
**ENERGY RELATIONS AMONGST THE UNITED STATES,
THE EUROPEAN UNION AND THE PEOPLE'S
REPUBLIC OF CHINA:**

A STRATEGIC TRIANGLE OR THREE SIDES WITHOUT A TRIANGLE?

Master of Arts in Law and Diplomacy Thesis

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INTRODUCTION

As the three world's biggest energy consumers and importers, the United States, the European Union and the People's Republic of China will determine energy relations in the years to come. Unlike India, also a major energy consumer, China's energy diplomacy is increasingly a matter of concern for the transatlantic community. The energy security debate surrounding China is part of a broader debate concerning China's future role in the world. Many unknowns surround the reemergence of the PRC as a global power with the capability and motivation to play an active role on the international stage: peacefully or belligerently, cooperatively or defectively, ally or enemy, partner or challenger. Yet, energy is one dimension of the broader American-European-Chinese geopolitical relationship—a special situation, in which the three actors uniquely share a number of characteristics such as global interests, global influence, and political-military reach. Although they are not equal actors, their respective power is dynamic, relative and ever-changing as our world transitions from unipolarity to multipolarity.

Energy security – which is the availability of reasonable priced and readily accessible energy - is high on the agenda of the world's major petroleum consumers. Indeed, assuring the uninterrupted flow, transportation, and diversification of supplies has never been as crucial and challenging for the US, the EU, and the PRC as it is today as a result of the tight energy market, resulting from the depletion of indigenous petroleum resources, growing world's energy demand, high prices, under-investment, and financial speculation. In addition, acknowledging that their imports are rising (by 2030 the US, the EU and China will import almost two-thirds of their energy needs) and that transnational imports are coming from fewer places in the world, the perception and presence of geopolitical competition is increasing. In this respect, Chinese energy diplomacy has political implications beyond the energy game that could be at cross-purposes with European and American interests in various parts of the

globe. Also it is interesting to examine to which extent American interests could be at cross-purposes with European interests in the future. Moreover given the dual nature of energy, simultaneously a trade commodity as well as fuel for the military, the debate surrounding energy security is closely intertwined with national security interests.

It is crucial that the US and EU take into account the possibility of an increasingly assertive China in their dialogue concerning transatlantic energy as the world's energy map is redrawn. Since they share the goal of the PRC as a 'responsible stakeholder'—e.g. China adopting Western standards of good governance—in the energy field, it is their responsibility to drive China toward a more responsible energy behavior. In other words, the transatlantic partners have positioned themselves to act together in urging China to adopt a more market-based approach, to integrate further into multilateral energy frameworks, to participate in developing collective emergency responses capabilities, to improve energy efficiency, to endorse international efforts to stop climate change, and to join the protection initiatives of international infrastructures. However, this successful trilateral energy cooperation rests on several conditions, including the willingness of China to cooperate, China's understanding of mutual benefits and interests, and the introduction of a win-win game that offsets unilateral gains.

The following questions will be answered: Has the PRC's search for energy security affected American and European interests in a tangible way or is Chinese energy security policy only the result of threat perceptions, suspicion, and anxiety? What could a transatlantic energy security strategy toward China look like? Will China understand the incentives of cooperation and will it shift toward a more friendly market-based energy strategy in the long-term or will China keep its go-alone opportunistic short-term strategy? Will China participate in an organization of energy consumers or will China be reluctant to join any binding

framework? Is speaking of a strategic triangle in the field of energy relevant or is a trilateral relationship more descriptive of reality?

NOTE: This analysis focuses mainly on the petroleum: oil and gas

CHAPTER 1: THREE WAYS TO UNDERSTAND ENERGY SECURITY

Few issues have attracted more attention in recent years than the People's Republic of China (RPC)'s growing demand for energy, especially oil and gas. At stake is the effect of the PRC's enormous thirst for energy on its international relations and on the world's two other biggest energy consumers, the European Union and the United States. Not only are the three parties the three largest petroleum consumers, but also the three largest petroleum importers. Although they continue to rely on domestic resources for most of their energy needs, in the future, they will rely more heavily on imports: The EU will import 65 percent of its energy in 2030;¹ the US's net petroleum imports should account for 62 percent of its petroleum demand in 2030;² and China's reliance on oil imports will reach 60 percent by 2020.³

At stake is the availability of reasonable priced and readily accessible energy in the long-term.⁴ Petroleum is not yet a scarce resource, since many reserves remain untouched and technological breakthrough could increase supplies. Yet, competition is emerging due to the perception of petroleum as a declining resource and because states are rationally preparing for an uncertain future. Supplies will be increasingly concentrated in fewer places and in more unstable regions of the world. In addition, the energy market, especially the oil market, is considered to be very tight; thus, the growing demand and the alleged scarcity of supplies are not the only factor of explanation of high prices. A lack of investment, inadequate refining

¹ European Union, Press Release, *Commission proposes an integrated energy and climate change package to cut emissions for the 21st Century*, January 10, 2007; Available from http://ec.europa.eu/comm/external_relations/us/intro/energy.htm.

² U.S. Senate, Statement of Guy Caruso, Administrator, Department of Energy, *before the Energy and Natural Resources Committee*, February 16, 2006.

³ "China's Energy Import Dependence to Increase Source," *XFN* (via Comtex), October 13, 2005; available from <http://www.ngvglobal.com/market-developments/china-s-energy-import-dependence-to-increase.html>.

⁴ Simon Serfaty and Franklin D. Kramer, "Recasting the Euro-Atlantic Partnership," *CSIS*, February 1, 2007.

capacity, financial speculation, and problems in several major energy exporting countries have all contributed to the high prices, which have doubled over the past three years.⁵

More importantly, energy is linked to the national security strategy of the US, China, and the EU. Petroleum is a peculiar kind of commodity.⁶ Indeed, energy is the lifeblood of advanced societies and has long been regarded as a vital strategic commodity not only covering “just the normal functioning of the economy of the state but also ensuring that its armed forces have sufficient and reliable supplies of fuel for the defense of vital national interests.”⁷

Although in the developed world, energy security is usually defined simply as the availability of sufficient supplies at affordable prices, countries tend to interpret the concept differently. Traditionally, energy security is defined as an uninterrupted supply of energy that supports national economic growth and defense at a reasonable price by way of energy independence and self-reliance.⁸ As a result, any state reliant of imports is ipso facto a less secure state. Concern surrounding energy security applies not only to the source of energy supplies but also to the routes and means by which they are transported. In other words, energy security involves the safety of the whole infrastructure and supply chain (pipelines, refineries).⁹ For a more rigorous and intellectual definition, Robert Belgrave explains energy security as:

“a state in which consumers and their governments believe and have reason to believe, that there are adequate reserves and production and distribution facilities available to meet their requirements in the foreseeable future, from sources at home and abroad, at costs which do not put them at a competitive disadvantage or otherwise threaten their well-being. Insecurity arises when the welfare of citizens or the ability of governments

⁵ Daniel Yergin, “Ensuring Energy Security,” CERA Special Report, Reprinted from *Foreign Affairs*, March-April 2006.

⁶ Todd Bullock and Katie Xiao, Congress Cites Security Concerns over Chinese bid for Unocal, U.S. info, U.S. Department of State, July 2005; available from <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2005&m=July&x=20050719135139TJkcolluB0.9948542>.

⁷ Paul B Stares, ed., *Rethinking energy security in East Asia*, 2000.

⁸ Daniel Yergin, “Ensuring Energy Security”.

⁹ Daniel Yergin, “What does energy security really mean?,” *The Wall Street Journal*, July 11, 2006.

to pursue their other normal objectives are threatened, either as a result of physical failure of supplies or as a result of sudden and major price changes".¹⁰

However, the definition of energy security has evolved in recent years, and big energy consumers such as the US, China, and the EU must account contemporary threats such as terrorism, geopolitical risks, natural disaster, nationalization of resources, and financial speculation.

Energy Security in the People's Republic of China

The People's Republic of China, as the world's most populous country, has surpassed Japan as the third largest energy consumer behind the US and the EU. Rising oil demand and imports have made China a significant player in world oil markets. According to the International Energy Agency (IEA), China will account for 30 percent of the increasing demand for world energy to 2030.¹¹ To meet this demand, China must increasingly rely on the international energy market, especially for oil and gas.¹² According to an industry report, from January to May 2006, China received 46 percent of its crude oil imports from the Middle East and 32 percent from Africa; its neighbors in the Asia Pacific region only supplied 5 percent of China's imports.¹³ Historically, natural gas has not been a major energy source in China, but its share of the country's energy mix is increasing.¹⁴

Energy diplomacy is carrying more weight than ever in China's diplomatic relations; it has become the third most important diplomatic strategy under the Hu-Wen administration,

¹⁰ Belgrave, Robert, Charles K. Ebinger, and Hideaki Okino, *Energy Security to 2000*, (Aldershot, England; Westview Press, 1987).

¹¹ China's petroleum demand is forecast to reach 12.8 million b/d by 2025, with net imports of 9.4 million b/d according to the U.S. Energy Information Administration.

Dr. Ties Tiessen, "IPE guest Essay," in *International Petroleum Encyclopedia*, 2005, Pennewell ed.

¹² Gao Shixian, Chapter on China in *Rethinking energy security in East Asia* (Paul B Stares, ed., 2000).

¹³ Department of Energy, Energy Information Administration, *Country Analysis Brief, China*; available from <http://www.eia.doe.gov/emeu/cabs/China/Oil.html>.

¹⁴ Indeed, in 2004, natural gas accounted for only 3 percent of China's energy consumption. Ibid.

next to big power diplomacy and peripheral diplomacy.¹⁵ Due to Beijing's energy security concerns, in the past decade, it has lied about its ability to adjust its dependence on global markets, which is a major shift from former commitments of self-sufficiency. Indeed, the PRC has gone from being a self-sufficient energy producer to an energy-hungry consumer.¹⁶ In 1980, China consumed approximately 1.8 million barrels per day. In 2004, China consumed approximately 6.4 million barrels per day—an increase of more than 250 percent.¹⁷ Even more importantly, China considers energy a commodity critical to maintaining its economic growth and sustaining its internal stability, which are intrinsic to the PRC's concerns regarding energy security. China dreads domestic unrest and turmoil, which a disruption of energy supplies could instigate.¹⁸

For now, China's energy security strategy is two-fold: On one hand, it focuses on the diversification of supplies, and, on the other hand, on the diversification of transportation. First, in terms of supplies diversification, China seeks to become a well-diversified energy consumer in the future. Ideally, China hopes to partition its importation according to the following percentages: 30 percent from Africa, 30 percent from Middle East, 30 percent Central Asia and Russia, and 10 percent elsewhere.¹⁹ Second, the PRC treats every state worldwide equally without any—Western—moral scruples. Beijing has stricken various bilateral agreements and energy acquisition deals including those with questionable states – questionable in the eyes of the 'West' – such as Sudan, Iran, and Burma. Third, China's strategy conflicts with the traditional energy market. China, acting suspiciously in the world

¹⁵ "HK TKP Article Discusses China's Energy Security, Diplomacy," *Hong Kong Ta Kung Pao* (in Chinese), July 25, 2004.

¹⁶ Erica S. Downs, "The Chinese Energy Security database", *China Quarterly*, 2004. China became a net importer of oil in 1993, ending three decades of self-sufficiency.

¹⁷ U.S. Congress, U.S.-China Economic and Security Review Commission, Statement by Katharine A. Fredriksen, Principal Deputy Assistant Secretary, U.S. Department of Energy, *China's role in the world: Is China a responsible stakeholder?* August 4, 2006.

¹⁸ In a country of more than 1.3 billion inhabitants, domestic turmoil could take dramatic proportions.

¹⁹ Daniel I. Fine, *The Geopolitics of Energy: Petro-States, Mega-Consumers and Security at Risk*, Fletcher School lecture, April 27, 2006.

oil market, prefers to create parallel mechanisms and ways to guarantee its supplies.²⁰ In doing so, Beijing is taking a risky position. Indeed, because of governmental support, investment decisions are not always determined by economic considerations, but by political motivations—such as in Russia. The PRC is investing largely in acquisition and exploration of energy assets overseas. Its primary energy partnerships are with the Middle East, Central Asia and Russia, Africa, and Latin America. China’s approach has been described as a ‘mercantilist approach.’ However, commentators are divided on the interpretation of China’s strategy. On the one hand, some argue that China will radically change its international behavior, by pursuing destabilizing policies such as the buildup of its naval force. On the other hand, some predict that China’s dependence on foreign oil will foster its integration in the international system, while simultaneously encouraging the *status quo* and cooperation.²¹

With respect to the diversification of transportation, China is willing to develop new roads and increase the security of transportation (naval projection, inter-land pipelines, etc.). China views sea lanes such as the Malacca straits as uncertain and subject to disruptions by the US.²² Indeed, because of their naval power superiority, the US could block Chinese choke points. However, this action certainly will also harm US allies (Japan, ROK, Taiwan), which are using the same lanes. In contrast, land roads are viewed as being safer and do not require investment in the blue navy to protect them. According to David Zweig and Bi Jianhai, “China’s oceangoing navy is small, and with a US naval base at Diego Garcia, in the Indian Ocean, and India’s navy dominating the mouth of the Strait of Malacca, Beijing seems to feel vulnerable about its limited capacity to patrol on its own.” They refer to President Hu’s

²⁰ According to the PRC’s view the world oil market is controlled by the Americans, therefore Beijing believes it serves better its interest to use non-market mechanism.

²¹ Erica S. Downs, “The Chinese Energy Security database”, *China Quarterly*, 2004.

²² David Zweig, “China’s global hunt for energy,” *Foreign Affairs*, September October 2005. According to a report written for the Pentagon by the consulting firm Booz Allen Hamilton, “China is building strategic relationships along the sea lanes from the Middle East to the South China Sea in ways that suggest defensive and offensive positioning to protect China’s energy interests, but also to serve broad security objectives”.

comments on the problem, which he has described as “the Malacca dilemma,” and considers key to China’s energy security. He is concerned that “certain powers [read: the United States] have long encroached on and attempted to control the navigation through the strait.”

Energy Security in the European Union

The EU, with its increasingly integrated economies and energy sectors, is the world’s second largest energy consumer behind the US. The EU is also a net importer of energy. According to a European Commission report,²³ the EU will import two-thirds its total energy requirements by 2020. Eurogas expects that the EU will import up to 75 percent of its natural gas requirements by 2020. EU member countries import oil predominately from Russia, Norway, the Middle East, and Africa.²⁴ The current EU energy demand is 41 percent oil, 22 percent gas, 16 percent coal (hard coal, lignite and peat), 15 percent nuclear, and 6 percent renewables. According to Fernando de Esteban, “if nothing is done, the total energy picture in 2030 will continue to be dominated by fossil fuels: 38 percent oil, 29 percent gas, 19 percent solid fuels, 8 percent renewables, and barely 6 percent nuclear.”

Although the EU is currently working on a common energy policy—as of yet energy importation are not integrated, nonetheless increasingly EU states are thinking energy strategically and together—it is tough for the EU to achieve a comprehensive energy strategy as a unitary actor. As soon as energy becomes a security concern, individual member states impose their interests unilaterally. The concept of introducing a mandatory and comprehensive European energy policy was approved at the meeting of the European Council on October 27, 2005 in London. Following this, on March 9, 2006, the European Commission

²³ *European Union Energy Outlook to 2020* (Shared Analysis Project, November 1999); available from http://ec.europa.eu/dgs/energy_transport/figures_archive/energy_outlook_2020/index_en.htm.

²⁴ The European Union, Energy Information Administration, Country Analysis Brief; available from http://www.eia.doe.gov/emeu/cabs/European_Union/Energy.html.

issued a Green Paper²⁵, a European Strategy for Sustainable, Competitive, and Secure Energy by all 25 members (27 since January 1, 2007). The EU now includes 27 Member States with different energy systems. Thus, it makes sense to examine the EU as a single actor and it will be more obvious in the future. As all European integrated policies, the common energy policy will be a process with progress and regress.

In Europe, the debate has centered on how to manage dependence on imported natural gas especially toward Russia; 40 percent of the EU's natural gas imports come from Russia.²⁶ The European gas market is expected to grow while its indigenous gas production decreases. This will create more demand for imported and increase the need for security and reliability. Pipeline gas will remain the predominant supply for Europe, while liquefied natural gas serves as a complement.²⁷ Although Russia will remain Europe's primary supplier, contributing a quarter of Europe's gas demand, CERA forecasts that Norway will move into second place in 2007 when its production overtakes US gas production.²⁸ Europe continues diversification by relying on other sources such as Azerbaijan.

For Europeans, supply security not only means transport security, but it also means investment security. Thus, it is important to make long-term import agreements in order to establish the conditions necessary for additional production capacity. The EU's greatest challenge is to actively participate in the development of new reserves. Additionally, the European Commission and its Green Paper indicates that the market, not protectionism, will

²⁵ How soon will all this become law? It is likely to take some time. These papers give a much more detailed account of the European Commission's vision of a future energy policy than the Green Paper, but they are not yet draft legislation. To become a law it would have to get the approval of EU member states (the EU's Council), and the European Parliament too. This could take a couple of years, and the end result can differ considerably from the commission's initial proposal. Available from <http://news.bbc.co.uk/2/hi/europe/4783996.stm>.

²⁶ Fernando de Esteban, "The Future of nuclear energy in the European Union," European Commission, May 2002.

²⁷ Dr. Ties Tiessen, "IPE guest Essay," in *International Petroleum Encyclopedia*, 2005, Pennewell ed.

²⁸ "The Tangled Web of Energy Security", Global Energy Watch, CERA, May 11, 2006.

²⁸ Dieter Helm, "Russia, Germany and European energy policy", December 14, 2006; available from http://www.opendemocracy.net/globalization-institutions_government/energy_policy_4186.jsp.

strengthen Europe and allow it to approach its problems. The most significant barriers to market liberalization were identified by the European Commission as market concentration, lack of transparency, lack of market integration, and energy prices.²⁹

Another EU priority is to develop a really integrated energy market.³⁰ Energy Commissioner Andris Pielbalgs states that the EU's member states are facing very similar challenges with respect to energy though their "views are often diluted through a piecemeal approach to relations with third countries."³¹ For instance, Germany recently made a bilateral deal with Russia that violates EU Common energy policy. The "special relationship" between Russia and Germany over energy supplies is both a challenge to EU integration and an invitation to get serious about it, says Dieter Helm.³² At stake is the EU's readiness to show economic and political energy solidarity in the face of a difficult situation or dire crisis.³³ Yet, EU countries at the same time expressed reluctance to give away key elements of national sovereignty, notably their control of energy importation and choices of energy mix.

Energy Security in the United States

The US is the world largest energy consumer and importer; its consumption represents 23 percent of the world total energy consumption. With US oil production declining and demand increasing, US net oil imports are climbing steadily.³⁴ Overall, the top suppliers of crude oil to the US from January to August 2005 were Canada, Mexico, Saudi Arabia, Venezuela, and Nigeria. American natural gas consumption and imports are expected to

²⁹"The Tangled Web of Energy Security", *CERA*.

³⁰ Investors are more likely to invest if their potential market is the entire European Union.

³¹ Andris Pielbalgs, Energy Commissioner, "Energy Challenges facing the EU". In: Polish Senate Conference on the "Security of Poland's Energy Supplies vs. European Energy Policy", Warsaw, 20 May 2006.

³² Dieter Helm.

³³ "Europe needs to define clearly its goals and aspirations regarding its international energy partners, both suppliers and consumers and then speak with one voice to pro-actively promote these interests."

³⁴ In 2004, EIA forecasted that the United States will have total net oil imports (crude and products) of 12.2 million bbl/d during 2005, representing around 58 percent of total U.S. oil demand.

expand substantially in coming decades with the fastest growth from electric power plants powered by natural gas. An increase in US natural gas consumption will require significant investments in new pipelines and other natural gas infrastructure. New Liquefied Natural Gas (LNG) terminals are projected to come into operation in 2006.³⁵

Here, the US energy outlook will include the double focus of American energy security. One focus is to offset any future Middle East supply disruptions. The other focus is to achieve the goal of “energy independence.”³⁶ According to Daniel Yergin, the very goal of “energy independence”³⁷ is increasingly “at odds with reality.”³⁸ American energy security challenges should be broadened to include the supply of natural gas.³⁹ When it comes to natural gas, increasing demand and constrained supplies mean that America can no longer remain self-reliant; “the US is joining the new global market in natural gas that will link countries, continents and prices together in an unprecedented way.”⁴⁰ Because of US dependence on imported energy in the future, the importation of natural gas is a serious alternative and at the same time a long-term challenge⁴¹ since the US only has a limited number of Liquefied Natural Gas (LNG) receiving facilities. Additionally if LNG imports

³⁵ Energy Information Administration, Country Analysis Brief, the U.S.; available from <http://www.eia.doe.gov/emeu/cabs/Usa/Oil.html>
<http://www.eia.doe.gov/emeu/cabs/Usa/NaturalGas.html>.

³⁶ Daniel Yergin, “What does energy security really mean ?”

³⁷ Remarks prepared for the U.S. Secretary Spencer Abraham, International Energy Agency Ministerial Working Dinner, April 28, 2003; available from <http://www.pi.energy.gov/documents/ieaAbrahamRemarks.pdf>.

“The single most important thing we can do to address energy security – transforming our economies from ones dependent on foreign petroleum to ones that use domestically produced hydrogen as the principal feedstock for powering our transportation sectors.”

³⁸ Daniel Yergin, “Ensuring Energy Security.”

³⁹ Indeed, demand for natural gas is on the rise because most new electricity generation is gas fired, and projected increases in electricity demand over the next 20 years will significantly stretch U.S. capacity to produce adequate supplies of natural gas both in the United States and around the globe. Remarks by Spencer Abraham.

⁴⁰ Daniel Yergin, “Ensuring Energy Security.”

⁴¹ “If natural gas, is a matter of top security national concern for the EU, it is not yet a priority for the U.S. But because it is a concern for the EU, it should be a concern for the U.S (). The U.S. cannot pretend it is just a EU problem with no other implications. With China and Russia looking more toward East, and increasingly building closer energy ties, the administration should have a closer look..” Remarks by Spencer Abraham.

grow strongly, it will pose new security considerations on the US.⁴² Russian gas does not affect the US directly, strategically. As an illustration of the Russian-American gas nexus, last October, Gazprom, the Russian gas monopoly, announced that it would independently develop the Shtokman natural gas deposit off Russia's Arctic coast. Shtokman was initially expected to yield 30 billion cubic meters (bcm) of natural gas annually, of which 22-24 bcm would be converted into 15 million tons of liquefied natural gas (LNG) to be exported to the US. According to M. K. Bhadrakumar, a former Indian diplomat, the “Gazprom decision signifies a complete reversal of policy insofar as North America was intended to be the project's main destination”—the Shtokman gas deposit [reportedly] had enough gas for 50 years of delivery to the US. Clearly, Gazprom's decision hit US interests hard.⁴³ As a result, the US cannot consider their security concerns separately from the EU.

In sum, the three players understand the concept of energy security differently according to different factors that contribute to a sense of security in each of the three cases. However the US, EU, and PRC share the same goal of consolidating an uninterrupted energy supply today and in the future, as well as diversifying the sources and transportation routes of energy supplies. It will be interesting to see if their strategies will overlap and compete with each other or whether they will coexist harmoniously and cooperatively.

⁴² Daniel Yergin, “What does energy security really mean?”

⁴³ M K Bhadrakumar, “Russian energy: Europe's pride, U.S.'s envy”, *AsiaTime Online*, October 14, 2006; available from http://www.atimes.com/atimes/Central_Asia/HJ14Ag01.html

CHAPTER 2: THE THREE SIDES ARE ENGAGED IN STRATEGIC COMPETITION IN ORDER TO ADVANCE THEIR OWN INTERESTS ON ENERGY SECURITY

Power, Influence, and Regional Rivalry for Energy Security

In a situation of escalating global energy demand and uncertainty regarding future supply, the EU, US, and China are mainly challenged to address their conflicting strategies and rival objectives.

According to current projections, after 2010, major increases in supply will come from fewer countries than it comes from today, possibly accentuating security concerns.⁴⁴ To picture this, China's energy diplomacy is like the 19th century Great Game in that it is increasingly employed to achieve primacy in Central Asia, Africa, Latin America, and the Middle East.⁴⁵ In doing so, China is entering into the US and EU's "backyard." According to the US, Japan, and a number of European countries, China's insatiability is reason for concern. According to David Zweig and Bi Jianhai, "some governments worry as Beijing enters their spheres of influence or strikes deals with states they have tried to marginalize." The authors add that "in some quarters in Washington, including the Pentagon, the intelligence services, and Congress, the fear that China could challenge US military dominance in East Asia and destabilize the region." Does it make sense to speak about 'spheres of influence' as China's search for petroleum merges with its desire for greater influence? Does the Chinese shaping and reshaping of energy geopolitics alter the balance of power in different regions of the world as well as undermine Western [read: American and European] influence? Why are tensions rising, especially between the US and China since the end of the Cold War? Some experts argue that it would be "ill-advised to apply a European geopolitical perspective from the 19th century or pre-World War II to a region which is based

⁴⁴ Daniel Yergin, "Ensuring Energy Security."

⁴⁵ David E. Sanger, "China's Oil Needs Are High on U.S. Agenda", *The New York Times*, April 19, 2006

on a hierarchical order. According to this reasoning, a stronger China means a more stable Asia, and Asian nations prefer a “bandwagoning” technique, not ‘balancing’ behavior.⁴⁶

While some European and American government officials state publicly that China’s energy hunt is ‘honorable’ since it feeds its economic growth as for any other developing countries, there is certain uneasiness in Brussels and Washington. When the PRC negotiates deals with Russia, Central Asian countries, African countries, Latin America countries, Iran, and Middle Eastern countries, doubts about Chinese intentions emerge as well as interstate competition. Such competition, especially economic competition, is natural as long as it does not spill over into harmful conflicts.

THE RUSSIAN ELEMENT ON THE NEW ENERGY MAP

Under Vladimir Putin’s presidency, Russia has reemerged as an energy power on the international stage through the re-nationalization of its resources and energy companies.⁴⁷ Russia’s oil fields are central to the growth of world supply, providing almost 40 percent of the world total production increase since 2000.⁴⁸ Russia is approaching a historic window of opportunity as a world energy superpower. Putin has initiated energy dialogues with important oil consuming countries, including the US, the EU and China.⁴⁹ At stake is Russia’s

⁴⁶ “Facing China’s rise: Guidelines for an EU strategy”, *Chaillot Paper*, n° 94, December 2006

⁴⁷ This is the revival of Russia as a great power on the global and strategic state. Moscow does not hesitate to use its increasing oil power, to bargain, negotiate and pressure Western countries. In other words, while Russia uses its high energy export volumes with energy consumer countries as a substantial bargaining power, President Putin has successfully managed to deflect a whole range of potential criticism. As a result, Russia has transformed itself from a defunct military superpower into a new energy superpower. Although both the US and the EU worry about Russia, there is not yet a common energy policy to deal with Moscow.

⁴⁸ Nonetheless, its exports slowed in 2005 and 2006 because of political risks, insufficient investments, uncertainties over government policies, and regulatory obstacles.

Daniel Yergin, “Ensuring Energy Security.”

⁴⁹ Russia is a large oil producer, but its serious shortage of funds has resulted in prolonged inadequate investment. To turn its reserves into positive and then recoverable reserves, Russia has worked hard to draw in funds by developing energy cooperation with Europe, the United States, Japan, and China in recent years.

return as a superpower, which would have an enormous impact on the stability of American, European, and Chinese energy supplies.⁵⁰ Additionally, the Russian energy game has the potential to directly and negatively impact relations amongst the three sides of the triangle.

Russia and China

Because Russia possesses abundant oil and gas reserves, China has deemed Moscow of utmost strategic interest and a source to fill China's future energy needs. Energy is at crux of closer Sino-Russian ties, and both actors have successfully established a stronger relationship through various bilateral agreements—although we shall see how strong it is in the future.⁵¹ Though they are not aligned, this is an increasingly warming relationship based on respective self-interests. As long as their interests converge they will cooperate. However, differences could arise over the fact that Russia is a petroleum producer whereas China is a petroleum consumer.

One of the areas of cooperation is transportation (roads), namely the two pipelines that will link Russia's Siberian gas fields to China. A new pipeline system, known as the Altai, could deliver gas from western Siberia to China. Another system would transport gas from eastern Siberia up to 80 billion cubic meters per year. The projected pipeline would cost \$10 billion and be operational in 2011. Of equal importance, China must get a firm commitment from Russia with respect to its frontier—a branch of the planned pipeline from eastern Siberia

“HK TKP Article Discusses China's Energy Security, Diplomacy,” Hong Kong Ta Kung Pao (in Chinese), July 25, 2004; available from World News Connection.

⁵⁰ Dr. Ties Tiessen, *International Petroleum Encyclopedia*.

⁵¹ Russian President Valdimir Putin ended a two-day visit to Beijing in March 2006 with the signing of about 30 economic agreements and a promise to become China's largest energy supplier within ten years. The key energy trade agreements at the March 2006 Russia-China Beijing summit put China in line to receive large-scale Russian oil and gas volumes following construction of new Russian export pipeline infrastructure – a branch line to China from Transneft's planned East Siberia-Pacific Coast (ESPO) pipeline and two new Russian gas export pipelines, carrying West and East Siberian gas.

to the Pacific. Russian oil exports to China are currently limited by the capacities of the railroad system and stand at about 7.7 million tons in 2005.⁵²

Other Sino-Russian cooperation exists in the Shanghai Cooperation Organization in Central Asia, which establishes an energy dialogue alongside the military dialogue. Apparently, this alliance promotes Sino-Russo interests at the expense of US influence in the region. The US Department of Defense is concerned that the group could evolve from focusing on energy to military issues, rivaling NATO. Indeed, both countries are interested in ensuring the “stability” of Central Asia and in promoting “multipolarity” in the Far East in order to offset US dominance.⁵³

Russia and the US

Since the end of the Cold war, the energy rich regions of Eastern Europe, the Caucasus, and Central Asia have been subjects of dispute between Russia and the US. Indeed, it is a struggle for influence and power. On one hand, the US is willing to bring those countries under Western influence under the umbrella of NATO. On the other hand, Russia is fighting to keep these countries under its influence by threatening to cut gas supplies. Thus, energy remains a major irritant to American foreign policy with Russia and by extension with China. However, many American analysts agree that energy issues are driving Russia and China to each other politically and that American policies have only accelerated this trend. Indeed, one of the legacies of the Bush administration is the degradation of the American-Russian relationship with respect to security issues (NATO expansion, the sponsorship of anti-Russian policies in Georgia, the deployment of US silo based interceptor missiles in Poland and the

⁵² Patrick G Moore, “China gets its pound of Russian flesh,” *Asia Times Online*, March 24, 2006.

⁵³ Thom Shanker and Mark Landler, “”Putin says the US is undermining global stability,” *The New York Times*, February 10, 2007.

On February 10th, 2007, President Putin openly criticized in an international conference the U.S. for its unilateralism which undermines global stability.

Czech Republic, etc.). In his article, Mr. Bhadrakumar illustrates the current climate of Russian-US relations, mentioning a document that has been circulating in Moscow circles entitled: “On the Probable Scenario of Actions of the United States in Relation to Russia in 2006-2008.”⁵⁴ It claims that Washington is conspiring to stage a “color revolution” in Russia during the transition from the Putin presidency. Clearly Russia views its relationship with the US with hostility.⁵⁵

In fact, there have been struggles for influence. The Bush administration has increased its efforts to support pipelines to carry oil and gas to the West by bypassing Russian territory. Russia, in turn, has pressured Central Asian countries to oppose American energy projects and military bases by mobilizing the Shanghai Cooperation Organization (SCO). On July 5, 2005, the SCO issued a declaration, calling for a timeline for the withdrawal of US military forces from the region.⁵⁶ Finally, as we saw earlier, the European concerns with Russia also reflect US concerns.

Russia and the EU

The increased bargaining power of Russia, especially in terms of gas exports, is a concern for the European Union. The recent disruption of Russian oil and gas supplies to several EU member states and former soviet countries, including Belarus, Ukraine, and Georgia has alarmed Brussels. Indeed, when Russia cuts off the gas to Ukraine, it reduces the amount to the EU. On the other hand, Russia’s behavior has encouraged the EU to accelerate its common energy policy in order approach this supplier with a single voice. The EU is concerned that Russia is trying to play consuming nations against one another particularly

⁵⁴ This is a 35-page report which has circulated among members of the duma, authored by Valentine Fallin, Soviet historian-diplomat and formerly secretary of the Communist Party central committee, and Gennadiy Yevstafsyev, retired general of the Foreign Intelligence Service.

⁵⁵ M K Bhadrakumar.

⁵⁶ Lionel Beehner, “Asia : U.S. military bases in Central Asia”, Backgrounder, *Council on Foreign Relations*, July 26, 2005.

after the Sino-Russian gas deal. Indeed, Gazprom without a doubt considers China an important alternative market for gas exports in the long term.⁵⁷ Nonetheless, European-Russian energy cooperation exists and will be updated in 2007, based on a new comprehensive framework agreement known as the post-Partnership and Cooperation Agreement (PCA).⁵⁸

In the future, the Russian factor could pit China against the US and the EU. Indeed, China and Russia could find common ground for cooperation in order to weaken Western clouts in Central Asia and the Caucasus by using energy as a powerful bargaining power.

THE RACE FOR CASPIAN, CAUCASIAN, AND CENTRAL ASIAN ENERGY ASSETS

This region is an illustration of how energy security concerns are intertwined within geopolitical considerations. About a third of the world's undeveloped natural gas and oil deposits lies beneath the Caspian Sea; until the early 1990s, they remained for the most part untouched. Central Asia is a strategic zone in the sense that it could act as an alternative route of energy, which bypasses Russia and the Middle East. In addition, because of the uncertainty surrounding the future of Iraq, energy consumers tend to consider the region as the new “oil Mecca.”⁵⁹ Increase in oil production in Kazakhstan and Azerbaijan is encouraging news in light of tightening global oil markets and increasing prices.⁶⁰

The Black Sea is caught between two different visions of the region: on the one hand, there is a Euro-Atlantic vision backed by the US, and, on the other hand, a Eurasian vision

⁵⁷ In April 2006, Gazprom CEO Aleksey Miller also indicated that exports to non-European markets might increase unless Gazprom is allowed to expand its activities further in Europe, noting that it was “not by chance” that Gazprom was developing new markets such as China.

“The Tangled Web of Energy Security,” *CERA*.

⁵⁸ Steven Weisman, “As the price of oil soars, so does its power to shape politics from Washington to Beijing,” *Market forces*, July 25, 2006.

⁵⁹ Jela De Franceschi, “Playing Oil Politics in the Caspian Sea,” *Voice of America*, Washington, D.C 26 June 2006.

⁶⁰ Kazakhstan’s oil production increased by almost 4 percent in 2005, while Azerbaijan’s oil production increased by almost 40 percent in 2005.

“The Tangled Web of Energy Security,” *CERA*.

backed by Russia. Since the 1990s, the US has promoted the Black Sea as an important strategic zone of petroleum exportation from Central Asia that bypasses Russia. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which links Azerbaijan to Turkey, and the pipeline between Baku and Erzerum, Turkey illustrate the politics of the region. The prevalence of an Atlantist vision has promoted new regional organizations such as the GUAM⁶¹, the Black Sea Forum for Dialogue and Partnership⁶², and the Community of Democratic Choice (2005), which are closely aligned with the US. Shi Yinhong, director of the American Studies program at the People's University in Beijing, has indicated that concerns in the region rose with US support of revolutions that toppled pro-Russian and pro-Chinese allies in Ukraine, Georgia, and Kyrgyzstan, and replaced them with pro-Western democrat leaders.⁶³

The area has been seen by both Beijing and Moscow as its backyard. Chinese companies are acquiring energy assets in the Caspian region at an alarming pace. Unquestionably, China's best hope for petroleum security rests in Central Asia, and especially in Kazakhstan.⁶⁴ The RPC's interest in the region is three-fold. First, it is driven by security concerns and the need to diversify supply routes. Second, it is driven by the need to balance dependence on sea lines of communication (SLOC) with land-based pipelines from Central Asia.⁶⁵ Finally, as the demand for oil grows in China, the stability of supplies is becoming an economic priority.

⁶¹ GUAM organization for democracy and economic development, GUAM is a regional Group of four states - Republic of Azerbaijan, Georgia, Republic of Moldova and Ukraine. This cooperation was established in 1997 on concurrence of positions on many issues of the present-day international relations.

⁶² The Black Sea Forum for Dialogue and Partnership was established in June 2006; available from <http://www.blackseforum.org/>.

⁶³ Jehangir Pocha, "Summit forges military ties in Central Asia", *The Boston Globe*, June 18, 2006.

⁶⁴ Dr. Ties Tiessen, *International Petroleum Encyclopedia*.

⁶⁵ Consequently, the new pipelines routes are crucial to these new thriving energy relations. Chief among them is the Atasu-Alashankou oil pipeline, the first oil pipeline between the former Soviet countries and China. The pipeline was officially inaugurated on time in December 2005 and will carry Kazakh and possibly Russian crude across Kazakhstan to China. "The Tangled Web of Energy Security," *CERA*.

The Shanghai Cooperation Organization (SCO) is an example of the vital Chinese need for Central Asian energy resources. As a young organization, the SCO was not the object of attention until recently; now it has become an important actor in Central Asia. An intergovernmental organization established in 2001, by five founding members, known also as the “Shanghai Five” (the PRC, Russia, Kazakhstan, Kyrgyzstan, Tajikistan—and which Uzbekistan joined later), SCO was primarily a Chinese idea. Hence, the choice of the name of the organization was clear. According to Chinese officials, the SCO is designed to promote ‘peace and stability’ in Central Asia.⁶⁶ Thus, the SCO officially has a very broad agenda, including aspects of terrorism, energy, transportation, economic collaboration, narcotics, avian influenza, tourism, and military exercises. However, the organization appears to be less concerned with counterterrorism and business than about promoting Sino-Russian leadership and weakening the American position in Central Asia. The two current major issues are the organization’s enlargement and Western military presence in the region. The SCO has yet to decide whether it will become a military alliance and whether it will intervene in state’s internal affairs.⁶⁷ Though the SCO is not yet a military pact, Martin Sieff of the Heritage Foundation, has compared it with the Warsaw Pact and argued that it is evolving in this direction. He stated that long-term Chinese naval deployment poses a tremendous and

⁶⁶ “The Shanghai Pact: The SCO and Implications for America in Eurasia,” In Heritage Foundation’s panel, hosted by Ambassador Harvey Feldman, four speakers led the discussion: Martin Sieff, John J. Tkacik, Dr. Ariel Cohen and Dr. Richard Weitz, June 9, 2006.

In the opinion of Martin Sieff, China’s motivations were several: first, to guarantee the integration of Taiwan in China mainland with a parallel military buildup in order to prevent U.S. protection of Taiwan. Secondly, in creating SCO, China avoided isolation and developed close strategic relations with Russia, India and Central Asian countries. Third, SCO was also a tool in the hands of the Chinese leaders that could be used to “break any democratic revolution” in their neighborhood and to prevent the “contamination of democracy” in Central Asia. Beijing’s concern in Central Asia is to reassert its authority in the region. While in the 90’s the PRC was very preoccupied by the political vacuum in Central Asia because of the U.S. lack of interest in the region, with the war in Afghanistan and the fight against the Taliban, most of Central Asian states have lined up with the U.S., to the discontent of China.

⁶⁷ Heritage Foundation’s panel.

unprecedented challenge to the US incomparable to the situation during the Cold War.⁶⁸ While giving the impression that Russians and Chinese are pushing Americans out of Central Asia, the SCO is a force in defiance of the US in the military and security arenas⁶⁹ In addition, it outnumbers the EU and NATO in terms of resource and population. Yet, the SCO has a variety of weaknesses. Any rupture in the Sino-Russian relationship could lead to the organization's stagnation. Ariel Cohen has pointed out Russia and China's diverging interests. Russia, a gas and oil producer, is interested in high prices, while China, an energy consumer, has advocated low prices. In 2004, SCO's observer members were Pakistan, Afghanistan, India, and Mongolia. This year (2007), Iran visited the organization as a controversial observer member, raising several questions about China's intentions and the potentiality of Iran to acquire full-fledged membership.⁷⁰

The EU has been a spectator to the struggle between the US, China, and Russia, remaining uninvolved in order to keep control of Caspian Sea assets. Faced with these stakes, Europeans have a hard time following a single strategy that looks beyond EU enlargement.⁷¹ The tense European-Russian relationship with respect to gas has set the tone in the region, focusing new attention on producers in the Caspian Sea as gas suppliers to Europe.

Nevertheless, although not necessarily concrete and successful, the EU has introduced various initiatives in the Black Sea such as the Baku Initiative, a dialogue on energy cooperation between the EU and states bordering the Black Sea, Caspian Sea, and their

⁶⁸ Ibid.

⁶⁹ "The economic endgame of all this is to dilute Washington's hold over the Caspian Sea's energy reserves, said Robert Karniol. China, the world's fastest-growing energy consumers, wants to divert Central Asia's energy resources toward their own economies, and Russia, the region's largest supplier, is keen to reduce its dependence on sales to the West.

Jehangir Pocha, "Summit forges military ties in central Asia", *The Boston Globe*, June 18, 2006.

⁷⁰ On July 2005, the SCO issued a declaration calling for the United States to set a timeline for its withdrawal of military forces from the region. Since the war in Afghanistan, the United States maintains two bases in Central Asia, in Uzbekistan and Kyrgyzstan.

"Q&A: U.S. Military bases in Central Asia", *The New York Times*, July 26, 2005

Both Russia and India have also established military bases in Tadjikistan, not far from the U.S. base.

⁷¹ Natalie Nougayrède, "Une zone de tensions géostratégiques," *Le Monde*, January 1st, 2007

neighbors.⁷² Since 1993, the European project Traceca has attempted to develop a new channel linking Central Asia, the Black Sea, and Central Europe.⁷³ This initiative, however, has not gained much visibility. Similarly, the future of the Nabucco pipeline—which would link the field of Shah Deniz, Azerbaijan to Hungary via Georgia, Turkey, Bulgaria, and Romania, and bypassing Russia—is not yet settled. Indeed, although the EU agreed to the pipeline’s construction in June 2006, the project is not financially guaranteed yet. Gazprom would like to eliminate this competition by connecting the Blue Stream pipeline to Nabucco, linking Russia to Turkey through the Black Sea.

Because of its unexploited potential of its resources, Central Asia is most likely the location where competition between the three energy-seeking powers is the most likely. Competition even goes beyond energy; it is a rivalry for ideological and political influence.

COMMON DEPENDENCE ON THE MIDDLE EAST: A STRATEGICALLY UNSTABLE REGION

The three parties are heavily dependent of petroleum imports from the Middle East.⁷⁴ The importance of the Middle East to the US is two-fold: First, the region is the focal point of the US led war on terrorism and therefore part of a global ideological struggle against Islamic extremism. Second, the area is crucial to the quest for oil and gas resources. Given the strained relations with Iran and previously with Iraq, US oil imports from the Middle East mainly come from the Gulf countries. Since 9/11, however, Washington has viewed Saudi

⁷² The initiative was announced on 13 November 2004 at the Energy Ministerial Conference in Baku. Second Ministerial Conference was held in Astana on 30 November 2006; available from http://ec.europa.eu/comm/external_relations/energy/baku_initiative/index.htm http://ec.europa.eu/dgs/energy_transport/international/regional/caspian/energy_en.htm.

⁷³ Traceca is an East-West transport Corridor from Central Asia to Europe via the Caspian and Black Seas. It covers road and rail as well as maritime connections. It comprises of 8 NIS countries (the 5 Central Asia countries and the 3 Caucasus countries) and Ukraine, Moldova, Bulgaria, Romania and Turkey. Afghanistan joined the program; Iran and Pakistan have applied for membership; available from http://ec.europa.eu/dgs/energy_transport/international/regional/caspian/transport_en.htm.

⁷⁴ Wu Lei, “China-Arab Energy Cooperation: The Strategic Importance of Institutionalization,” *Middle East Economic Survey*, Volume XLIX, January 16, 2006.

70 to 80 percent of China’s future oil imports will have to come from the Middle East and North Africa.

Arabian oil supplies as less reliable. Indeed, eleven out of the nineteen 9/11 hijackers were Saudi. In addition, attacks on Western interests and civilians in Saudi Arabia have raised concerns about the reliability of the Kingdom's oil supply in the event of infrastructure attack.⁷⁵ Washington's dependence on energy resources from unstable countries is a threat to national security. Even the President has acknowledged the addiction to Middle East oil publicly.⁷⁶ The US interest in maintaining stability in the Middle East comes from the perception that regional stability is linked to energy security and national power. While Iraq's future as a significant oil producer remains uncertain, the US lifted most of its economic sanctions against Libya in 2005.⁷⁷ As a result, Libya shipped the first oil to the US in over twenty years.⁷⁸ More importantly, the easing of sanctions has allows US oil companies to expand their Libyan investments.⁷⁹

The EU is also dependent on Middle Eastern imports; 45 percent of EU oil imports originate in the Middle East. To address energy cooperation between the EU and the Middle East, the Euro-Med Energy Ministerial Conference was established to create a framework and move toward the objective of a Euro-Mediterranean Free Trade Area by 2010.⁸⁰ Such energy cooperation aims to promote regional integration of energy markets, enhance energy security, including diversification of energy sources and supply routes, and ensure environmental sustainability of energy sector in the Mediterranean region. In addition, North African gas

⁷⁵ James Gavin, "Saudi oil comes under threat," *Petroleum Economist*, July 2004.

⁷⁶ In the 2006 Speech of the Union, President Bush offered a proposal aimed at ending U.S. dependence on foreign oil as more Americans express concern about the rising cost of gasoline and home heating fuel: "Here we have a serious problem: America is addicted to oil, which is often imported from unstable parts of the world." Implicitly, George W. Bush pinpointed Saudi Arabia.

⁷⁷ Besides Iran, the United States maintains sanctions on two other oil producing nations - Sudan and Syria.

⁷⁸ Libya is Africa's second largest oil exporter after Nigeria.

⁷⁹ Dr. Ties Tiessen.

⁸⁰ The main instrument of cooperation has been the Euro-Med Energy Ministerial Conferences, of which three have taken place since 1998. Sub-regional energy dialogues and cooperation initiatives covering the Maghreb, Mashrek and Israel and the Palestinian Authority have been established. Establishment and statute of the Rome Euro-Mediterranean Energy Platform; available from http://ec.europa.eu/dgs/energy_transport/international/regional/euromed/energy/index_en.htm <http://www.energy-community.org/>.

sources will increasingly contribute to European energy security in an attempt to offset the dependence on Russia. In addition, North Africa's gas producers such as Algeria and Libya will become increasingly important in exporting gas to Europe.⁸¹ Most importantly, North Africa proximity to Europe opens up the possibility of gaining access to natural gas.

China also has friendly business relations with many Middle East countries. Together Iranian and Saudi Arabian exports now represent almost two-thirds of China's imports from the Middle East.⁸² Consequently, China's increasing dependence on Middle East oil could change the balance of power in the Middle East or even create a division between American interests and Chinese expectations concerning intervention in order to ensure the energy security across the Middle East and Central Asia. Another implication of Chinese and American dependence on Middle East oil is the extent to which China might challenge US policies toward a third country such as Iran. China might decide that positive relations with oil suppliers outweigh the political benefits of solidarity with the US. This may play out the way China agrees to economic sanctions or military action at the UN Security Council. Similarly, China's growing dependence on oil imports from the Middle East could result in increased political influence at cross purposes with US interests in the region. However, China's first imperative is to provide support for policies that ensure the stability of Middle Eastern oil supplies.

IRAN AS THE FIRE STARTER BETWEEN THE US, THE EU, AND CHINA?

After the 2003 war in Iraq, Iran was left unchallenged as the regional power of the Middle East due to its oil power. Oil prices have risen from \$27 a barrel at the beginning of the Iraq war to \$65 a barrel in the spring of 2006, as tensions rose over Iran's nuclear program

⁸¹ Dr. Ties Tiessen.

⁸² John Keefer Douglas, Matthew Nelson, Kevin Schwartz, How China's energy demands affect its relationship in the Middle East, *U.S.-China Economic and Review Commission*, September 14, 2006.

to \$75 in July 2006, following the conflict in Lebanon. Iran's influence has grown proportional to the price of the barrel. Indeed, according to Cambridge Energy Research Associates, each \$5 increase in the price of oil results in a profit of \$85 million a week for Iran.⁸³

Three parties are involved in disrupting Iran's military nuclear program. However, amongst the parties, there are differing approaches and goals. China's appetite for oil, and particularly Iranian oil, dramatically affects its stance on Iran's nuclear program. Iran has become China's single largest oil supplier; in 2002, Iran already accounted for more than 15% of the PRC's annual oil imports. According to Ilan Berman:

“Tehran's intransigence in this stand-off has been made possible in part by its strategic partnership with Beijing. Since the start of international negotiations with Iran over its nuclear program some three years ago, China has worked actively to dilute the effectiveness of any global response.”⁸⁴

As a proof of burgeoning Sino-Iranian relations, China has invested heavily in Iran over the past few years.⁸⁵ Additionally, the lack of competition in Iran's energy market is an advantage for all Chinese national firms.⁸⁶

Moreover, as a permanent member of the UN Security Council, the PRC's position on the question of sanctions is critical.⁸⁷ Although China is much more interested in good relations with the US than it is with Iran, Iran is only one of a number of Middle Eastern oil

⁸³ Steven Weisman, “As the price of oil soars, so does its power to shape politics from Washington to Beijing”, *Market forces*, July 25, 2006.

⁸⁴ U.S. Congress, Testimony before the *U.S.-China Economic & Security Review Commission*, “The impact of the Sino-Iranian Strategic Partnership, China's Proliferation to North Korea and Iran, and Its Role in Addressing the Nuclear and Missile Situations in Both Nations”, by Ilan Berman, September 14, 2006.

⁸⁵ Ibid.

In 2004, the two countries came to terms on two massive accords, estimated to be worth some \$100 billion over the next twenty-five years, granting Chinese firms extensive rights to develop Iranian oil and natural gas reserves.

⁸⁶ The Western countries led by the United States have imposed sanctions against Iran for a long period time, ever since Iran's Islamic revolution.

Chen Licheng and Yu Weibang, "The United States Will Find It Difficult To Resist Sino-Iranian Energy Cooperation", 'Exclusive' interview with Iranian ambassador to China, Javad Mansouri, *Ming Pao*, January 27, 2007; available from World News Connection.

⁸⁷ David E. Sanger, “China's Oil Needs Are High on U.S Agenda”, *New York Times*, April 19, 2006.

states, with which China is trying to develop good relations. In addition, while the Bush administration and its European allies try to pressure Iran over its nuclear aspirations, China invited Iran as a guest of honor at the July 2006 SCO meeting.⁸⁸ As a result, some analysts argue that Chinese cooperation with Iran is part of a broader political goal, which aims for the dilution of American power in the Middle East. Nonetheless, the PRC agreed to moderately sanction Iran's nuclear program since the program is in discord with its political and economic interests. UN Security Council members unanimously sanctioned Iran in December 2006 (Resolution 1737).⁸⁹ Although Americans and Europeans united to push forward sanctions, some differences are emerging between the transatlantic partners on how they should be carried out.⁹⁰ It is likely that differences will only widen if Iran continues its nuclear program. Who is committed to halt Iran with a military strike? Who is ready to make compromises with Iran? If things worsen with Iran, some argue that a preventive attack would trigger a number of events: Iran could retaliate; several Middle Eastern governments could fall; and the price of oil would rise above \$150 a barrel.⁹¹ Undoubtedly, some will think twice

⁸⁸ Jehangir Pocha, "Summit forges military ties in central Asia," *The Boston Globe*, June 18, 2006. The fact that "the SCO provided Iran with diplomatic embrace at the time when the U.S. is trying to isolate Tehran over its nuclear program is yet another instance of how the grouping is thumbing its nose at Washington".

⁸⁹ Chen Licheng and Yu Weibang.

Unanimously the resolution 1737 (2006) was adopted by the Security Council, 5612th Meeting under Article 41 of the Charter's Chapter VII. The Council decided that Iran should, without further delay, suspend the following proliferation sensitive nuclear activities: all enrichment-related and reprocessing activities, including research and development; and work on all heavy-water related projects, including the construction of a research reactor moderated by heavy water. However, according to the Iranian ambassador to China, Javad Mansouri, "the content of the resolution was noticeably different from the draft preliminarily put forward by Britain, France, and Germany. The original resolution asked Iran to suspend its uranium enrichment activities and also banned all the countries from offering to Iran technologies that could be used to develop nuclear bombs. He added that "thanks to the persistent efforts made by China and Russia, the resolution's rigid and harsh content was cancelled, use of force was not authorized, and the terms for punishing the foreign firms and individuals in cooperation with Iran were weakened."

⁹⁰ Steven R. Weisman, "Europe Resists U.S. on Curbing Ties With Iran", *The New York Times*, January 30, 2007.

European governments are resisting Bush administration demands that they reduce exports to Iran and cut off financial transactions with Iranian companies. Therefore American pressure threatens to open new rift between Europe and US over Iran.

⁹¹ Richard N. Haass, "The New Middle East," *Newsweek International*, January 8, 2007 Issue.

before hardening their position on Iran. Therefore, a crisis in Iran could quickly and dramatically send sparks between the EU, the US, and China.

AFRICA AND ITS ABUNDANT ENERGY RESOURCES

Because of instability in the Middle East, Africa is an attractive alternative to diversify energy supply. The recent involvement of China in the energy resources of several African countries is fundamentally changing the face of the continent. As Beijing fosters ties to oil-producing countries in Africa, it gains direct control of African oil.⁹² China imports 30% of its oil supplies from African countries such as Sudan, Chad, Libya, Nigeria, Algeria, Gabon, and Angola. In fact, Angola has overtaken Saudi Arabia as the biggest exporter of oil to China.⁹³ It is crucial that the PRC cultivates friendly relations with African elites in order to facilitate the exploration, extraction, and shipping of African crude oil by Chinese companies.⁹⁴ The summit between China and Africa in November 2006 symbolized this thriving partnership. President Hu Jintao pledged five billion dollars in loans and export credit by 2009. He also announced the establishment of a five billion dollar fund to encourage Chinese investment in Africa. Undoubtedly, because these countries are poor, Beijing's investment constitutes a significant share of these countries' oil exports and consequently contributes massively to their GDP. Therefore, the effect of China's energy diplomacy is significant in terms of the economic, political and social development of these African countries.⁹⁵

⁹² Joshua Eisenman, "Sino-Japanese oil rivalry spills into Africa," *Energy Security*, Institute for the analysis of global security, January 19, 2006.

⁹³ "Easing of the gas," *Petroleum Economist*, December 1, 2006, p11.

⁹⁴ Joshua Eisenman.

⁹⁵ Dr. Ties Tiessen.

As an illustration of close Sino-African relationship, Chinese companies were invited to expand their investments in Nigeria. The China National Petroleum Corporation (CNPC) agreed to begin oil exploration in the Nigerian side of the Chad basin and has expressed an interest in developing a working relationship with state-run Nigerian National Petroleum Co. in Oil Mining Lease.

Clearly, Chinese presence in Africa is a new challenge to Europe's historical economic and political influence on the continent.⁹⁶ Chinese investment and aid programs in Africa are 'unconditional'—or rather different from the Washington consensus conditions—and could be at cross purposes with European initiatives. Although Europe remains Africa's main partner, its share has decreased from 44 to 32 percent of the region foreign's trade over the past ten years.⁹⁷ Unlike the EU, Beijing is not a proponent against the fight against corruption or for the promotion of democracy; China also indirectly encourages the status quo for African leaders. Some analysts even argue that China's presence in Africa signals an end to European 'soft power' in Africa.⁹⁸ However, the EU has not spoken its last words. A comprehensive African-European Energy partnership was launched in March 2007.⁹⁹ One of the objectives of this Energy partnership is to develop Africa's ability to become a sustainable energy supplier and to encourage African countries to use their resources optimally and developmentally sound.¹⁰⁰ Additionally, the EU has pushed for closer cooperation between the EU and China with respect to Africa. Indeed, last September, Beijing and Brussels established a senior official level dialog on Africa in order to contribute to better understanding between the two partners, to elucidate the policies and programs they are pursuing, and "not least to ensure that (their) effort do not cut across each other as they sometimes have in the past."¹⁰¹ While memory of European colonialism and imperialism is

⁹⁶ Javier Solana, "Challenges for EU-China Cooperation in Africa," *China Daily*, February 7, 2007. Javier Solana is High Representative for the Common Foreign and Security Policy of the European Union. This article was originally published in English in *China Review* and in *Chinese Youth Daily*.

⁹⁷ "Never too late to scramble, China in Africa", *The Economist*, October 28, 2006.

⁹⁸ Chinese presence could undermine European influence in Africa in terms of good governance, human rights, democracy, sound economic development, available from <http://www.consilium.europa.eu/uedocs/cmsUpload/st15961.en05.pdf>.

⁹⁹ Africa-Europe Energy Forum Berlin 2007, "Toward an Africa-Europe Energy Partnership"; available from <http://www.energypartnership.eu/>.

¹⁰⁰ "An Energy Policy for Europe," Communication from the Commission to the European Council and the European Parliament COM(2007).

¹⁰¹ Javier Solana.

still vivid in Africa, the African perception is that China offers a different kind of cooperation, a win-win situation.¹⁰²

While the influence of colonial powers is waning and Chinese influence as a model of successful development according to African leaders is on the rise,¹⁰³ the EU and the US still share the same human rights, accountability and transparency concerns. It may be advisable for them to adopt a united front on China's behavior in Africa and begin a dialog on this very issue. Joshua Eisenman warns that "given growing US dependence on African oil imports and the importance Washington places on democracy promotion, policymakers must consider the effects of China's strategy on African suppliers." In fact, many countries are realizing that they can benefit from Sino-Transatlantic competition, by playing the Chinese card against Western ones. This reasoning, however, is possibly perverse and tremendously damaging for the 'global good governance.'

African appreciation for Chinese presence is ambiguous. On the one hand, it is incredibly positive for their development in many ways. Beijing has distributed a fair amount of aid, has improved African infrastructures, and is increasingly engaged in conflict resolution by deploying Chinese soldiers in African-based UN peacekeeping missions. Additionally, Africa grew 5.2 percent in 2005, its highest level ever, in part because of Chinese investment.¹⁰⁴ On the flip side, anti-Chinese sentiment is growing.¹⁰⁵ Some African voices have started to warn that China risks replicating a "colonial relationship" in Africa.¹⁰⁶

¹⁰²Lindsey Hilsum, "We love China", *Granta*, January 15, 2006.

"The Chinese come to Africa as equals, with no colonial hangover, no complex relationship of resentment."

¹⁰³ Elizabeth C. Economy, "The perils of Beijing's Africa strategy", *International Herald Tribune*, November 2, 2006; available from http://www.cfr.org/publication/11886/perils_of_beijings_africa_strategy.html.

¹⁰⁴ Esther Pan, "China, Africa and oil," *Council of Foreign Relations*, January 27, 2007.

¹⁰⁵ Carolyn Bartholomew in "Beijing Safari: China's deepening ties with Africa," American Enterprise Institute's Panel, November 1, 2006.

¹⁰⁶ Yaroslav Trofimov, "New Management: In Africa, China's Expansion Begins to Stir Resentment; Investment Boom Fuels 'Colonialism' Charges; A Tragedy in Zambia," *The Wall Street Journal*, February 2, 2007, p. A1.

Furthermore, Africans are beginning to realize that Beijing is neither transferring knowledge nor known-how skills in industrialization. For instance, instead of providing job training for African nations, China is bringing its own workers to build up the infrastructure.¹⁰⁷ Even more strikingly, China interests in Africa will last only as long as the oil flows. The *Economist* warns that “this new interloper in their continent is no more altruistic than its predecessors.”¹⁰⁸

Ironically, most of the world has overlooked Africa because of its association with conflict and poverty. Now that energy security is high on the agenda of consumer countries and China is a rising player, there is a revived interest in Africa and the potential for political, economic, and cultural competition.

THE LATIN AMERICAN GAME

Strategically, Latin America is an important region with respect to its petroleum reserves in three countries: Venezuela, Bolivia and Ecuador. Venezuela contains some of the largest oil and natural gas reserves in the world. It is one of the top suppliers to the US and is one of the top ten crude oil producers in the world. With one of the largest natural gas reserves in South America, Bolivia has the potential to become a natural gas hub in South America. Finally, Ecuador is one of Latin America's largest crude oil producers. The country's oil exports have increased significantly in the past few years, following the construction of a second pipeline.

In an attempt to assert their independence against the US, many Latin American countries have renationalized their resources in order to capture a greater share of the profits and power. Thus, producers in Latin America have gradually increased their national profits at

¹⁰⁷ Walter Kansteiner in “Beijing Safari: China’s deepening ties with Africa,” American Enterprise Institute’s Panel, November 1, 2006.

¹⁰⁸ “Never too late to scramble, China in Africa,” *The Economist*, October 28, 2006.

the expense of Western oil companies. Following this trend, Evo Morales, Bolivia's President, has nationalized Bolivia's oil and gas fields, likely inspired by Hugo Chavez.

On one hand, historically, Latin America has been treated as America's backyard since the establishment of the Monroe Doctrine. On the other hand, considering the strained relations between Venezuela and the US, the PRC's energy agreements with Latin American countries are hitting US interests close to home. Accompanied by 200 Chinese businessmen, China's President Hu Jintao toured the Latin American continent in November 2004. The Chinese President signed multibillion dollar deals for investment in trade, raw materials, and infrastructural development as well as cooperation in the energy and aerospace sectors amongst others. The bulk of these accords were with Argentina and Brazil.¹⁰⁹ The region has strategic significance for Sinopec, which agreed to cooperate on a broad range of energy ventures with state-owned Petroleo Brasileiro SA. The agreement included oil exploration and production, refining, oil production sales, petrochemicals, and pipeline engineering. The deal will steadily deepen trade between China and Brazil.¹¹⁰

However, here again the motivations appear to be more politically than energy driven. According to Erica Downs, expert on China issues at the Brookings Institute, Venezuela's oil does not mean much to China:

“Venezuela exports 150 thousand barrels of oil to China daily, accounting for 4% of China's imported crude oil and oil products, which is only a small portion. The crude oil trade alone is even smaller. Venezuela's crude oil exports to China account for just 2.3% of China's crude oil import, far less than Angola's 18%, Saudi Arabia's 16% and Iran's 12%.”¹¹¹

Still, the accusation of a defiant Iranian-Venezuelan-Chinese energy front with a determined anti-American stance is ubiquitous amongst some Washington circles.

¹⁰⁹ Cynthia R. Rush, “Huge Potential in China's Ibero-American Initiatives,” *Executive Intelligence Review*, December 3, 2004, Issue.

¹¹⁰ Dr. Ties Tiessen.

¹¹¹ Dejin Su, “Chavez Visits Beijing: The Convergence of Oil Diplomacies,” *Washington Observer weekly*, Issue No. 189, August 16, 2006.

All areas of potential conflict and power struggle for sphere of influence have not been mentioned; and Asia is one of them. Indeed, in Asia, open conflict over energy-related territorial disputes could pit American interests against Chinese especially in the South; and the East China Sea could explode even faster. For instance, the US could become involved in the issue of sovereignty over maritime resources in the East China Sea, which is pitting China against Japan.¹¹²

The PRC's strategy of creating special bilateral or regional partnerships with clients, notably rogue energy-producing countries outside its 'sphere of influence' is increasingly a matter of concern and competition for the other two big energy importers. Preoccupied by their own individual understanding of energy security, the PRC, the EU, and the US are launched in a quest to secure their energy supply. However, false perceptions may have a larger role to play in the debate surrounding energy security.

The Role of Perceptions

It is an exaggeration to say that energy competition will inevitably lead to conflict. More importantly, energy competition is driven by perception. Although Japan has been for a long time the second largest energy consumer after the US, it has hardly ever been perceived as an energy challenger. One explanation for this is Japanese behavior, which operates in accordance with the rules of the world energy market. Another explanation for this is the American perception of Japan as an ally. Furthermore, there is a huge uncertainty surrounding China's foreign policy agenda in energy-rich nations. As a result, the whole debate around

¹¹² Scott Snyder, "Energy Security in East Asia: A U.S. Perspective," in *Rethinking Energy Security in East Asia*, ed. Paul B. Stares (2000)

UN Conferences on The Law of the Sea (NCLoS), which allows countries to claim 200-miles EEZs, tensions have increased about maritime territorial disputes where jurisdictional and sovereignty claim overlap.

energy security debate appears to be driven by political considerations rather than by competition for the resources themselves.

Similarly, China's desire for energy is often overplayed. The 'threat' of China's energy demand is based on future forecasts, geopolitics, strategic thinking, and scenario analysis. It is true that both the Chinese consumption and import per capita of petroleum and natural gas are much lower than those of the US and the EU. Import per capita is 100 kg in China, compared to the world average of 400 kg. It is 2.1 metric tons in the United States and close to two metric tons for Japan, 20 times the Chinese average. According to Chinese Minister Ma Kai of the State Development and Reform Commission, it:

“is obviously unfair to allege that countries like ours, with low levels of consumption and importation, are posing a threat to world energy security, while refraining from telling people that countries with high levels of consumption and importation are threatening world oil security.”¹¹³

Despite all the attention paid to China's efforts to secure international petroleum supplies, the amount that China produces per day outside of its own borders is just ten percent of the amount one of the super major oil companies produces daily. In addition, Chinese oil companies usually target countries other foreign investors are unwilling to enter, such as Iran, Venezuela, and Sudan; the competition to enter those markets is nonexistent. On the one hand, the US has recognized that the additional amount of energy the PRC brings to the tight market is a positive contribution. It expands global energy supply, which is of benefit to the whole world, including the US. At a hearing of the Economic and Security Review Commission for China early in August, a number of attending scholars had a neutral perspective as well as a solid understanding of China's overseas oil development.¹¹⁴ On the

¹¹³ Che Yuming, Zhang Xudong, Hao Yalin, and Wei Minli, "Fifth Session of 10th National People's Congress Holds News Conference; NDRC Minister Ma Kai Answers Questions," Xinhua Domestic Service in Chinese, March 8, 2007; available from World Connection News.

¹¹⁴ Wang Wenfeng, "China and U.S. Seek Constructive Energy Cooperation," *Renmin Ribao*, September 15, 2006; available from World Connection News.

other hand, the US has concerns, believing that China might impose upon US policy objectives in these countries.

While the public tends to believe that high prices are the result of growing energy demand from consuming countries such as China, the PRC rejects this accusation. High prices are also the result of underinvestment and speculation. According to the Chinese, speculative moves by multinational financial institutions (especially various types of funds) should be considered. Thus, the scope of cooperation should be extended “beyond the energy sector to include international financial regulation. Otherwise it will be difficult to achieve complete success.”¹¹⁵ The PRC has voiced its disapproval for America’s vision of China as a “responsible stakeholder” in the global system and for Chinese energy diplomacy only according to US standards.¹¹⁶

The best way to deal with these perceptions and solve the disagreement is to strengthen communication and understanding.

Tension and Friction beyond the Energy Game: Political and Geopolitical Implications are at Stake

CHINA’S ENERGY DIPLOMACY CLASHES WITH EUROPEAN AND AMERICAN VALUES: GOOD GOVERNANCE, ARMS SALES AND SOFT POWER

Increasingly a foreign policy actor within energy diplomacy, it is notable that the PRC does not behave as a responsible energy consumer, contributing to the world’s order. Ironically, the West expects the PRC to promote good governance while Beijing itself is neither a beacon of democracy, nor a model regime in the realm of rule of law and human rights. If the idea of a responsible energy consumer even exists, such an energy consumer could encourage governance in energy exporters. There are a number of current examples of

¹¹⁵ "Five-Nation Energy Cooperation Can Bring About A Win-Win Situation for All Sides," *Ta Kung Pao*, December 18, 2006.

¹¹⁶ *Ibid.*

how the PRC's energy diplomacy negatively affects development in several African, Asian, and South American countries. Beijing has cultivated close ties to countries that produce commodities and raw materials regardless of their domestic policies; this is an example of the Chinese doctrine of "non-interference in domestic affairs" and dogma of "non-violation of sovereignty."¹¹⁷ Indeed, China does not bother these countries with the encouragement of democratic standards of transparency, good human rights records, or debt restructuring. Instead, the PRC ignores corruption, cancels some debts, and prevents Security Council's sanctions such as actions against Darfur's genocide.¹¹⁸ In other words, China does not place demands on its trade partners; it enforces a policy of no 'strings attached' and no condition, China is just doing business, and "therefore is much more welcome as an interlocutor to autocratic governments than the EU or the US"¹¹⁹ Sudan, Myanmar, and Zimbabwe have all escaped international sanction in large part because of Chinese protection.¹²⁰ In addition, energy deals are rarely the sole Chinese activity in these countries; in most case, deals cover a wide range of things from investment to trade. This year, China promised to provide well over \$10 billion in low interest loans and debt relief to Asian, African and Latin American countries over the next two years. This agreement entails much more than energy agreements:

¹¹⁷ Joseph Kahn, "China, Shy Giant, Shows Signs of Shedding Its False Modesty," *The NewYorkTimes*, December 9, 2006.

"They are buying long-term supplies wherever they find them, including in unsavory places like Sudan, Iran and Burma, where we won't buy," said Michael J. Green, a Georgetown University professor who directed policy on China at the National Security Council until late last year. "They say it is benign, because they don't interfere with the internal affairs of other nations. And we say it is anything but benign, because it finances these regimes' bad behavior."

¹¹⁸ Joshua Eisenman.

In Angola, Chinese loans and aid packages have undermined attempts to improve government transparency and corporate governance in the oil sector. In November 2005 Jose Pedro de Morais, Angola's finance minister, said he expected future Chinese loans would exceed \$2 billion, adding "when we ask our Chinese counterparts if they are willing to provide more loans, they say yes." Chinese capital has encouraged Angola to refuse International Monetary Fund (IMF) loans that would require the country to open its books to independent scrutiny and reveal and reform the poor African nation's corrupt leadership.

¹¹⁹ "Facing China's rise: Guidelines for an EU strategy", *Chaillot Paper*, n° 94, December 2006.

¹²⁰ Joseph Kahn.

they have social, political, and economic impacts.¹²¹ As a result, Chinese presence and Chinese money in those regions effectively prop up countries that the rest of the world, namely the West, would not support.

Equally a concern is the weapon sales component of the Beijing Safari. The US Congressional Research Service reports that China's arms sales to Africa made up 10% of all conventional arms transfers to the continent between 1996 and 2003. They include Sudan, Equatorial Guinea, Ethiopia, Eritrea, Burundi, Tanzania, and Zimbabwe. The arms sale to African countries meets several strategic goals. First, China guarantees the security and protection of African energy explorations, in this respect, the PRC has sent military trainers to Africa. Second, Beijing secures strong allies at the UN and against Taiwanese independence. In their report on "China's Arms Sales: Motivations and Implications," Daniel Byman and Roger Cliff state that China's government exerts strong central control over arms exports and uses them as a foreign policy tool. However, China is not unique in selling arms to questionable governments, other 'respectable' countries have done it in the past and continue to do it.

The other question is whether a 'soft power' competition is developing. While the Chinese are much more active worldwide than they used to be, the US is clearly lacking influence in the realm of soft power since the 9/11 terrorist attacks, the Iraq war, and the Guantanamo Bay detention camp scandal. Anti-Americanism has risen notably in the Middle East, Africa, and Latin America. For instance, China's reputation in Africa is better than America's (with a 60 percent approval ratings).¹²² Yet, there is a difference between activity

¹²¹ John Keefer Douglas, Matthew Nelson, Kevin Schwartz, "How China's energy demands affect its relationship in the Middle East," *U.S.-China Economic and Review Commission*, September 14, 2006. China's disregard for the human rights abuses and other violations of international norms by oil supplying states such as Sudan and Iran, and its opposition to the imposition of sanctions by the UN on these states such as Sudan and Iran, has prompted some western powers to criticize the PRC for exploiting what has been termed the 'morality gap'".

¹²² Joshua Kurlantzick; American Enterprise Institute Event.

and influence. Influence involves succeeding in directing countries in a certain direction, which is hard to detect until a crisis situation. Unlike the Cold war, when China wanted to influence African countries ideologically as the leader of the non-aligned movement, now China is more interested in commodities than influence.¹²³ Yet, instead of disregarding the American model on the world stage, China is attempting to emulate it. According to François Godement, China's soft power in Asia is based on consideration of the American precedent and respect "for America's hard power, and especially its military capabilities, which is often the first argument adduced for China's rise in military spending and technological modernization."¹²⁴

CONCERNS AND SUSPICION BETWEEN THE US AND CHINA: THE CASE OF THE PRC'S MILITARY BUILD-UP IN EAST ASIA

China has pursued an extensive military modernization program. For the tenth year in a row, China's new annual military budget reflects double-digit growth over the previous year. According to Chinese government figures, the 2006 budget will increase by 14.7 percent from the previous year to approximately \$35 billion.¹²⁵ However, the Central Intelligence Agency (CIA) indicates that China's military spending may be two or three times higher than it acknowledges and that it is allocating more money to its military than any other country except the United States.¹²⁶

¹²³ "Never too late to scramble, China in Africa," *The Economist*, October 28, 2006.

However, there is certainly a competition for influence between the U.S. and the P.R.C. in some specific areas such as Asia. The U.S. maintains long-standing alliances with the Philippines, Indonesia, Vietnam, South Korea, Japan and Singapore. These countries are viewing the rising of China and try to extract benefits from both sides. In the same time major regional powers such as Japan, India, and Australia do not want China to become a prominent regional leader. Additionally many East Asian countries do not want China to dominate.

¹²⁴ "Facing China's rise: Guidelines for an EU strategy", *Chaillot Paper*, n° 94, December 2006.

¹²⁵ 2006 Report of Congress of the U.S.-China Economic and Security Review Commission, November 2006

¹²⁶ Joseph Kahn, "China, Shy Giant, Shows Signs of Shedding Its False Modesty," *The NewYorkTimes*, December 9, 2006

Increasing US suspicion toward Chinese military program is compounded by the American accusation of ‘Beijing’s lack of transparency.’ Indeed, according to the 2006 Report to Congress by the US-China Economic and Security Review Commission, the PRC “continues to shroud much of its military structure, activities, and intentions in secrecy, leading to increased chances for misunderstanding and potential conflict.” Additionally, the US Department of Defense’s 2006 Quadrennial Defense Review Report (QDR) warns about China’s military potential. Specifically, it stresses that the rate of Chinese military modernization is putting the regional strategic balances at risk.

The main explanation for the Chinese acceleration of its military buildup and modernization is that it serves to deter Taiwan from moving toward independence as well as to deter American intervention and assistance for Taipei. Yet, it is obvious that PLA’s modernization has strategic goals beyond Taiwan. Furthermore, China fears the US role as paramount security provider of the sea. Being the prime guarantor of freedom of the sea, the US could blockade China at any time, thereby disrupting Chinese energy supplies. As a result, US naval power is perceived as a threat to China’s security. Transportation routes are by definition vulnerable. The danger of oil tankers attack, capture, and interference by pirates or terrorists has long been a source of concern—especially in the Persian Gulf where narrow straits and “choke points” are numerous (such as the Straits of Malacca). Undoubtedly, with the amount of oil transported to China, the importance of sea communication lanes has grown for Beijing as well as worries.¹²⁷ Hence, the development of the Navy’s “blue water” may

¹²⁷ Chinese naval expansion is said to be driven in part by the desire to protect the Strait of Malacca, which connects the Indian and Pacific oceans and through which 80% of China's imported crude oil pass.

become “a force capable of challenging the U.S. military in the western Pacific and beyond” along with the Chinese ‘String of pearls’ strategy.¹²⁸

In contrast to benign European military capacities, China has emerged as a strategic military competitor to the US. Up until now, the competition has been limited to Asia. However, in the future, it could encompass the world. In other words, the accelerating military modernization and buildup hold serious implications for East Asia, the United States, and, depending on China’s long-term global aspirations, the world.

The urgent demand for energy is “still a disguised form of contention covered by affable and courteous diplomacy now” and no one knows how it will turn out in several years.¹²⁹ However, it seems that the tensions, competition, and suspicion observed amongst the US, the EU, and China in some strategic regions of the world does not always make sense. Indeed, most Chinese oil acquisitions have contributed relatively little to oil imports in China. As a result, one cannot understand the triangular relations without taking into account threat perceptions.

In this context, the stakes may not be high enough for the players to risk armed conflict. To what extent have market liberalization and cooperative security approaches to energy dependency encouraged cooperation instead of conflict over energy resources? The outlook appears less worrisome due to broad economic and political interdependence. Would collective energy dilemma drive the search for cooperative solutions? The central question for China is whether its unilateral acquisitive strategy will improve its energy situation instead of

¹²⁸ To balance US maritime superiority, China has adopted a ‘string of pearls’ strategy, building strategic relationship along the sea-lanes from the Middle East to Southern China – including Bangladesh, Burma, Cambodia, Thailand and Pakistan – to protect its energy interests. As a result, a deeper look at Chinese naval strategy sends us a warning message about not necessarily harmonious goals and about Chinese intentions to undercut America’s maritime preeminence in the region.

¹²⁹ “HK TKP Article Discusses China's Energy Security, Diplomacy,” *Hong Kong Ta Kung Pao* (in Chinese), July 25, 2004; available from World Connection News.

an alternative, market based strategy in line with other energy consumers and international energy organizations. Is it rational win-win behavior for China, the EU, and the US to cooperate constructively together?

CHAPTER 3: A COMMON TRANSATLANTIC APPROACH TOWARD CHINA'S ENERGY POLICY: TOWARD TRILATERAL COOPERATION

In a world of increasing interdependence, energy security will depend much on how countries manage their relations with one another, whether bilaterally or within multilateral frameworks.
Daniel Yergin¹³⁰

The Lack of Transatlantic Dialogue on Energy Security And China

THE HISTORIC AND LASTING TRANSATLANTIC PARTNERSHIP: ENERGY AS AN ADDITIONAL COMPONENT OF THEIR RELATIONSHIP AND DIALOGUE

The transatlantic alliance is a long-lasting and strategic cooperation between Western European countries (and more recently Eastern European countries) and the US. During the Cold War, the alliance rested on common values, culture, democratic system of governance, as well as shared interests and military goals against a common adversary (Communism and the Soviet Union). In other words, history, culture, and ideology have strengthened the transatlantic link and made it with a reality in the realms of foreign affairs and geopolitics. Although the transatlantic relationship is often taken for granted, the end of the Cold War, the emergence of the European and Security Defense Policy (ESDP), and more recently the war against Iraq have put a spotlight on some differences of opinion, point of view, and perspective. As a result, one of the biggest challenges for the future is to maintain the transatlantic relationship, which has a vision of humanity and emphasizes democratic peace for the world. In fact, far from ailing, the transatlantic relationship is thriving in many sectors. Energy, however, is one area where cooperation is crucial and could be deepened, especially regarding the issue of China *and* energy.

¹³⁰ Yergin Daniel, Dennis Eklof and Jefferson Edwards, "Fueling Asia's recovery," *Foreign Affairs*, 77(2), 1988.

The EU and the US have agreed to strategically cooperate in order to contribute to global energy security. As stated in the October 2006 edition of *EU Insight*, the EU and the US are aware of their responsibilities:

“as the world’s largest energy consumer, the EU and the U.S. must lead the way and help build an energy economy that is secure, protective of the environment, and conducive to economic growth and prosperity around the globe.”¹³¹

Though a transatlantic dialogue on energy was launched in 1995 as a part of the “New Transatlantic Agenda,” it became particularly relevant and with a strategic dimension ten years later with the Economic Declaration of the EU-US Summit on June 2005, which included a specific annex on energy. Since then, high-level meetings have intensified; the EU and the US have agreed to a yearly strategic review of their energy cooperation at the senior level in order to measure progress and provide guidance. The president of the European Commission, José Manuel Barroso has called for a strategic dialogue between the EU and the US in a speech at Georgetown University on February 9, 2006.¹³² The bulk of transatlantic cooperation concerns energy security, energy technologies (such as hydrogen and carbon sequestration), energy efficiency (Energy Star Agreement), and renewable energy sources, particularly bio fuels. They also cooperate in the realm of energy through multilateral agreements and through international organizations such as the International Energy Agency (IEA) and G-8 initiatives. Additionally, during the June 2006 Vienna Summit, the EU and the US agreed on “Promoting Strategic Cooperation on Energy and Energy Security, Climate Change and Sustainable Development.”¹³³

¹³¹ EU Insight, The European Union, “Energy Security and Transatlantic Cooperation,” October 2006.

¹³² José Manuel Barroso, “Time For An Integrated European Energy Policy,” Georgetown University, February 9, 2006; available from <http://www.eurunion.org/News/press/2006/20060012.htm>

¹³³ The E.U. and the U.S. have agreed to enforce their strategic energy cooperation to: support diversification of energy sources and supplies; secure our energy infrastructure; promote market-based energy security policies that ensure competition, transparency; respect for contracts, and non-discriminatory trade, transit, and access; speed development of new lower-pollution and lower carbon technologies; accelerate investment in cleaner, more efficient use of fossil sources and renewable sources in order to cut air pollution harmful to human health and natural resources and reducing greenhouse gases associated with the serious long-term challenge of global climate change.

THE TRANSATLANTIC DIALOGUE ON CHINA

As a result of the embargo crisis, a new transatlantic dialogue has emerged: the transatlantic dialogue on Asia, and specifically on China. Starting in 2004, the transatlantic dispute over the arm sales embargo to China, has highlighted the lack of a genuinely strategic transatlantic dialogue on China.¹³⁴ Christopher R. Hill, US Assistant Secretary of State for East Asian and Pacific Affairs, recognized that the dialogue was “long overdue.” Thus, the transatlantic dialogue on East Asia is only recent; the arms embargo crisis played a positive role to a certain extent in accelerating the process of coordinating European and American policies towards China. It is in the best interests of both the US and the EU to cooperate more intensely on developments in the region in order to increase mutual understanding of their respective interests and security concerns.

Not only do Americans and Europeans share fundamental values, but they also pursue similar objectives. Among the three main objectives, the EU and the US facilitate China’s further integration into the international community, encourage it to be a responsible player on the international stage, and emphasize China’s respect for fundamental values. Since the 1989 Tiananmen Square crackdown, the promotion of the rule of law, civil and political rights, and democracy are a point of discussion in bilateral and multilateral relations with China. Both the EU and the US have a human rights dialogue with China.¹³⁵ However, the issue of human rights in China is too often trumped by political or commercial considerations. As a result, if political and diplomatic actors do not condemn of human rights’ violations, they remain toothless and meaningless.

¹³⁴ NATO Parliamentary Assembly, Resolution 338 on Forging a Transatlantic Policy Towards China; available from <http://www.nato-pa.int/Default.asp?SHORTCUT=826>.

¹³⁵ The Delegation of the European Union to China, EU-China Human Rights Dialogue, available from http://www.delchn.cec.eu.int/en/Political/Human_Rights.htm.

However, the arms embargo crisis has revealed divergences of opinion within the transatlantic alliance due to differences in interests. The EU and the US have extremely divergent roles in Asia: the US is a crucial power in the Pacific region with both a strong military and economic presence, while the EU is an economic partner only, without any great security presence. For this reason, a transatlantic dialogue on Asia is necessary in order to create mutual understanding of each actor's interests before the advent of a crisis. After the arm sales dispute, the EU became increasingly aware of Asian security issues and US concerns about the PRC's military buildup, tensions in the Taiwanese straits, and constraints within Sino-Japanese relations. The rise of China in East Asia is a subject of interest to both actors: It is highly uncertain whether China will emerge as a great power and whether a more powerful China will act as a stabilizing force or a source of conflict in the region. As a result of these dialogues, the EU has improved its awareness of the region and changed its approach to China. Still, the arms embargo issue remains unsettled and could spark conflict in the future.¹³⁶

PARALLEL BILATERAL ENERGY DIALOGUES WITH CHINA: THE SINO-EU ENERGY DIALOGUE AND THE SINO-AMERICAN ENERGY DIALOGUE

The EU and the US are both involved in parallel bilateral energy dialogues with China. Unsurprisingly, the content, substance, and importance of these comparable dialogues are extremely similar.

¹³⁶ The EU position remains ambiguous. While on January 18, 2007, the EU External Relations Commissioner Benita Ferrero-Waldner insisted in a press conference in Beijing during her three-day visit to China that the EU arms embargo against China will remain until the nation's human rights record improves, a few days earlier European Commission President Jose Manuel Barroso told visiting Japanese Prime Minister Shinzo Abe that the EU was working to lift the arms embargo against China, even though the lifting was not "imminent.."
"Barroso: EU working towards lifting China arms embargo," *China Daily Xinhua*, January 1, 2007.
"EU Holds Firm On China Arms Embargo," *AFP*, January 18, 2007.

The EU-China Energy Dialogue was established as early as 1994, though both actors have given it more attention and weight only recently. Thus, the 6th EU-China Energy Conference (February 20-21, 2006) marked the deepening and continuation of this dialogue. The EU and China agreed to expand cooperation between themselves in terms of: 1) the promotion of renewable energies, 2) the increase in energy efficiency, 3) the safety and security of nuclear energy, and 4) the improvement of the links between energy, research and environment policies, energy structure. Furthermore, in September 2005, at the 8th EU-China Summit in Beijing, a Joint Declaration on Climate Change was issued as well as a Memorandum of Understanding, establishing an EU-China Dialogue on “Energy and Transport Strategies.” As these agreements demonstrate, the EU has been willing to construct a strategic energy partnership with China, thereby securing China as a reliable partner.

In connection with the Sino-American Energy Dialogue, the US Department of Energy began to cooperate with China in 1979 with an accord for cooperation in High Energy Physics. It now includes cooperation in the areas of fusion energy, fossil energy, climate change, energy efficiency, renewable energy, peaceful uses of nuclear technologies, and energy information exchange. In May 2004, bilateral cooperation was revived and strengthened; then Secretary of Energy Spencer Abraham signed a Memorandum of Understanding (MOU) with China's National Development and Reform Commission (NDRC), launching the US-China Energy Policy Dialogue. They also convened an annual Oil and Gas Industry Forum with China.¹³⁷ Under the auspices of the US-China energy policy dialogue, Assistant Secretary Jarrett signed agreement extensions for five years each in September 2006 with the Chinese Ministry of Science and Technology to cooperate and share

¹³⁷ The U.S.-China Oil & Gas Industry Forum is a public-private partnership involving government and industry representatives from the United States and China. The Forum enables the two countries to meet common goals, including development of secure, reliable and economic sources of oil and natural gas while facilitating investment in the energy industry. The Forum continued to use a panel-discussion format to provide an opportunity for open dialogue. Presentations and discussions focused on important issues such as technology, market development, and the role of government in the energy industry. More information available from <http://www.uschinaogf.org/>.

information in areas critical to energy security and environmental protection. Just as important is the Energy Efficiency Steering Committee co-chaired by the DOE and China's State Development Planning Commission (SDPC). This committee coordinates activities in order to promote cooperative ventures and practices in an energy efficiency policy framework. In addition, in December 2006, the US and China joined the Government Steering Committee of the FutureGen project making China the third country to join the United States in the FutureGen International Partnership. The US and China also signed an Energy Efficiency and Renewable Energy Protocol, renewing cooperation to advance clean technology involving solar, wind, and biomass energies. The agreements were made as a result of the US-China Strategic Economic Dialogue (SED) in Beijing.¹³⁸ The US and China have also had a very productive senior energy dialogue as a component of the discussions.¹³⁹ However, when the crisis over the CNOOC's Unocal bid erupted, it marked a setback in Sino-US economic cooperation and cast a shadow over bilateral relations as a whole. The DOE has since assessed that CNOOC's acquisition of UNOCAL "would not have posed an energy security threat and the US must be careful in the future not to increase China's mistrust of the global energy market."¹⁴⁰ Now, the issue of energy is a major topic and closely related to general Sino-US relations. Due to this situation, it is particularly important that the two countries continue to communicate and cooperate.¹⁴¹

¹³⁸ DOE press release, "U.S. and China Announce Cooperation on FutureGen and Sign Energy Efficiency Protocol," U.S.-China Strategic Economic Dialogue, December 2006.

¹³⁹ The Senior Dialogue provides a forum to discuss strategic, long-term issues in the U.S.-China bilateral relationship, and in global affairs. The dialogue with the NDRC, China's premier economic development agency, covers structural issues including investment, energy policy, sectoral reforms, as well as macroeconomic policy topics. Available from <http://usinfo.state.gov/eap/Archive/2005/Dec/04-55151.html>.

¹⁴⁰ "Energy Security in the 21st century, A new national strategy," *Report of the National Security Task force on Energy*, July 2006.

¹⁴¹ Wang Wenfeng, "China, U.S. Seek Constructive Energy Cooperation," *Renmin Ribao*, September 15, 2006; available from World Connection News.

Toward a Transatlantic Energy Partnership on China: The Common Strategy

Oddly enough, in the last joint EU-US declaration at the Vienna Summit in June 2006, there is not a single reference to “China.” In fact, the country could have appeared in each of the following three chapters: “Promoting peace, Human Rights and Democracy Worldwide,” “Confronting Global Challenges, including Security,” and “Promoting Strategic cooperation on Energy Security Climate Change and Sustainable Development.” In the last chapter, without mentioning China, there is a direct reference to the country, in which it states that the EU and the US agree to:

“promote energy security policies in third key countries by encouraging a gradual transition to market pricing and behavior, and coordinate capacity-building assistance to emerging economies, including to increase energy efficiency, adopt clean technologies and build energy stocks.”

Have the US and the EU purposefully avoided taking a joint position on the PRC in order to avoid offending Beijing? Or do they simply did not see any reason to cooperate on China-related issues? Another explanation is that the EU wants to avoid American pressure regarding the Taiwan straits issue, the transfer of technology within Asia, and the nuclear crisis in North Korea.

In fact, the nascent strategic and political EU-US energy dialogue has not yet taken the issue of China into account. Thus, there is an urgent need for a transatlantic dialogue on energy security *and* China. Increasingly, it is obvious that many energy related issues cannot be approached without China’s cooperation. Climate is the most illustrative example; the EU and the US are realizing that their efforts will be meaningless as long as China does not reduce its own carbon emission due to its energy usage. Because of their energy requirements,¹⁴² the US and the EU have the responsibility to influence the operation of world energy markets. One of the goals of transatlantic strategic energy cooperation is to work

¹⁴² European Union, factsheet, June 2006. The EU-25 and the US consume 37.9% of the world energy and produce 23% of the total. Together, the EU-15 and the US consume 43% of the global oil and 41% of Natural Gas.

closely to elaborate key messages and share common views with respect to China in order to ensure concrete results.

The transatlantic strategy is: 1) to encourage the PRC to endorse market based energy security policies, 2) to integrate further the PRC in multilateral and international energy cooperation through international organizations, 3) to support The PRC's building of strategic reserves, 4) to help improve the PRC's energy efficiency, and 5) to push the PRC to address the environmental consequences of its growing energy use.

ENCOURAGING THE PRC TO ENDORSE MARKET-BASED ENERGY SECURITY POLICIES

The US and the EU should encourage China to endorse global market rules, market-based energy security policies and standards, which ensure competition, transparency, respect for contracts, transit, and access. The goal should be to encourage the PRC to evolve from a nationalistic approach to China's state-owned and controlled oil companies toward more openness and privatized ownership.

At first impression, it appears that due to China's understanding of its energy security, it has enacted a strategy of 'locking up supplies' that secure overseas assets in more than 21 different countries. Indeed, China is following a radically different path in terms of energy and resource acquisition than that of the US or other major consuming nations. A major difference is that China wants to own the energy resources itself, thereby maximizing the security of its energy supplies and minimizing its participation in world energy markets. China's state run oil industry consists of three major companies—CNOOC, Sinopec, and China National Petroleum Corporation (CNPC). Instead of buying crude oil in the open market and being exposed to sharp price increases, those national oil companies invest in exploration and development in countries that have oil fields but lack the necessary capital or technology to exploit these resources. Once Chinese companies have a stake in the oil, even if

it originates abroad, they believe to have secured a long-term source independent of the world volatile prices. However, this is a hoax: In the event of regional or geopolitical conflict, it is unlikely that China will manage to assure the transit and transportation of its petroleum alone.

As illustrated previously, the PRC's energy diplomacy is in stark contrast with the rules of the world market for oil energy. This strategy has a number of negative side effects. Chief among them is the fact that the CNOOCs care less about profit than multinational oil companies care about competition. Indeed, while international companies face intense pressure from shareholders to maximize profit, national oil companies often do not have the same profit requirements and have been willing to spend more money and accept lower returns in the past. Thus, investments are more politically than commercially driven.

In order to establish an open and competitive global energy market with the PRC as a full participant, a number of conditions must be met. First of all, there cannot be cooperation within the market without consensus about the market. The PRC, the EU, and the US need to agree on the definition and rules of the market, namely respect of investments and sanctity of contracts. China should rid itself of the perception that "Americans dominate the oil market." They consider this perception to be unfair, particularly when Washington requests that the PRC join the market. Instead, markets need to be recognized as a source of security. Second, the PRC needs additional time to formulate an incentive structure to encourage Chinese National Oil Companies (CNOOC) to abide by market rules. According to MIT Professor Daniel Fine, China will enter the world energy market once the Chinese government reaches equilibrium and excess of supply. Then, China will trade the excess of supply and become a seller of oil with a great record of being exporter. Therefore, it is possible that CNOOCs adopt market rules in the long term. Beijing cannot unilaterally achieve its goal of energy security, a nationally and politically driven energy strategy is an illusion. On one hand, the interconnected of the global energy market makes cooperation unquestionable; on the other

hand, it is difficult to dissociate the intersection of national concerns about energy security from the business of commercial deals. One solution would be to further integrate the PRC into multilateral legal agreements and international organizations.

FURTHER INVOLVEMENT OF THE PRC IN INTERNATIONAL ENERGY ORGANIZATIONS AND MULTILATERAL LEGAL ENERGY FRAMEWORKS: THE INTERNATIONAL ENERGY AGENCY, THE G8, AND THE ENERGY CHARTER

The EU and the US should continue, accelerate, and expand their strategy of engagement with the PRC. The widespread belief is that the more the PRC is integrated into a network of international organizations and international agreements the more Beijing will adopt cooperative behaviors rather than a mercantilist approach. According to Daniel Yergin, in order to maintain energy security, countries must recognize the reality of integration:

“there is only one oil market, a complex and worldwide system that moves and consumes about 86 million barrels of oil every day. For all consumers, security resides in the stability of this market. Secession is not an option.”¹⁴³

Indeed, a functioning, global energy security system can only be achieved by engaging China and (to a lesser extent) India as well as other big consumers. Energy interdependence and the growing scale of the energy trade require continuing collaboration between producers and consumers to ensure the security of the entire supply chain. In addition, assuring the security of global energy markets requires coordination on different levels: both internationally and nationally. Both companies and governments must be included, including the energy, environmental, military, law enforcement, and intelligence agencies of national governments. Although multilateral frameworks already exist, there is an urgent need to expand upon them and make them more adequate to the present situation in order to meet with the global energy challenges.

¹⁴³ Daniel Yergin.

The International Energy Agency: Toward the PRC's membership

The International Energy Agency (IEA) was established after the 1970's oil shock in to foster cooperation amongst the world's major oil consumers. The centerpiece of the IEA is the maintenance of emergency oil stocks, which are equivalent to 90 days of net oil imports, and plans for coordinated use of emergency stocks. Information is also crucially important. High quality information is the basis of a functioning market. On the international level, the IEA has led the way to improve the sharing of information about world markets and energy prospects. Currently, its primary activity is to publish comprehensive analyses of, data for, and outlooks on the big picture of world energy in addition to national studies.

Faced with a reshaped map of the energy world and the emergence of new major energy consumers such as China, India and Brazil, the IEA system should be reconstructed to incorporate these countries. The project of building an alliance of energy consumers rests on the idea that cooperation between energy consumers will bring better security of supplies. The system will lose credibility and effectiveness if it does not adjust to changes in the energy world. Indeed, the risk of major oil disruption and subsequent price shock has been more possible than ever lately, dangerously threatening the economies of consumer countries that are isolated from coordination.¹⁴⁴

Although China is only an observing member, some productive dialogues between the IEA and China have taken place. The areas of work include coordinating energy policies, improving the structure of energy supply, raising energy efficiency, protecting the natural environment, establishing oil reserves, and collecting energy data. The IEA and China are also engaged in exchanges and discussions regarding the condition of world oil markets, oil

¹⁴⁴ Daniel Yergin.

reserve policy, and building and management of oil reserves in case of supply disruptions. Yet, in the future, China and the IEA should collude even regarding the exchange of oil market data and analyses and should report on strategic stock developments. There is a sense that the IEA currently gives more in terms of cooperation and transparency to the PRC than it receives in return.

A further step would be to grant membership to the PRC, however unlikely. Indeed, membership in the Organization for Economic Cooperation and Development (OECD) is a prerequisite for IEA membership. Though China is not a democracy, the IEA does not have a goal of promoting regime change. The organization's main goal is to foster cooperation between petroleum consumers. From this perspective, common sense would advocate for China's membership in the IEA. On one hand, the position of "full member" is too significant, too strong a message, and politically too difficult to achieve. On the other hand, an informal working relationship between Beijing and the IEA is not enough. China must be more involved and integrated into the IEA system in order to contribute actively to its agenda. A position such as "privileged partner" could play to China's image and prestige and pressure Beijing to cooperate further with the institution.

Energy cooperation should even extend beyond Chinese integration in the IEA. Because the present energy system is not sustainable, the more the IEA integrates a large number of countries, the more it will be a credible institution. Indeed, developing countries face the same energy security and pollution challenges the US-EU-China triad does. In order to encourage the global transition to a 'hydrogen economy,' the IEA must involve major developing nations, such as China, India, South Africa and Brazil.¹⁴⁵ In other words, mutual efforts should take place on a larger scale; the EU-US-China triad should lead by example.

¹⁴⁵ Spencer Abraham.

However, as currently set up, the IEA can only formulate recommendations and a “take it or leave it” structure that is not legally binding. The framework may not be strong enough to force China to change its behavior in the realm of energy. In addition, China may be hesitant to abide by the rules of an organization that it did not create.

The G8 and Beyond

The G8 successfully brought countries that are increasingly energy consumers into the energy debate. At the Gleneagles Summit in July 2005, G8 leaders addressed the challenges of climate change, securing clean energy, and sustainable development. Agreeing to act with resolve and urgency, they adopted a Plan of Action. They launched a dialogue with other significant energy consumers. Brazil, China, India, Mexico, and South Africa were also present at the Summit. The Plan of Action focuses on six broad areas: 1) alternative energy scenarios and strategies; 2) energy efficiency in buildings appliances, transport and industry; 3) cleaner fossil fuels; 4) carbon capture and storage; 5) renewable energy; and 6) enhanced international co-operation.¹⁴⁶

During the most recent G8 summit in St. Petersburg in 2006, the topic of energy security was high on the agenda. Representing the eight industrialized nations, the G8 gathered along with the leaders of China, India, South Africa, Brazil, and Mexico to discuss and exchange views on energy. The leaders agreed to accelerate discussions on an inclusive dialogue for a climate change framework after 2012; notably the US, China, and India were included in this discussion. The G8 supported the establishment of a stabilization goal in order to control greenhouse gas concentrations. Germany will host the next meeting in 2007, during which leaders will attempt to “maintain the momentum of the Dialogue” and progress on the

¹⁴⁶ Available from www.iea.org (click on “G8 Update”)

Gleneagles Plan of Action. Japan is scheduled to receive the formal progress report on the Gleneagles agenda at the 2008 G8 Summit.¹⁴⁷

Although China still prefers to act independently, when viewed objectively, the PRC has demonstrated its ability to strengthen the ability of the G8 to reduce the “energy poverty” in the world.¹⁴⁸ However, the G8 is not an institutionalized dialogue. G8 discussions often result in words, not deeds. There is no binding commitment and no real change expected at the end. Unfortunately, the last summit was hijacked by the 2006 crisis in the Middle East between the Hezbollah and Israel.

As a result, the construction of a new energy organization has been discussed. This organization could service either major energy consumers or energy producers and consumers. Various circles have argued for an organization for importer countries (OPIC) as a sister organization to OPEC. OPIC’s would be able to bring together major petroleum importers in order to exchange ideas, coordinate policies, and instigate cooperation. Chief amongst these countries are the US, Japan, India, Brazil, China, Australia, and the EU. In the case of OPIC, China would be able to add its inputs from the start as a founding member. However, the creation of a new organization requires a new bureaucracy, additional red tape, a new treaty, and more political decisions. If a new inter-governmental organization was created, it would make sense to create an organization that involves consumers and producers. Indeed, it is increasingly important that consumers and producers face their problems together, including security of transportation and supplies, investment, infrastructure, and prices. The International Energy Forum (IEF), based out of Riyadh, Saudi Arabia and established in 2003, is an informal exchange between ministers of energy from both

¹⁴⁷ UK Department of Trade and Industry (DTI), Energy Policy & Strategy, International Energy Policy, “Climate Change: G8 Gleneagles Dialogue,” available from <http://www.dti.gov.uk/energy/policy-strategy/international/climate-change-g8/page21540.html>.

¹⁴⁸ Igor Veletminskiy, “Russian Minister Urges Energy Security As Consumption Soars, China Seeks Own Way,” “G8 Energy”, *Rossiyskaya Gazeta*, March 15, 2006.

producing and consuming countries as well as from both industrialized and developing countries in a global dialogue on energy. This dialogue is based on the belief that a mutual sense of interdependency, vulnerability, and opportunity fosters a more conducive atmosphere for long-term cooperation.¹⁴⁹

Membership in an international organization places “reputational costs” on the shoulder of members. Given the fact that China is very concerned with its image, being a member of an energy international organization would encourage it to respect the rules of the organization and thereby ensure the PRC’s image on the international scene.

The Energy Charter

Another international multilateral framework for energy cooperation is the Energy Charter Treaty (ECT), which became active April 1998. It promotes an open international energy market and is supported by binding international arbitration. Thus, if China subscribes to the ECT, it will convey a positive commercial message, revealing its commitment to the principles of openness, transparency, and non-discrimination in energy markets. In December 2001, the Energy Charter Conference granted official observer status to the PRC. Signing and ratifying of the Treaty in order to fully belong to a system would be a further step. This system essentially encourages discussion between consumers and other producers, fosters a co-operative approach to resolving energy transit issues, and promotes the resolution of trade and investment disputes through internationally recognized procedural and legal mechanisms. However, China may see the Charter as Euro-centric and not taking into account its own interests. In addition, a treaty would require binding international commitments, to which China would not otherwise readily agree. Just as Russia is reluctant to ratify the Charter, it may take China time before to acknowledge common interests when it comes to energy.

¹⁴⁹ The International Energy Forum, available from <http://www.iefs.org.sa>.

Additionally, the US is also only an observer, which makes it harder to convince the PRC to sign the treaty.

By positioning itself at the center of an international energy framework, not only would China gain from cooperation, but it would also appease accusations against its energy diplomacy.

URGING THE PRC'S PARTICIPATION IN COLLECTIVE EMERGENCY ENERGY CRISIS RESPONSE

The US and the EU should further help China to understand the advantages of participating to the IEA security system in the event of a supply disruption. The current energy security system was created in response to the 1973 Arab oil embargo. It ensures coordination among the industrialized countries, encourages collaboration on energy policies, avoids bruising scrambles for supplies, and deters the use of oil as a “weapon” by exporters. More importantly, strategic stockpiles of oil have been established to cope with the future fluctuation of oil prices and to ensure stable and continuous economic growth. Thus, the development of global emergency oil stockpiles would cushion the market from sudden changes in supply, either from renewed tensions or cutoffs. In this emergency security system, the solidarity among consumers in emergency cases is explicit. The system was activated for the first time after the Katrina and Rita hurricanes to offset supplies lost.¹⁵⁰

The EU and the US have called on China to take responsibility for the benefits it derives from the world energy security system and to contribute to IEA emergency security standards rather than simply ride free. From this perspective, through the China Petroleum and Chemical Corporation (Sinopec), the PRC began building four oil reserves in 2004 to secure the country's fuel supplies equivalent to 30 days of imports. Two of the stockpiles are in Zhejiang Province and have begun operation. The other stockpiles are in Liaoning

¹⁵⁰ Daniel Yergin, “What does energy security really mean ?,” *The Wall Street Journal*, July 11, 2006.

Province, which is not yet complete, and in Shandong Province, which will be in operation by the middle of 2007. Some six billion Yuan have been invested, securing a capacity of 10 million tons at four sites. China has plans to build a second set of strategic oil reserves, thereby adding another 28 million tons of storage capacity, according to the National Development and Resource Commission (NDRC).¹⁵¹ Although China is making some moves in the right direction, it is not enough unless Beijing is ready to engage in multilateral cooperation.

It is also important that the PRC understands the purpose of building strategic stockpiles. The emergency system was not set up to manage commodities nor to manipulate prices on the market, but to offset major disruptions that threatened the global economic stability. The procedures for releasing petroleum from these stockpiles must be made “transparent to reduce market speculation and price volatilities.”¹⁵² Because no one has ruled out the possibility of short-term disruptions, China’s establishment of an oil reserve system is beneficial to both Chinese and global energy security. Still, the richer a country is, the less it will be affected by price shocks: it has the ability to buy oil at high prices.

HELPING TO IMPROVE CHINA’S ENERGY EFFICIENCY

Improving energy efficiency is high on the agenda of major energy consumers. As a result, both the US and the EU have enough expertise in the field of energy efficiency to warrant encouragement of energy efficient behavior from the PRC. Energy efficiency is a situation when energy inputs are lessened for a given level of service or increased for a given amount of energy inputs. As a result, it affects the service energy intensity: “If energy were

¹⁵¹ “PRC To Begin Filling Third Strategic Oil Reserve in Shandong in Mid-2007,” *Xinhua*, March 8, 2007.

¹⁵² Report of the National Security Task force.

used more efficiently, the energy intensity would decrease, as would the carbon emissions, while maintaining the same level of service.”¹⁵³

As experts have pointed out, energy supply is strained in China in all fields, but particularly in the areas of coal, electricity, oil, and water supply. China's current energy utilization efficiency is a fourth lower than in other countries.¹⁵⁴ The PRC is willing to make the necessary adjustments to its system of economic growth, there by building a resource saving and environmentally friendly society conducive to sustainable development. In the context of a “11th Five Year” plan, China has the goal of achieving a 20 percent reduction in energy consumption per unit of GDP. Mr. Ma, Minister of the National Development and Reform Commission, commenting on the Fifth Session of the 10th National People's Congress (NPC), emphasized “no changes [in three areas] and one increase” on the part of the government in the area of energy conservation and emissions reduction. He explained the “no changes” as the following:

“First, the determination will not change. Faced with the serious constraints in terms of energy and resources, the Chinese nation has no leeway other than to follow the path of energy conservation and emissions reduction and follow the path of building a resource-saving and environmentally friendly society. We must make up our mind to conserve energy and reduce emissions. Second, the targets will not change. They are firmly established and it is imperative to guarantee that they will be met. Third, the responsibilities will not change. The State Council has broken down the five-year energy conservation and emissions reduction targets and allocated them to all provinces, autonomous regions, and municipalities. All provinces, autonomous regions, municipalities, and relevant enterprises should take up their responsibilities in a substantive manner and, in light of their local realities, define and put forward work targets and tasks for the current phase, which should then be duly accomplished with necessary efforts. "One increase" means that the intensity of the work to conserve energy and reduce emissions should continue to be increased, rather than weakened.”¹⁵⁵

¹⁵³ Energy Information Administration, Definition Energy Efficiency, available from <http://www.eia.doe.gov/emeu/efficiency/definition.htm>.

¹⁵⁴ “HK TKP Article Discusses China's Energy Security, Diplomacy.”

¹⁵⁵ Che Yuming, Zhang Xudong, Hao Yalin, and Wei Minli.

Whether China can successfully meet the target depends to a large extent on the introduction of advanced technology and on its ability to implement them—skills Beijing can acquire through international cooperation.¹⁵⁶

The PRC has welcomed cooperation with the EU and the US in order to improve its energy usage. Addressing the sixth summit of the Asia Europe Meeting (ASEM) in Helsinki, Chinese Premier Wen Jiabao called on ASEM members to increase the research, development and application of advanced energy technologies in order to enhance energy conservation and efficiency. Additionally, he proposed the establishment of a technology transfer system to help developing countries use energy efficiently.¹⁵⁷ Indeed, in energy technology cooperation and the building of energy efficiency, both the US and the EU have an extensive knowledge. Obviously, the US and the EU have both advanced technology and management experience in the realm of new and renewable energy development, energy saving, and environmental protection, “while China is relatively lagging behind in these fields and is in greater demand for financial, technical and human resources.”¹⁵⁸ These solutions have a huge potential for the Chinese market. For example, China could reduce 40 to 50 percent of its consumption in the industrial sector by raising industrial energy efficiency standards to international levels.¹⁵⁹

According to a Chinese official, as long as China wholeheartedly attempts to increase energy supply while attempting to work on energy conservation, the Chinese will certainly be able to solve their energy problems.¹⁶⁰ Another area where China should take action is energy pricing: low levels of end user prices have provided consumers with disincentives to save energy. True, achieving certain goals will challenge both the national and local governments. Given the size of the country and the importance of GDP growth, it is harder to implement

¹⁵⁶ "Five-Nation Energy Cooperation Can Bring About A Win-Win Situation for All Sides."

¹⁵⁷ "Chinese Premier Calls for Expanding Asia-Europe Dialogue on Energy Security," *Xinhua headline*, September 10, 2006.

¹⁵⁸ For the U.S. these activities have been defined under the umbrella of the U.S.-China Protocol for Cooperation in the Fields of Energy Efficiency and Renewable Energy Development and Utilization.

¹⁵⁹ Fact Sheet, U.S. Department of Energy, Cooperation with the PRC, April 2006.

¹⁶⁰ Chen Yuming, Zhang Xudong, Hao Yalin, and Wei Minli.

such energy efficiency goals. However, some analysts have pointed out that many local governments have performed well. They have cited, for example, the Guangdong Province.¹⁶¹

The transatlantic energy agenda is based upon the assumption that there is a common European and American vision on how China should evolve. This vision also assumes that the US and the EU will contribute to changes in China and try to encourage it in the ‘right’ direction. However, it is important to realize that “Westerners have tried for centuries to change China” and that “real change must be indigenously rooted.”¹⁶²

Further Cooperation: Toward a Global Energy Agenda

There are areas of cooperation that need to include a large number of participants; they cannot be addressed merely inside the US-EU-China triad. The scope of these issues—from climate change to infrastructure protection—is global; hence, the US, the EU, and the PRC have significant roles to play in a broader global energy agenda.

INTERNATIONAL COOPERATIVE MEANS TO CURB CLIMATE CHANGE

We are in a period where the energy dialogue will be affected by environmental issues. Indeed, climate change, the loss of biodiversity, and air pollution are serious and long-term challenges. Climate change will be one of the most serious threats in the 21st century. Scientists have projected that the earth’s average temperature will increase 2 to 10 degrees Fahrenheit (1.4 to 5.8 degrees Celsius) over the next 100 years, if steps to reduce greenhouse gas emissions are not taken.¹⁶³ Although difficult, particularly for developing countries like the PRC, international actors must strike a balance between economic development, energy

¹⁶¹ "China Focus: Government Strives To Bring Local Authorities Into Line on Energy Efficiency," Xinhua, March 8, 2007.

“In late 1990s, Guangdong began to accelerate industrial restructuring and put energy-efficient services and new and high-tech sectors high on its development agendas.”

¹⁶² David Shambaugh, “European and American approaches to China: Different Beds, Same Dreams,” *Sigur Center Asia Papers*, Number 15, 2002.

¹⁶³ Energy Security in the 21st century, A new national strategy, Report of the National Security Task force on Energy, July 2006.

security, and protection of the environment. As a result, the three most important energy consumers—the US, the EU and the PRC—have common environmental concerns. Certainly, global warming is unsolvable unless all three actors and other major consumers are engaged. In 2003, the US was responsible for 23 percent of world carbon dioxide emissions, China for 16.5 percent, and the EU for 15.3 percent. The EU and the US need to take charge of shaping the world without petroleum in the 21st century. Together, the EU and the US have developed a strategic partnership to influence current trends; and it is vital to add China to this partnership. To get China on board, all environmental friendly measures need to be cost effective. Indeed, China will have a difficult choice between reducing its economic growth and curbing its carbon emissions. What is the price the PRC is willing to pay to become a more responsible player with respect to global warming?

A multilateral framework to battle global warming is already in existence. The most famous is the UN's Kyoto Protocol, which binds 35 industrial nations to cut emissions by 2012. However, it has been weakened by the lack of participation by the US and China. *The Economist* has suggested that “India and China will do nothing to restrain their carbon output unless America leads the way.” However it is difficult to anticipate with certainty that American participation will prompt the PRC to adhere to Kyoto standards. In this case, the EU is the environmental forerunner. In addition, in March 2007, the EU agreed to an ambitious deal for tackling climate change, which committed member countries to reducing greenhouse gas emissions to 20 percent by 2020 and to rely on renewable sources for a fifth of its energy supply by the same date.¹⁶⁴ Now, there is nothing to guarantee than the EU will meet this ambitious target. Yet, there is hope, according to John Micklethwait, editor-in-Chief of *The Economist*: “the mood has changed since Mr. Bush spurned Kyoto in 2001. An increasing number of American businesses and state government now take climate change

¹⁶⁴ “EU agrees deal to reduce carbon emissions by 20%,” *The Guardian*, March 9, 2007.

seriously.” In the last year of his presidential term, President Bush has an opportunity to “be bold and green” and prove “his worth in 2007.”¹⁶⁵

A 1998 World Health Organization (WHO) report noted that seven of the ten most polluted cities in the world are in China. Since the number of privately owned cars in China reached 20 million for the first time by the end of 2006, this number will only increase in the future. Thus, it is crucial that Beijing undertake drastic measures to cut its carbon dioxide emissions.¹⁶⁶ Through bilateral and multilateral cooperation, China has begun to address the environmental consequences of its growing energy usage. In addition, the implementation of new laws concerning comprehensive regulations have begun to curb environmental damage. For instance, in an effort to reduce air pollution in Beijing, in 1999, the municipal government ordered city vehicles to use liquefied petroleum gas and natural gas. As a result, by 2002, with a total of 1,630 vehicles, Beijing had the largest fleet of natural gas buses in the world.¹⁶⁷ After coal, renewable energy—which is the one sector that stands out in terms of ability to reduce greenhouse gas emissions¹⁶⁸—accounts for the second largest share of energy generation in China, 18.6% in 2001. Additionally, with help from the UN and the US, China hopes to embark on a multimillion-dollar renewable energy strategy to combat pollution. Over the next decade, China's growth in renewable energy will be dominated by hydropower, particularly after the completion of the Three Gorges Dam project in 2009.¹⁶⁹ However, even with the use of renewable energy and falling prices, China is unlikely to be able to meet the

¹⁶⁵ John Micklethwait, “It’s still down to George Bush,” *The Economist*, 21st edition, The world in 2007.

¹⁶⁶ “China has over 20 million privately-owned cars,” *People’s Daily online*, February 28, 2007, available from http://english.people.com.cn/200702/28/eng20070228_353091.html

¹⁶⁷ Energy Information Administration, Country Analysis Brief, China Environmental Issues, July 2003; available from www.eia.doe.gov.

¹⁶⁸ National Renewable Energy Laboratory, “Energy Efficiency and Renewable Energy Technology Development in China,”; available from <http://www.nrel.gov/international/china/>

¹⁶⁹ Although the Three Gorges Dam is seen as an important source of energy for China's growing electricity consumption needs, the dam is also seen as very controversial because of the environmental disaster it could create.

total energy demand. As a result, many people in the energy industry believe that “non-conventional renewable energy will not be able to replace more than a relatively small part of what otherwise would be provided by large-scale, conventional fossil fuelled generation.”¹⁷⁰

Two factors could potentially accelerate the implementation of environmentally friendly policies in China. First, the more educated and environmentally aware the Chinese population is, the more it will pressure the government to take stronger actions regarding air pollution.¹⁷¹ Second, China is clearly worried about its image. Before the 2008 Olympic games, the Chinese government is transforming Beijing “into a national model of environmentalism”—a Chinese beacon of “greenism.”¹⁷²

Certainly, the challenge of climate change cannot be fought single handedly; international cooperation and multilateral frameworks are the only way to curb this transnational threat. As a result, the three biggest polluters, the US, the EU and the PRC, should be a good example to the world in the global battle against global warming.

GLOBAL PROTECTION OF ENERGY INFRASTRUCTURE AND DISTRIBUTION CHANNELS

Cooperation on the protection of infrastructure and distribution of energy should be at the top of the trilateral agenda. The past several years have highlighted the need to expand the concept of energy security, recognizing the critical dimension of protecting the entire energy

¹⁷⁰ In continuation with these efforts, among the objectives of an EU-U.S.-China environmental-friendly agenda could figure: continuous improvement of the energy structure; emphasis on accelerating the transition to high-quality energy sources - in particular greater use of natural gas; improve energy efficiency; speed-up the development and utilization of clean coal technologies; develop nuclear technologies (safety standards, nuclear waste, prevent nuclear proliferations).

¹⁷¹ Elizabeth Economy, “China’s Environmental Movement,” Testimony before the Congressional Executive Commission on China, Roundtable on Environmental NGOs in China: Encouraging Action and Addressing Public Grievances, February 7, 2005.

¹⁷² “Will the 2008 Olympics in Beijing Showcase Pollution as Well as World-class Athletes?,” *Knowledge Wharton*, January 10, 2007.

“The city has relocated, or plans to relocate, more than 100 chemical, steel and pharmaceutical factories outside the city and replace 300,000 polluting taxis and buses with lesser-polluting vehicles. It is seeking to replace coal furnaces with natural gas furnaces and rushing builders to finish construction well before the Olympic games so that dust from the building projects has a chance to settle. Beijing authorities are building four new subway lines, adding many miles of rails and boosting the efficiency of public transportation.”

supply chain—including infrastructure.¹⁷³ As of yet, there is no comprehensive strategy to protect and modernize global energy infrastructure and distribution channels. According to the National Security Task Force on Energy, this is a daunting challenge but necessary, because of the “tremendous risk associated with not investing in infrastructure resiliency and redundancy.”¹⁷⁴ The securization of pipeline networks, transmission lines, terminals, and chokepoints will require increased monitoring as well as development of multilateral rapid response capabilities. Indeed, long distance, transnational pipelines and the many chokepoints along the routes of oil, natural gas, and liquefied natural gas (LNG) are particularly vulnerable. Today, about 40 million barrels a day of oil cross high seas in tankers. In less than 15 years, that will be 70 million barrels. Over the same period, the transportation of liquefied natural gas volumes is expected to triple on oceans. More strategic gateways include the Strait of Hormuz¹⁷⁵ (through which 20 percent of the world’s oil supply passes), the Suez Canal, the Bab el Mandeb Strait, the Bosphorus Strait, and the Strait of Malacca (through which 80 percent of Japan and South Korean’s oil and about half of China’s oil passes). A distressed ship in these strategic waterways could disrupt supply lines for extended periods of time. As a result, the US-EU-China triad, energy consumers, and energy producers should promote new transit routes and pipelines to diversify and reduce dependence on individual countries as well as limit pressure on vulnerable choke points.

The EU-US-China triangle should consider developing a global infrastructure police. Indeed, the lack of a formal policing organization has negative implications. First, military forces are expanding, particularly Chinese military forces. The Report of the National Security Task force on Energy suggests that the US should provide:

¹⁷³ Daniel Yergin.

¹⁷⁴ Report of the National Security Task force.

¹⁷⁵ According to the Report of the National Security Task force on Energy, “attacks carried out against oil tankers on the Strait of Hormuz could disrupt the transit of up to 17 million barrels of oil per day. Iran which has troops stationed on an island located near the straits’ entrance, is well positioned to carry out such attacks.”

“military training and technological assistance to Malaysian and Singaporean forces that are responsible for securing the Strait of Malacca, as well as promote cooperative regional security measures in the Bosphorus and at other key transit points worldwide.”

Second, a perception that the US controls the high sea is pervasive and supported by formidable US naval capabilities. As a result, most countries expect the US to protect SLOCs in the event of a major international crisis or conflict.¹⁷⁶ Third, the failure to develop greater multinational cooperation might lead to significant environmental disasters such as the spilling of hazardous waste in the ocean.

Although a common interest in maintaining open sea-lanes exists, efforts still must be undertaken at the global level. In this respect, increased public and private cooperation is a positive outcome.¹⁷⁷ Indeed, the European, American, and Chinese governments should push their petroleum companies to take a lead in developing commercial projects and transnational ventures that require international cooperation. Transnational oil and gas pipelines are prime examples of such multinational cooperation.¹⁷⁸

Trilateral cooperation has been undertaken in different areas and may achieve great results in the future particularly in the realm of energy efficiency and global warming. However, international relations theory, particularly realism, reveals that cooperation is not always the favored option. On the contrary, some nations prefer to rely on themselves to retain their independence and power. More importantly, in pursuit of national security, they strive to collect resources. From this perspective, energy cooperation between consumer countries is only wishful thinking; national security matters prevail over other considerations. Win-win situations could lead to benefits, by trumping rivalries.

¹⁷⁶ Scott Snyder in *Rethinking Energy Security in East Asia*.

¹⁷⁷ Scott Snyder.

¹⁷⁸ "Five-Nation Energy Cooperation Can Bring About A Win-Win Situation for All Sides."

By the same token, China has recently signed a memorandum of understanding with Westinghouse on the technological transfer of its latest third-generation nuclear reactor.

CHAPTER 4: A STRATEGIC TRIANGLE IN THE MAKING

Conditional Success in Win-Win Trilateral Cooperation

Since the US, the EU, and the PRC as major energy consumers and importers, share common interests and challenges, cooperation would appear to be rational. A win-win situation would make sense for the three of them. Considering the politicization and geopolitical implications of energy security, China's acceptance of the transatlantic agenda regarding energy and ability to cooperate rests on several conditions.

THE SECURITY IMPASSE

First of all, the relative success of cooperation depends on China's willingness to cooperate—it is assumed that the US and the EU are already cooperating. On one hand, the PRC is strongly inclined to cooperate to disprove the so-called “China energy threat theory.” This theory is triggered by China's increase in oil imports and the consequent price hikes. Thus, increasing energy supply with stronger international cooperation could eliminate the “threat theory.”¹⁷⁹ In this respect, President Hu Jintao's speech at the G8 summit in July 2006 reassured the international community. Several times, he mentioned that due to opportunities and challenges the international community needs to “strengthen its coordination and cooperation.” He added that the “overwhelming majority of countries cannot ensure their energy security without international cooperation.” And finally he also insisted on the importance of establishing a “new energy security concept characteristic of mutually beneficial cooperation.”¹⁸⁰

¹⁷⁹ "Five-Nation Energy Cooperation Can Bring About A Win-Win Situation for All Sides."

¹⁸⁰ “Full text of Chinese president's speech at G8-developing countries meeting,” *BBC News*, July 17, 2006; available from <http://www.uofaweb.ualberta.ca/chinainstitute/>.

On the other hand, the PRC has always favored the reliance on its own strength. When dependence rests on security matters, countries oppose dependence even more. Traditionally, a “country cannot be a military threat if it does not have the energy needed to fuel a large scale wartime economy.”¹⁸¹ For nations dependent on energy importation, energy security has huge implications for their foreign policy objectives. Hence, the so-called “security impasse” causes China to vacillate between two kinds of behaviors: 1) promoting trust and cooperation and 2) unilaterally protecting its own resources while increasing ownership. China’s current strategy is based on unilateral behavior; the PRC tends to advance its overseas oils projects.

Given the security dimension of the energy realm: Is cooperation wishful thinking because each actor will seek its own energy security by challenging the security of others? Or is cooperation a win-win game that will bring mutual benefits to each actor while alleviating fears? In the case of Chinese security, concerns prevail over cooperation.

THE WIN-WIN MODEL OF COOPERATION

Energy cooperation will have better chance of success, following a win-win model of cooperation. “Win-win” has always been a basic principle in China's diplomatic strategy—at least in the PRC’s rhetoric—and is manifested in its energy diplomacy.¹⁸² There are mutual benefits to cooperation: While China cannot achieve energy security alone, world energy security has also much to gain from China’s integration into the market. The more complex energy networks beyond national borders become, the more governments are forced to find solutions that are not zero sum. In short, governments are searching for win-win solutions, rather than win-lose solutions. The objective of energy cooperation is to ensure energy

¹⁸¹ Nicholas Tapert, Literature Review for: the U.S. and China’s energy security dilemma; available from <http://www.davidson.edu/academic/political/sellers/pol221/Readings/Sample%20literature%20review%202.pdf>.

¹⁸² “HK TKP Article Discusses China's Energy Security, Diplomacy.”

security for all countries. In this case, if the three actors can avoid competition and turn security fears into cooperation, they will be able to create benefits for all sides.

Unsurprisingly, the PRC will never accept a transatlantic energy agenda with the goal of maximizing European and American interests. According to Professor Alan Wachman of the Fletcher School of Law and Diplomacy at Tufts University, too often:

“the determination to upgrade the PRC’s regard for and protection of human rights, to prompt economic and political liberalization, to encourage the embrace of civic virtues akin to those we value at home, and to press Beijing to conform to international practices that support a system from which the US derives benefits is a mission that Americans took to uncritically.”¹⁸³

In other words, the will of Europeans and Americans to shape, change, and make China responsible could be interpreted by the PRC as a strategy solely serving western interests and not taking Chinese interests into account. To be accepted by the PRC, the transatlantic energy agenda should be offering reciprocity and mutual benefits. European and American diplomacies should make the case that it is in the PRC’s interests to adopt the transatlantic agenda with respect to energy security. States begin to cooperate when their views change or when they have a better understanding of the benefits of cooperation.

There is a question about the PRC’s behavior in international settings. Further integrating the PRC into a multilateral forum and an international organization does not mean that it will have a transformative effect on Beijing. At this stage in its development, it is important for the PRC to preserve distance, autonomy, and flexibility in international law. As a result, there is a tension between commitment and independence. However, there are some psychological actions that could encourage China to adopt cooperative behavior, such as the “praise and shame” game. Indeed, the PRC is very concerned about its image and does not want to be seen as an obstructionist. If increased reputation is a benefit of Chinese membership in the IEA or a new multilateral energy framework, it is possible that China will

¹⁸³ Alan M. Wachman, Before the U.S.-China Economic and Security Review Commission, “U.S.-China Relationship: Economics and Security Perspective,” February 2, 2007.

join quickly. In the future, Beijing may be willing to help shape multilateral frameworks once fully integrated in the organization, pushing the establishment a new “pro-Chinese” organization to ensure that its interests are fully represented.¹⁸⁴

The dynamics of interaction between the three actors are determining factors for thriving cooperation. If the relationships between the actors are strained in other areas, then energy cooperation is unlikely.

Does a EU-US-China Strategic Triangle exist?

The influence of the US-EU-China triangle in other areas is increasing and will only affect the dynamics of the energy triangle in the future. In their bilateral relationships with China, the EU and the US do have a different relationships and a different level of influence on Beijing. However, Beijing responds differently to each actor and take the opportunity to pit one against the other, playing the EU card against the US card and vice versa. The EU is caught between the transatlantic relationship on one hand and the nascent, yet attractive partnership with China on the other hand. However, the EU is pivotal player within the strategic triangle and could take advantage of its relations with both actors in order to advance an agenda of the trilateral cooperation.

THE EMERGING SINO-EUROPEAN STRATEGIC DIALOGUE

European-Chinese relations have been increasingly deeper and wider. Since the end of the Cold War, European-Chinese relations have developed their own dynamic rather than being merely a “derivative of each side’s relationship with Washington and Moscow.”¹⁸⁵ The EU is now China’s second largest trading partner. Aware of China’ reemergence as an

¹⁸⁴ Also China’s behavior has exhibited a learning curve reflecting an increasing sense of the “socializing effect of organizational participation.”

¹⁸⁵ David Shambaugh, “China and Europe: The Emerging Axis,” *Current History*, September 2004.

economic and influential regional power, the EU has strategically built a bilateral dialogue on global issues with Beijing. Thus, the EU and China have had different dialogues at different levels (for example, at the senior official level, working group level, etc.) on different issues (human rights, trade, science, energy, environment, etc.). The Brussels and Beijing administrations meet twice a year at the level of China's Vice Foreign Ministers, along with representatives from the European President and European Commission. On the periphery of these meetings, business summits occur in concert. They attract a large community of investors and other business people, making them as important as the actual summits. In fact, the EU's China policy is considered successful mostly because of the high level of coordination and cooperation from EU member states.

Historically, the Chinese have held a positive attitude towards the EU. Indeed, they view the EU as an additional pole in a multipolar world. Since the end of the Cold War, the Chinese and Europeans alike have implicitly shared the geopolitical objective to counterbalance the influence of the US, the remaining superpower, in order to guard their independence in foreign affairs. As a result, Beijing has valued its relationship with the EU as a harmonious foreign policy actor unlike the US. Since the US has always been inclined to deal with each of the member states independently rather than the EU as a whole, the EU has had a hard time convincing Washington that it is an interlocutor with one single voice.¹⁸⁶ Obviously, this choice on the part of the US can be interpreted as a political stance similar to China's vision of a multipolar world. In contrast, in a 2003 EU policy paper by the Chinese government, China acknowledged that, despite the difficulties and challenges, "the EU will play an increasingly important role in both regional and international affairs."¹⁸⁷ Thus, the

¹⁸⁶ Since Henry Kissinger's famous joke back in the 1970s, "If Europe has a foreign policy, I wish someone would tell me its phone number!" the U.S. has given very little credibility the European common foreign policy. More broadly, the entire 'European experiment of pooled sovereignty' is alien to many Americans who distrust the idea of giving up sovereign rights to a supranational entity.

¹⁸⁷ "China's EU Policy paper," Ministry of Foreign Affairs, the People's Republic of China, October 2003 ; available from <http://wcm.fmprc.gov.cn/eng/zxxx/t27708.htm>.

Chinese government has officially decided that bilateral cooperation is in the best interest of both sides. According to this policy paper, “there is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other.” Both share the desire of a multipolar world, in which the UN has an extensive role to play. It is in the interests of both actors to support the UN’s agenda and actively promote UN-led reforms.

Like a newlywed couple, the Sino-EU relationship has gone through a honeymoon period that is now over. Indeed, after having overly high expectations for the nascent Sino-European axis, the Europeans went through a phase of disillusionment, which made them appreciate the value and solidity of the transatlantic relationship. The continuation of the arms embargo has sparked disappointment on the Chinese side.¹⁸⁸ The Chinese expected the Europeans to lift the arm embargo despite American pressure not to do so. As a result of the continuation of the arms embargo, Europe awareness of the balance of power in East Asia has significantly improved over past years. The Europeans have analyzed the impact of transferring more arms to China and the Asia Pacific region on the rest of the world. In addition, the Europeans have been reminded of the consequences of their own bilateral dialogue with Japan.¹⁸⁹

The US has slowly recognized the breadth and depth of European-Chinese relations.¹⁹⁰ However, the US government has univocally expressed its concern and uneasiness about some aspects of the European-Chinese partnership; it is particularly concerned about the aspects of the partnership involving high technology, such as the Galileo project and the

¹⁸⁸ The arms embargo on China was imposed by the European Union and the United States in response to the June 1989 Tiananmen crackdown. It still remains in place seventeen years later, but in early 2004 the European Union publicized its interest to lift this embargo on weapons sales to China. However, the Taiwan anti-secession law passed in Beijing (March 2005) increased cross-strait tensions and damaged attempts to lift the ban, causing several EU Council members to change their minds. Members of the U.S. Congress have also proposed restrictions on the transfer of military technology to the EU if they lift the ban.

¹⁸⁹ Claudia Pinto, counselor at the Delegation of the European Commission to the US, interview by author, written notes, Washington DC, August 2006.

¹⁹⁰ David Shambaugh, “China and Europe: The Emerging Axis,” *Current History*, September 2004.

possibility of lifting the EU arms embargo.¹⁹¹ For the EU's part, the fact that the EU wants to increase interaction with China in every field (politics, trade and investment, education, science, technology, culture, interpersonal relationships, etc.) "does not threaten anyone" and least of all the US allies, "neither deliberately, nor inadvertently."¹⁹² From the Chinese perspective, after China's disappointment in the arms embargo affair, it has focused its relationship with the EU pragmatically on the issue of trade, hoping to avoid protectionism and gain a greater share of the market. China is using the EU as a bargaining chip in its relations with the US, playing one against each other, particularly in the realm of trade and business matters (for example, Boeing versus Airbus, China's use of currency reserves, the Euro versus the dollar).

From François Godement's perspective, the fact that the Chinese want to call the Sino-European relationship "strategic" reveals the absence of divisive issues within the relationship, rather than strategic relationship in the geopolitical sense. As difficulties have increased, the European-Chinese link has evolved into a realistic, pragmatic, and balanced relationship. The EU and China are now closer to each other in governmental, commercial, and interpersonal affairs. "The Chinese-European relationship will continue to grow and

¹⁹¹ China's participation in **Galileo**, the EU's new satellite navigation system, is part of this strategy of countering American influence. The Galileo positioning system is a proposed satellite navigation system, to be built by the EU as an alternative to the Global Positioning System (GPS) – which is controlled by the military of the US – and the Russian GLONASS. The system should be operational by 2010. Among other motivations, Galileo is intended to provide a positioning system on which European nations can rely even in times of war or political disagreement—of course assuming there is no war or disagreements among them. By contrast with the American system, the European system will not be subject to shutdown for military purposes. Following the September 11, 2001 attacks, the U.S. government wrote to the European Union opposing the project, arguing that it would end the ability of the U.S. to shut down GPS in times of military operations. In September 2003, China joined the Galileo project. China will invest €230 million in the project over the next few years. Political implications of Galileo project include the fact that: Galileo will be a political statement of European independence from the U.S. and its GPS system. Galileo's proponents argue that civil infrastructure, including airplane navigation and landing, should not rely solely upon GPS. However, the project is currently stalled because of internal European political rivalries, economic competition and strategic divergences.

¹⁹² Hervé Dejean de la Bâtie, "Transatlantic Relations and Asia-Europe Dialogue," *Academia Sinica Europea*, September 3, 2004; available from <http://www.ceibs.edu/ase/Documents/transatlantic.htm>. The writer has been the Deputy Head of the Asia-Pacific Department in the French Ministry of Foreign Affairs since 2002.

develop at a steady pace” according to David Shambaugh; “over time it will become a new axis in world affairs, and will serve as a source of stability in a volatile world.” Although Mr. Shambaugh’s assessment of the relation is too optimistic, it mirrors a new important feature in international relations.

THE SUSPICIOUSLY INTERDEPENDENT SINO-US DIALOGUE

In comparison with the relationship between the EU and China, the Sino-American relationship is older; historical ties have an important role to play in creating the relationship. As a strategic middleman in the Russian-American relationship, China was a central player during the Cold War. Hence, a strategic Moscow-Washington-Beijing trilateral relationship formed during the 1970s and 1980s.

The contemporary Sino-American relationship is more ambiguous. On one hand, the US both acknowledges and welcomes the “peaceful” reemergence of China and its forthcoming integration within international institutions. As Secretary of State Condoleezza Rice has noted, “America has reason to welcome a confident, peaceful, and prosperous China. We want China as a global partner, able and willing to match its growing capabilities to its international responsibilities.” Beginning with former Deputy Secretary of State Robert Zoellick, senior State Department officials have engaged in regular and intensive dialogue with their Chinese counterparts through the US-China Senior Dialogue. The Senior Dialogue covers a broad range of issues within the bilateral relationship. As former Deputy Secretary Zoellick noted in a September 2005 speech, the goal of the Senior Dialogue is to encourage China to act as a “responsible stakeholder” within the international community on issues ranging from its relations with Iran and Sudan to bilateral efforts promoting energy

security.¹⁹³ In fact, the US is ready to accept China's revival as a foreign policy actor, if and only the PRC makes efforts to follow western standards of global governance, regional governance, and domestic governance. Consequently, the American description of China as a "responsible stakeholder" is a way to contextualize Chinese behavior into US interests. In addition, it sends a message to the PRC that as long as China plays the diplomatic game according to US rules, the relationship will be based on confidence.

Real economic interdependence exists between both actors: "China and the US are interdependent in many different ways including as energy consumers. China has a great interest in the well being of US economy, because it is so export dependent."¹⁹⁴ From an economic and trade perspective, China has a \$160 billion trade surplus with the US. Indeed, the US carries a huge external deficit and is to a great extent financed by Chinese reserves (to the excess of \$875.1 billion in March 2006). The sustainability of this situation is an unanswered question. Various US trade groups have accused China of manipulating its currency (the yuan) in order to keep it artificially low, making Chinese goods inexpensive and therefore in demand on world markets.¹⁹⁵

On the other hand, Beijing is a serious economic, political, and military competitor. It could potentially challenge and threaten US hegemony. Hence, the Americans have adopted a strategy of hedging, a mixture of containment and engagement also known as "containgment." Others argue that the US does not have a strategy toward China and that, instead, the administration reacts to new circumstances as they arise. Additionally, an overarching global comprehensive strategy toward China, encompassing the Departments of Treasury, Trade, State, and Defense, is lacking.

¹⁹³ U.S. Department of State, Background note: China; available from <http://www.state.gov/r/pa/ei/bgn/18902.htm>.

¹⁹⁴ Daniel Yergin.

¹⁹⁵ Peter Goodman, "Tension heightened by bid to purchase UNOCAL," *Washington Post*, July 5, 2005.

The 9/11 attacks provided the opportunity for the US and PRC to give rejuvenate an already strained bilateral relationship. The PRC joined the US-led “war on terror” and war in Afghanistan as well as even more strategic American-Chinese consultations. Due to over commitment in the Middle East, the US has been distracted from China, perhaps at the expense of the relationship. More importantly, both actors tend to avoid conflict. The US avoids conflict because of its overstretched involvement in the rest of the world. For the PRC, conflict avoidance is a strategy to gain enough time to consolidate domestic strength.

THE DYNAMICS OF THE NEW STRATEGIC TRIANGLE

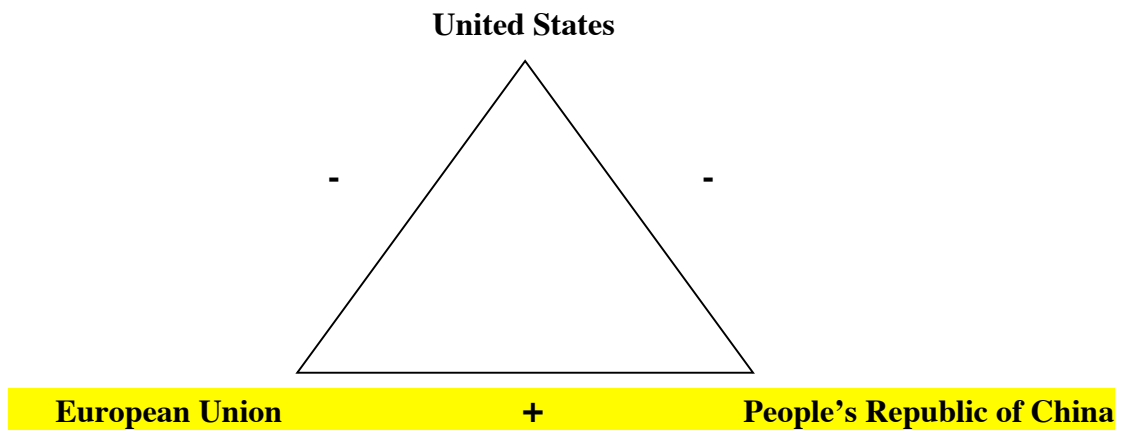
In comparison with the Moscow-Washington-Beijing strategic triangle in the 1970s and 1980s, the new strategic triangle is more dynamic, undetermined, and interactive.

Scenario 1: The European Union as the Pivotal Role

The EU has equally positive relationships with both wings, and plays a pivotal role in the strategic triangle. Indeed, European-Chinese relations rest on trust, mutual awareness, and absence of serious frictions, while the European-American relations are based on common values and interests. In contrast, Sino-American relations are characterized by suspicion, rivalry, and domination. According to Henry Kissinger, the most advantageous position in a strategic triangle is the pivotal role, which maintains amity with the two other players (the wings) while pitting them against each other.¹⁹⁶ The pivot delicately balances its relationship between two “wings,” gaining maximal benefits as the two rivals attempt to outbid each other. The two relationships that the pivot maintains with each of the other actors result in the exchange of positive values that benefit the pivot. However, in the case of the strategic triangle, if one partnership enhances bilateral ties, for instance the Sino-European link, this

¹⁹⁶ Henry Kissinger, *White House Years*, (Boston: Little, Brown, 1979) 165, 712

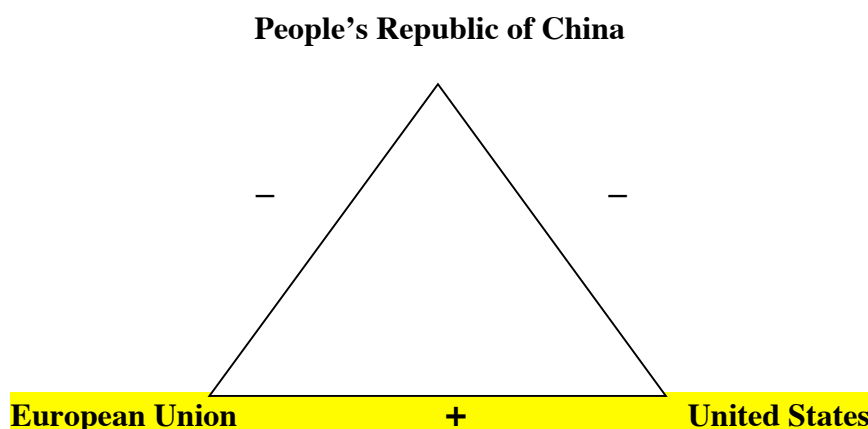
MULTIPOLAR-MULTILATERAL ALLIANCE



Scenario 3: The Transatlantic Link as the Driving Force

Because of the common perspectives that the US and the EU share about China's integration into international multilateral frameworks, promotion of human rights and civil rights, protection of the environmental, and participation in fair trade, they have unified to urge the PRC to move towards their vision of the global "good governance." A common transatlantic strategy towards China could offset the China's propensity to play the US and EU off each other. Together, the US and EU are more likely to deliver a strong message to the PRC instead of previous acts of disunity, which have led China to make independent moves of its own.

THE STABLE LEG: THE TRANSATLANTIC MARRIAGE



Scenario 4: The Chinese Game of Cards

As an assertive and self-confident actor, the PRC could be tempted to maximize its gains playing the United States against the European Union and vice versa. This card game could increase European-American competition on matters such as trade and currency (Airbus/Boeing¹⁹⁷; Euro/dollar¹⁹⁸). This is a risky stance for China. As the previous triangle reveals, the European-American coalition could react, by building a strong unitary message toward China.

¹⁹⁷ Wayne Arnold, "Asia, Where the Appetite for Aircraft is Big and the U.S. Maker has an Edge," *The New York Times*, November 28, 2006

"These aircraft purchases are always very close to high-level politics," said Peter Herbison. "In China Beijing still decides what aircraft the country's three largest airlines fly." "If Beijing says they like Washington today, they buy Boeing," said Peter Drolet." Boeing forecast that China will spend about \$280 billion in the next two decades on aircraft becoming the world's second-largest plane market, after the U.S.

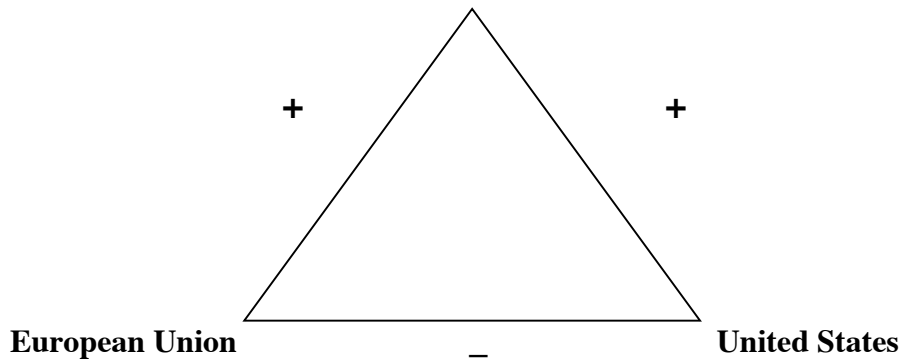
After a visit to Beijing by Jacques Chirac that it would build an assembly plant in Tianjin, China announced a \$10 billion deal to buy 150 Airbus A320s, the largest single order for the planes so far.

¹⁹⁸ Jerome Corsi, "Iran, Venezuela declare war on petrodollar", *WorldNetDaily*, February 9, 2006; available from http://worldnetdaily.com/news/article.asp?ARTICLE_ID=48751.

Beginning in 2003, Iran began demanding oil payment in euros, not dollars, although the oil itself was still priced in dollars. Given the fact that China negotiated major oil and natural gas rights from Iran, Iran might seek to convince China to hold significantly fewer dollars in their foreign exchange reserves, while Iran fights the world pressure over its nuclear program.

CHINA, THE PLAYER

People's Republic of China

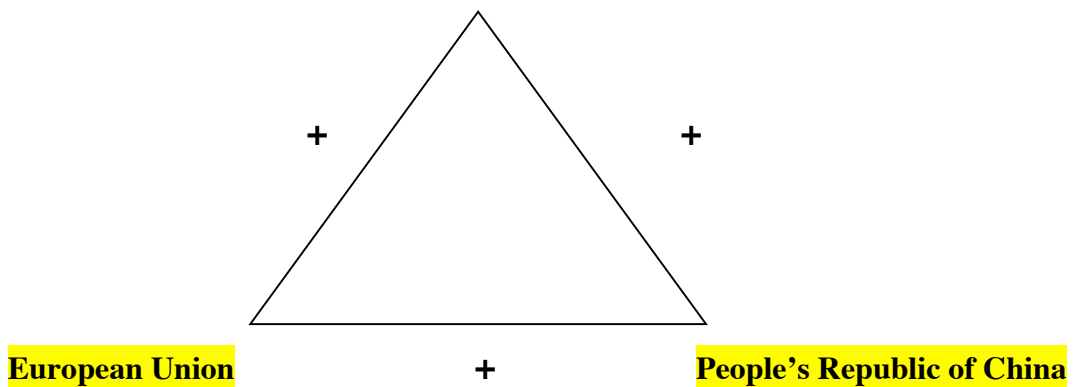


Scenario 5: A Cooperative Triangle

This triangle is a positive-sum game that includes common interests of all three players. In this game, national security concerns do not dominate the triangle. However as a triangle based on commerce, it does not guarantee peace.

COOPERATIVE TRIANGLE

United States



In the event of conflicts over Taiwan, Iran, or North Korea, each of the above scenarios could radically alter. However, here, possible enmity as a result of these conflicts has been disregarded.

CONCLUSION

Recognizing the US, EU, and PRC's growing dependence on petroleum imports, it is logical that as each of the actors prepares for the future, each will plan for the security of their supplies and protect their energy interests. The more often that the PRC deals with 'rogue' energy producers that impinge upon European and American interests, the more that the American European-Chinese relationship will be strained. Tensions are unlikely to vanish in the future as long as China focuses on negotiating energy deals that guarantee it oil irrespective of other geopolitical considerations. Being a "responsible energy consumer" according to the Western standards is the least of China's concerns; as a result, the three actors should move together toward a "tripartite stakeholdership."¹⁹⁹

As each player makes strategic moves in order to advance its own position with respect to energy security, at the same time, each player sparks both suspicion and anxiety. Thus, cooperation is crucial at the level of a tripartite dialogue in order to anticipate and circumvent a serious geopolitical crisis on energy issues. Indeed, since trilateral relations are not at an impasse today, there is time to foster dialogue, deepen mutual understanding, and build a strategic relationship. An increase of high level official and unofficial discussions amongst the three players on energy could prove key to identify areas of common understanding, specify priorities for improving mutual relations, and propose solution, helping all three sides to better manage their future relations. Given the fact that the three actors have common interests and mutual benefits, cooperation is not merely wishful thinking. While

¹⁹⁹ Bernt Berger

some areas of cooperation are intertwined with some areas of tensions, both cooperative and tense behaviors can coexist as long as multilateral relations do not degenerate into open conflict.

The strategic triangle between the US, EU and China is in flux: it is both dynamic and unsettled. As of yet, a settled trilateral relationship on energy does not exist. Assuming that the triangle will not be caught in the crossfire of other global security issues—such as tensions over Iran or Taiwan—the US-EU-China triangle will surely play an important role in the creation of a durable, collaborative, global order in establishing energy security into the 21st century and beyond.

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