>

As the Xi directive and official documents, such as a December 2020 white paper from the PRC's State Council Information Office, show,<sup>15</sup> the pressure from Beijing to close the consumption–production gap provides the impetus for oil and gas development in the contested waters of the South China Sea.

## South China Sea Geopolitics

The South China Sea facilitates an estimated one-third of global maritime trade<sup>16</sup> and 30 percent of global oil shipments,<sup>17</sup> as crude tankers transit to the countries of Southeast and Northeast Asia—countries that generate more than 43 percent of global import demand.<sup>18</sup> As of 2017, the South China Sea also ferried close to 40 percent of the global liquefied natural gas trade.<sup>19</sup>

But the South China Sea is not only an artery for the energy trade, it is a significant region for resource production. According to the U.S. Energy Information Administration, over 10 billion barrels of oil and nearly 200 trillion cubic feet of natural gas in proved and probable reserves rest beneath it.<sup>20</sup> The U.S. Geological Survey suspects those numbers sell the totals short by half.<sup>21</sup> For what it is worth, China estimates that the totals are an order of magnitude higher.<sup>22</sup>

Since 2014, two years into Xi Jinping's tenure, China has waged a relentless, intensifying campaign to assert its control over the South China Sea. Along with a terraforming and militarization campaign, the PRC has repeatedly infringed upon the internationally recognized EEZs of other littoral states to pursue energy resources. Vietnam and the Philippines, a U.S. treaty ally, now regularly find their maritime industries under harassment from Chinese entities, and encounter Chinese entities pursuing resource exploration and acquisition activities of their own in contravention of international legal rulings, such as the 2016 United Nations Convention on the Law of the Sea ruling.<sup>23</sup>

Malaysia and Indonesia have faced similar incursions, with Chinese maritime survey vessels encroaching on the EEZs of each as recently as October 2021,<sup>24</sup> eliciting a sharp rebuke from Malaysia’s foreign ministry.<sup>25</sup>

The Trump Administration firmly opposed the PRC strategic and resource posture in the South China Sea, with then-Secretary of State Mike Pompeo stating in 2019: “As the South China Sea is part of the Pacific, any armed attack on Philippine forces, aircraft or public vessels in the South China Sea would trigger mutual defense obligations under Article IV of our Mutual Defense Treaty.”<sup>26</sup> And in 2020, “Any PRC action to harass other states’ fishing or hydrocarbon development in these waters—or to carry out such activities unilaterally—is unlawful,” and that “[t]he world will not allow Beijing to treat the South China Sea as its maritime empire.”<sup>27</sup>

Matching its words with deeds, the Trump Administration added CNOOC to the Bureau of Industry and Security’s Entity List,<sup>28</sup> which limits U.S. economic interactions with foreign actors deemed to threaten the national security and foreign policy interests of the U.S.

The Biden Administration has carried forward this position. In June 2021, the Administration further tightened restrictions pertaining to CNOOC. The following month, Secretary of State Antony Blinken echoed then-Secretary Pompeo’s moral sentiment, maintaining that “nowhere is the rules-based order under greater threat than in the South China Sea,”<sup>29</sup> and reaffirmed that “an armed attack on Philippine armed forces, public vessels, or aircraft in the South China Sea would invoke U.S. mutual defense commitments under Article IV of the 1951 U.S.–Philippines Mutual Defense Treaty.”<sup>30</sup>

## Oil, Gas, and Power Remain Linked

The PRC’s pursuits in the South China Sea reflect the importance that Beijing places on a stable oil and gas supply to its economy and national security, linking its erstwhile priority of building prosperity with its rising priority of building power. China’s demand, import, and production trends indicate that the importance of oil and gas will not recede any time soon.

Further, the PRC’s threatening actions against Vietnam, the Philippines, and other littoral states demonstrate its willingness to ignore international standards, even when it has signed on to them. Its stated policies, economic indicators, and recent actions cast doubt on its commitments to emissions reductions, including both its nationally determined contribution to the Paris Agreement<sup>31</sup> and Xi Jinping’s 2060 carbon neutrality pledge.<sup>32</sup>

Notwithstanding National Security Advisor Jake Sullivan's August 11 plea for OPEC+ to put more oil onto the global market,<sup>33</sup> climate politics has impelled the Biden Administration to constrain U.S. oil and gas activity by pausing new leases in federal territory, cancelling pipelines, and suspending drilling in the promising 1002 area of Alaska's Arctic Coast.<sup>34</sup>

It ought to be understood that China—the world's largest greenhouse gas emitter and America's chief geopolitical rival—has no such intention.

## Recommendations for the U.S.

The PRC's expansionary maritime oil and gas pursuits threaten the security of U.S. treaty and trade partners and undermine the global interest of a free and open Indo-Pacific region. In order to constrain Chinese maritime expansion, Washington should:

- **Consider limits (either through existing or new authorities) on the overseas investment of Chinese NOCs**, including but not limited to, restricting NOC joint operations and minority stakes in U.S. fields, restricting U.S.-company joint ventures with NOCs overseas, preventing U.S. government and intergovernmental financing of projects with NOC partners, and restricting technology transfers to NOCs. Washington should encourage allies to institute similar limits on Chinese NOC investments in their countries or with their domestic oil companies.
- **Clearly state the importance of a free and open Indo-Pacific while providing U.S. military support to that end by strengthening U.S. commitments to lawful littoral claims by members of the Association of Southeast Asian Nations (ASEAN)**. Washington should also encourage U.S. joint ventures with ASEAN oil companies to counter the appeal of joint ventures with Chinese NOCs.
- **Designate China's BRI as an expansionary resource acquisition mechanism, not as an altruistic development financing mechanism**. U.S. development agencies, as well as international agencies in which the U.S. has voting sway (especially the World Bank and the International Monetary Fund, and also United Nations agencies), should be discouraged or prevented from collaborating with BRI projects. It is in Washington's strategic interest to work with like-minded and willing allies that make similar acknowledgements of the BRI and take appropriate actions.

## Conclusion

As its intensifying action in the South China Sea demonstrates, the PRC views oil and gas as essential to its economic and national security. Its incursions into the EEZ of the other littoral states represent a gross violation of international norms and upset the global interest in a free and open Indo–Pacific. Washington should make timely and concrete policy responses to counter this mounting challenge.

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