

Into Africa

China's national petroleum companies have built some of the biggest refinery projects in Africa, in a resource rush not without controversy. Hepeng Jia reports



Daguo Ma, a refining process engineer at Sinopec, the Chinese petrochemical giant, can't hide his excitement when he talks about his work in Sudan. 'A refinery of this scale – certainly the largest in Africa – has never been attempted by our Western predecessors,' he boasts.

Ma used to be a member of the refining technology team at the Khartoum refinery. The 5 million tonne per year plant was built in 2004. It was jointly funded by the Sudanese government and the State-owned China National Petroleum Corporation (CNPC) – which shares operation of the refinery with Sinopec – and has been held up as an example of Sino-Sudanese friendship. But this image of international accord was recently torn apart by the brutal murder of Chinese workers by a Sudanese rebel group. Five of the nine CNPC workers who were taken hostage were killed on 27 October 2008 – the rest were rescued by Sudanese soldiers. The rebel group claimed they wanted to force the Chinese out of the Sudan.

Although this attempt failed – the refinery continues to operate and China shows no sign of withdrawing

In short

- China has a long history of investment in many African countries
- Many Chinese companies have established refineries and other industrial facilities in Africa
- Over a third of China's oil imports now come from Africa, but the country's economic interests extend far beyond oil, and include copper, diamonds, and downstream chemicals
- China's financial support of African governments considered corrupt, or engaged in civil wars, has drawn criticism from the West

any of its plans for commercial partnerships in Africa – critics suggest that China has been far too eager to secure its place in resource-rich African countries. The country has been accused of associating itself with unpopular, dictatorial political regimes in order to keep up the momentum of its development plans.

Hong Ma, a senior research fellow at the Beijing-based China University of Petroleum, says that China has a 'traditional friendship' with Africa. 'And it's alarming that [this] may have been weakened,' he says. Will China now be forced to take a step back in the race for Africa?

Long-term friends

A lack of diplomatic recognition from the West fuelled China's friendship with Africa. In the 1960s and 1970s, a relatively poor China poured billions of dollars into the Africa – where the international investment was happily accepted – to help newly independent countries build roads, power plants, and railways. Thousands of Chinese medical workers were deployed to African countries to help fight malaria and other diseases that particularly affect the African continent.

China's subsequent concentration on its own economic growth – opening its markets to rich western nations in late 1970s – meant Africa fell out of its focus. But by the late



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1990s, tension over the strain on China's resources, which was intensified by speed of economic development, caused Chinese policymakers to turn their attention to Africa's abundance of raw materials.

China's return to Africa was made official when CNPC won the tender for the Block 1/2/4 project in Sudan in August 1996 – the first of many Sino-Sudanese oil exploration projects.

Chinese national oil companies (NOCs), including CNPC, Sinopec, and China National Offshore Oil Corporation (CNOOC), subsequently expanded their presence in Africa – from Sudan in the east, Egypt in the North, Nigeria and Niger in the west, and Angola in the south. Business negotiations have even reached war-ravaged Somalia: CNOOC reportedly signed a deal with Somali energy minister Abdullahi Yusuf Mohammad last year in Nairobi. (The company has not confirmed the

agreement).

And it isn't only oil companies that are scrambling for their share of a resource-rich African continent. Other Chinese firms, including downstream chemical producer Sinochem Corp, and Chinese financial conglomerate CITIC Group, have followed the trend.

As a result, China now receives more than one-third of its oil imports – 151 million tonnes in the first 10 months of 2008 – from Africa. This accounts for 9 per cent of the continent's total exports in 2006 in terms of value. According to the World Bank 85 per cent of Africa's exports to China come from just five oil-rich countries: Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan.

The gold rush

China's interest in Africa has expanded far beyond oil – it now ranks as Africa's second biggest trading partner, after the US. Chinese firms import significant amounts of non-oil commodities including timber, copper, and diamonds. And Chinese chemical firms are establishing their presence downstream of the raw materials

Chinese companies are investing to train a local workforce

extraction (see p54).

As the deals are done, the transport links between China and Africa have also developed at a staggering pace. With no direct flight between Beijing and Khartoum, passengers from China have to take a China Southern Airlines flight to Dubai for a connection. From the late 1990s, this originally rather empty flight was suddenly filled every day by CNPC workers. According to the Chinese magazine *Global Entrepreneur*, at the peak of its activity in Sudan, CNPC had around 20 000 staff working in the country.

The Chinese media seized on the sudden swathe of Sino-African deals – with regular stories pointing to close friendships between Chinese business tycoons and African leaders. But Hong Ma thinks that China's fast expansion in Africa is far less sinister than such stories implied – and that the stream of investments now are a natural consequence of the historical alliance between China and Africa.

Chinese oil firms have certainly proven their ability to make a success of African projects – pumping oil from the seemingly lean wells that were either abandoned or disregarded by other firms.

'Chinese oil firms have proven they can make a success of African projects'



This has helped them gain early exploration deals in Africa with little competition, says Colin Fang, a senior analyst at US-based ION Geophysical Corporation. Daqing in northeastern China and Changqing in northwestern China, for example, have sustained high outputs after 40 years' of drilling by CNPC. 'The Chinese NOCs were late-comers, so they have had to enter [into deals] with some areas of conflict avoided by their Western counterparts,' says Hong Ma. 'It's their successful harvest in these areas that has won the confidence of African governments.'

And many African leaders, from

Sudan to Angola, have been effusive in their praise of China's willingness to invest in their states' development. But some politicians and democratic campaigners argue that such investment has simply strengthened some corrupt totalitarian regimes. Perhaps most notable is the Chinese financial support for Zimbabwe's president. Robert Mugabe – reviled and largely isolated by the West – had his Zanu-PF party headquarters in Harare built with Chinese funding, and China continued to supply his government with arms during the 2008 political crisis.

Hong Ma insists 'it's natural' for Chinese oil companies to pursue

Sinopec has a strong presence in Sudan

Five Chinese oil workers were murdered in Sudan by rebels who want China out of the country

associations with autocratic governments. 'In the democratic African countries, [they] can't get in – because of the strong Western influences there,' says Fuqiang Yang, China director of the US-based Energy Foundation.

Behind all of the State-owned companies, the Chinese government has long been generous in its offers of aid and technological support for Africa. Chinese president Hu Jintao announced at the China-Africa Summit held in Beijing in November 2006, that China planned to offer \$5 billion (£3.4 billion) in low-interest loans and credits to Africa and establish a China-Africa development fund of US\$5 billion over the next three years. This meant that China overtook the World Bank as Africa's major financial provider. State control of China's national oil firms tied together foreign policy and commercial investment.

But although the Sudanese projects have been commercially very successful, elsewhere in Africa progress is much slower than the Chinese government would like. 'If you look elsewhere, in Equatorial Guinea and Angola for example, Western oil companies are more engaged than Chinese NOCs,' says Alex Vines, an energy analyst at UK international affairs thinktank Chatham House.

China has experienced the problems caused by unstable political leadership in some African countries. In Nigeria, China signed a deal in early 2006 to provide a \$4 billion infrastructure investment package in exchange for first refusal rights on four oil exploration blocks. But the process has been far from smooth. In early November of 2008, the Western African country suspended a 1315km rail link between Lagos in the south and Kano in the north, which was to be built by the China Railway Construction Corporation and partially funded by Chinese loans.

Local impacts

Despite some setbacks, China's NOCs continue their efforts to expand their activities in the continent. In Niger, CNPC signed a deal with the government on 2 June 2008 to jointly develop the Ajadym oil block – which contains the country's largest known oil reserves. The Chinese State oil firm planned to invest \$5 billion in the coming three years to develop the block, and to build a 2000km pipeline and refinery with annual processing capacity of



1 million tonnes.

The project has moved rapidly. The media's attention was still focused on the murder of Chinese workers in Sudan in early November, when construction of the Nigerien pipeline started. At the same time, foundations were laid in Chad for another CNPC refinery – the company's fourth in Africa. This single deal was significant enough to promote Niger from a tiny trade partner for China – in the whole of 2006, China only imported goods valued at \$1 million from the country – to the partner in a multi-billion dollar Chinese oil exploration deal.

By investing in fixed assets in Africa – such as refineries and factories – Chinese firms are making a bold statement about their confidence in its development. 'When I was in the Sudan refinery, we frequently received visits from guests across Africa, who were stunned by the scale and the efficient operation of our plant,' Daguo Ma proudly points out. Indeed, the Chinese investments in Sudan have spread from oilfields and refineries to downstream chemical business such as polyethylene production. 'In many parts of east Africa, people use plastic bags made in Sudan with Chinese technologies,' he adds.

The Chinese-funded refinery also satisfies Sudan's demands for gasoline and diesel, and nearly one

China is part-funding Sudan's controversial Merowe Dam project



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'Stricter environmental controls at home may motivate Chinese companies to move their polluting operations abroad'

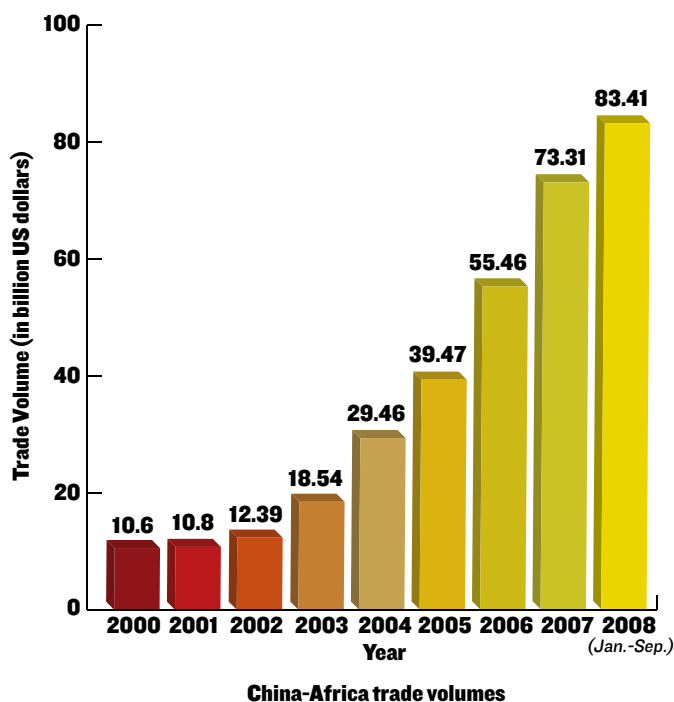
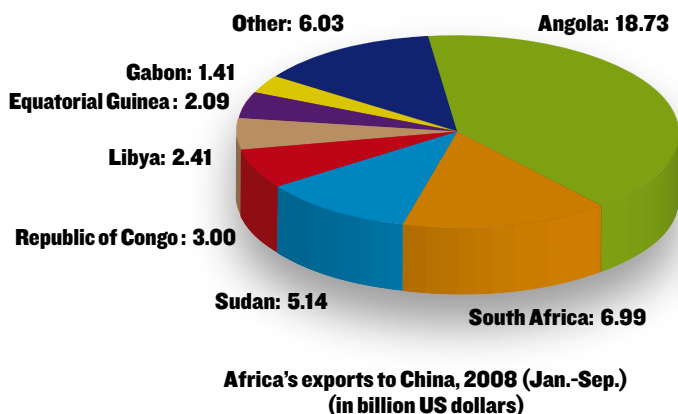
third of the Khartoum Refinery's outputs are exported. At the same time though, the wealth generated for the Sudanese government, together with the Chinese arms sales, has been reproached around the globe, because it supports the Sudanese government's military actions in Darfur, where the war has claimed an estimated 300 000 lives.

Sustainable future

China's investment has strengthened the position of African governments

in their negotiations with Western oil companies, and developed the expertise and skills of the local workforce. 'The professional development of our African colleagues in their work in the Khartoum Refinery is palpable,' says Daguo Ma. He hopes that there will soon be no need for Chinese experts to assist the refinery's operation.

But Ali Askouri, director of London-based Piankhi Research Group, a think tank focused on African development and human



COMBINED STATISTICS FROM FORUM ON CHINA-AFRICA COOPERATION AND THE CHINESE MINISTRY OF COMMERCE

rights, claims that Chinese investment is simply appeasing the ruling elite. 'China will [befriend] whoever happens to be in power as long as they will guarantee it access to resources,' says Askouri, who has backed a widespread campaign against the Merowe Dam project in Sudan, a large-scale hydroelectric project under construction on the Nile that has been partially funded by China. Critics of the project say that its environmental impacts have not been properly assessed and that the human rights of those people it will displace have been disregarded.

And in the past 30 years of its domestic development, China has prioritised economic growth over the environment. Peter Bosshard, director of California-based International Rivers, a leading campaigning group against the Merowe Dam, is concerned that the country could cause more environmental problems in Africa. 'Just as in Western countries, stricter

environmental regulations at home may motivate Chinese companies to move their polluting operations abroad,' he says.

But Sinopec's Ma rejects the idea that the Chinese are exporting their pollution to Africa, and argues that China is aiding sustainable economic development there. 'In the Khartoum Refinery, we have used the latest and most environmentally friendly technologies,' he points out.

Heads of Chinese NOCs have repeatedly stressed the priority they give to both the environment and local communities when embarking on a project in Africa. Yet African non-governmental organisations continue to accuse Chinese companies of environmental abuse and of trampling on labour rights.

Part of the reason for this is that Chinese companies have relied on African officials for information about local issues. They are simply not in the habit of dealing directly with indigenous communities'

'China has prioritised economic growth over the environment'

appeals – in China, public protests against the potential damage threatened by big petrochemical companies' project are often swiftly stamped out by the government. But, says ION's Fang, this lack of public dialogue is far from sustainable. Together with the anti-China mood fuelled by the Western media, he adds, it could endanger the further development of Chinese NOCs in Africa, as was so brutally reflected in the recent killings of the CNPC workers in Sudan.

Supply and demand

The underdeveloped African market is an obstacle in itself. Sinopec had planned to build a refinery in Angola, but the project was repeatedly delayed. This was due not only to domestic political resistance in Angola, but also to the very limited local demand.

Yin Xiaodong, an analyst with Beijing-based CITIC Securities, says that currently, the industrial chain for petrochemical industry in most African countries is very incomplete – making both production and sales of chemical products non-profitable.

Even the oil and gas exploration itself is challenged by the turbulent international market – the recent slump in the price of crude oil dramatically reduced the value of Chinese investments. 'Chinese oil firms should have planned for these price [changes] when they entered Africa,' says Hong Ma. 'They should make some long-term strategic arrangements, such as developing more local refineries.'

Chatham House's Vines agrees that Chinese NOCs should increase their efforts to develop downstream chemical business, and cooperate with African NOCs. With the expected Chinese penetration into more chemical and industrial facilities, African civil society groups and Chinese companies need to work together, he says.

'If they take a closer look, the Chinese will understand that civil society groups don't represent the interests of Western governments, but stand up for the environment and poor people wherever they are at risk,' says Bosshard.

The lack of productive dialogue between African leaders and these civil society groups could be the ultimate barrier to development. China will continue to invest, but whether African people can benefit from that investment rests in the hands of political leaders.



China continues its financial support of Zimbabwean president Robert Mugabe

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