Increasing energy security in importing countries, while creating sustainable development in exporting countries:

The case of international energy relations between the EU, China and Sub-Saharan Africa

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ABSTRACT
The purpose of this thesis is to map the international trade in energy, and more specifically examine the strategic policy directions of the EU and China, in their resource endowments in SSA, while taking into account the consequences that their strategies are having on SSA. The thesis offers an understanding of the intertwined policies as well as the means and methods utilized in the quest to increase energy security. The analysis is conducted both at a theoretical and an applied level, in order to further the understanding of the consequences arriving from the different policy directions, as a result the research is both descriptive and explanatory in nature.

The main findings are: That the power of the EU in relation to SSA has decreased relative to the power of China. The EU has been unable to exercise the same influence negotiating bilaterally, compared to the influence formerly applied under free market competition and through institutions, because of fragmented coherence between national and supranational energy agendas, and between IOCs and government institutions. China has by offering bilateral deals, without “political” strings attached been able to increase its supply from the region, but their tie-in arrangements, are fostering negative backlashes, because of negative social consequences. In order to capitalize on the energy trade the SSA countries have to shift focus from a heavy reliance on resource intensive exports, towards a promotion of a more long-term sustainable labor intensive export. This can be done by implementing macroeconomic and interventionist policies that increase investments in other industries than resource intensive. To a larger extend, the EU and China, have to incorporate socio-economic variables into their energy strategies, creating a more solid foundation for increased social cohesion in the exporting countries, hereby raising their own supply security.

The originality of this study is based on filling the gap between energy security and the creation of sustainable development. The EU has to find a new way of balancing a prioritization of its external energy policy with a more focused policy agenda on development. At the same time China needs to take into consideration the long term sustainability of their strategy, by reevaluating the impact their tie-in arrangements have on the level of energy security. SSA countries have to increase their understanding of the workings of the Chinese and European resource endowment strategies, and use the opportunities that exist in the trade off, while at the same time trying to minimize the harmful consequences.
1. Introduction

In recent years China has evolved as an emerging industrial and economic power, both with global and regional impact. While this industrialization has resulted in major positive implications for China, it has also created some major concerns in regards to scarce resources especially oil\(^1\). Furthermore China views foreign dependency and especially dependency on U.S. controlled oil from the Middle East as a vulnerability issue that the US could pressure them on if it came to a Sino-American Conflict\(^2\). Together with rapid industrialization China has taken steps to secure future energy supplies in Sub Sahara Africa (SSA).

However China is not the only actor turning its attention to the African continent in endeavors to secure resource. After the EU experienced the Russians shutting down gas supply, back in 2006 the EU has realized the instability and vulnerability of overreliance on one major supplier. The EU is therefore likewise looking to Africa to secure and diversify their energy supply. Both China and the EU are deficient in natural resources and are as a consequence bound to go abroad to secure their energy needs in order to maintain economic development and keep the international power balance status quo\(^3\).

In spite of EU having the opportunity of increasing energy supplies from the SSA, the recent Lisbon Treaty and Cotonou Agreement\(^4\) that replaced the Lomé Agreement\(^5\) have not made joint EU engagement in SSA more effective. One reason was that the article 12 on coherence only had limited effect on coordinating energy related issues, because energy was viewed as an area closely linked with national security and should therefore continue to be national domain\(^6\).

The EU has as part of the Cotonou Agreement sought to promote and incorporate good governance, anti-corruption, human rights and transparency as conditionalities, when doing business abroad\(^7\). The EU has also made efforts to move energy matters, from the Common Foreign and Security Policy (CFSP) domain, which is a part of national decision-making, to the Common Commercial Policy (CCP) that in contrast is dealt with on an European

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\(^1\) Kang (2007:107-113)  
\(^2\) Luming (2001:2)  
\(^3\) Morgenthau (1948:159-160)  
\(^4\) See appendix F  
\(^5\) See appendix G  
\(^6\) COM(2009) 458 final p. 7  
\(^7\) Youngs (2009:145-146)
Commission level (supranational level), hereby creating “one voice” and increasing its economic power leverage\(^8\).

Both the EU and China see Africa as a future partner, whom they can depend on delivering even greater amounts of energy in the future. Therefore the strategic value of the region has great importance, not only for the energy security of the EU and China but also for the developments of SSA in general.

Energy security is in this context defined as “*a mean to assure adequate, reliable supplies of energy at reasonable prices and in ways that do not jeopardize major national values and objectives*”\(^9\). This includes sovereignty and the normal well functioning of the economy\(^10\), availability and reasonable prices have to be secured in order not to undermine the development and progress of the economy.

In their own distinct way China and the EU link trade agreements, development assistance, loans or aid and security considerations together, in ways not always well balanced or equally beneficial for all actors involved in the tradeoff. This linking process can be explained as being bilateral, multilateral or as a result of lobbying in the international institutional realm.

The development aspect of the thesis originates from the hypothesis that trade in oil, holds great potential for including the otherwise much excluded SSA from the normal world trade flows. Basic assumption regarding the eradication of poverty and moving countries out of poverty surrounds the increase in trade and GDP, in other words trading and growing their way out of poverty and decreasing their dependency on aid. Growth in trade and GDP are usually followed by the potential of rising employment, education enrolment rate, access to healthcare and increased living standards.

The irony has been that poor countries usually do not have anything to export, and for the ones that do have, the exported goods are natural resource based and low labor intensive, therefore un-sustainable in the way that it undermines boarder societal development. Through history a booming natural based export has been associated with a negative down spiraling development referred to as the resource curse, causing increased instability, conflicts,

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\(^8\) Cini (2007:227)  
\(^9\) Yergin (1988:11)  
\(^10\) Stares (2000:22)
declining living standards and with large parts of the population experiencing adverse effects by having a lower relative income as a consequence of the Dutch Disease\textsuperscript{11}. By combining energy security and development policies in a coherent policy direction, energy importers have the potential to create a sustainable long term energy supply.

1.1 Motivation

Much of the literature in the field looks at China’s human rights or environmental track record of their projects in SSA\textsuperscript{12}. Not much literature can be found about the development effects that the “Chinese approach” has had on development, economic growth and stability in the region, compared with the approach undertaken by other actors like the EU.

Not much research has examined the effects of the policy changes within the EU and how it implicates EU’s external energy policies and resource endowments. Keep in mind that much of EU’s energy related external policies are still parallel competences within the EU system, and are decided upon at national levels primarily based on national interests\textsuperscript{13}. The external policies emerging from competing interests between EU and its member states (MS) are relevant to study in order to further the understanding of the geostrategic policy coordination between EU and its MS. In my thesis I explain how this translates on to the energy exporting countries ability to constantly develop parallel with EU efforts to increase energy security.

In order to secure energy resources both the EU and China are willing to increase their commitment to the region, while SSA countries are eager to take advantage of the opportunity to strengthen international trade. They have the possibility to capitalize from the trade, creating a richer and more stable country for their citizens in the future, by organizing a coherent strategy to spur economic transformation\textsuperscript{14}. If managed well it holds the potential of being in everybody’s best interest, because a stable country suffers less frequently from supply disruptions\textsuperscript{15}.

In this thesis I draw upon the experiences and strategies of both China and the EU, to come up with a framework about how the energy exporting countries can gain sustainable

\textsuperscript{11}Stiglitz (2007:69-70)
\textsuperscript{12}Alden (2007:2-11)
\textsuperscript{13}Cini (2007:230)
\textsuperscript{14}Doner, Ritchie & Slater (2005:2)
\textsuperscript{15}Correljé & Linde (2006:535)
development, while China and the EU are able to gain a more stable and secure supply of energy for their home markets.

1.2 Research question
The main research question in this thesis is:

- Is it possible for China and the EU to increase international energy supply from engaging in resource endowments in SSA, while creating sustainable development in SSA energy exporting countries?

In order to answer this question I will have to answer the following questions:

- What are China’s and the EU’s current and future energy situations and what are their energy strategies towards the SSA? And what kinds of policy tools are utilized in the pursuit of achieving supplies from SSA energy producing states?

- How are China’s and the EU’s resource endowments, affecting the sustainable development and stability of the SSA states involved? And how is their ability to accumulate trade in energy resources into socio-economic development influenced?

1.3 Delimitations
In the thesis I will undertake a contemporary policy analysis, and therefore I will not be looking at the historical evolution leading up to the current situation. The focus will be on energy related resources, endeavors to secure other raw materials or commodities, will only be taken in so far as they are directly linked to trade in energy resources. Only the relations between SSA & the EU and SSA & China will be analyzed. This even though other actors like the US, Brazil, India, Russia and South Africa are playing an increased role on the continent. The EU and China are chosen, because they represent two distinct different approaches towards energy endowments. The EU represents the multilateral, normative, institutional and market based approach, while China represents the more unilateral, geopolitical, state centric, realist based approach.

1.4 Structure of the Thesis
Following the empirical and theoretical considerations surrounding the framework of the thesis, I will explain the concept of energy security. To explain the resource endowment behavior of China and the EU, one must first understand the current and future energy
situation. This is furthermore done in relation to the region of SSA, and more specifically three country samples of Angola, Nigeria and Sudan.

The thesis continues to analyze the relation between the EU and China relative to their respective oil companies, ending out with a more general analysis of the energy strategies of the EU and China. An analysis, of the consequences for the SSA of China’s and EU’s energy endowment strategies, is made within the framework of the Dutch Disease and cross sector spillover. The consequences and opportunities that lie within the energy trade, together with the possibility of increasing the sustainable development aspects of the trade are lastly conducted.

2. Methodology

2.1 Compliance with the learning objectives set forward in International Business and Politics

The value of this thesis is foremost a thorough examinations of the means and methods used by China and the EU. The analysis will be explanatory and theoretical, including private-, private/public businesses, international organizations and states.

To get the full value of an analysis of the international energy trade system, an examination of the development consequences of the means and methods applied in resource endowments, will furthermore be undertaken. This will lead to a better understanding of the intertwined and complex system of resource endowments, and hopefully help to develop a more effective “toolbox”, when securing future energy supplies.

2.2 Theoretical considerations

My theoretical point of departure originates from a desire to conceptualize the current efforts to secure energy supplies, by engaging in resource endowment, while at the same time creating sustainable development in the exporting countries. It draws upon international political economic (IPE) theory by Richard Youngs, Erica Downs and Joseph Stiglitz among others, which together helps understand the complexity that exists within the current system of energy trade.

IPE theory is used in order to give a broader picture of the interconnections among the actors involved and the means applied in their particular resource strategies. The theory of IPE gives an overview of the international economy applied in combination with international relations,
and hereby opens the door for an interdisciplinary examination of the challenges that lie in securing energy supplies. While conducting the examination of the energy policy directions, two overwriting factors have to be taken into consideration. Firstly, the connection between raw materials and national defense\textsuperscript{16}, and secondly, how access to sufficient quantity and quality of natural resources affects national power\textsuperscript{17}.

Within the IPE literature, there are different approaches, on how to view and interpret the international regimes. One position is to define international regimes as principles, norms, rules and decision-making processes around which actor expectations converge in a given issue-area\textsuperscript{18}. The \textit{neoliberal} thought would suggest states to project their values and norms into international relations, promoting free trade and open markets\textsuperscript{19}. While the \textit{realist} thought would suggest states to pursue a more unilateral foreign policy pursuing relative power gains and self interest\textsuperscript{20}. I will examine how the EU and China are promoting themselves on the international energy scene as normative, economic or military powers and how this integrates into their respective resource endowment strategies, as a consequence my analysis will be both \textit{institutional} and \textit{normative} in nature.

The relationship between sovereign nations is ever changing, and the balance between civilian or normative powers and military power are continuously evolving through interdependent economies. With interdependence affecting governmental decision-making processes, governments are able to lobby to affect the interdependency by creating or accepting procedures and rules, along with regulating and controlling interstate structures\textsuperscript{21}.

The energy exporting countries are affected by external actors, with macroeconomic and societal consequences. In order to analyze how the exporting countries are affected, theory on the Dutch Disease and the Resource Curse are applied.

By incorporating energy specific data into the IPE equation, I hope to conclude an altered framework of international energy resource endowments. Because the current international relations theory, does not as it stands, answer the question of how best to increase energy security in a sustainable long term manner.

\textsuperscript{16}Krasner (1978:52)
\textsuperscript{17}Morgenthau (1948:159-160)
\textsuperscript{18}Krasner (1982:186)
\textsuperscript{19}Lamy (2008)
\textsuperscript{20}Dunne & Smith (2005)
\textsuperscript{21}Keohane & Nye (1977:5)
2.3 Empirical considerations

In order to answer my main research question, I have divided it into five sub-research questions. To answer the first sub-question regarding China’s and the EU’s current and future energy situation and strategies applied, I am going to rely on Eurostat statistical database and Communication from the Commission to the European Parliament and the Council (COM), coupled with information gathered from International Energy Agency and China development forum. For the subsequent analysis of the strategies towards SSA countries and the policy tools utilized, I will use (Youngs 2009), (Cini 2007), (Vines 2006) and (Downs 2007) in combination with EU commission working papers and Congressional Research Service reports (CRS) among others. The first sub-research question is answered largely on the basis of explanatory research.

The Second sub-research question is answered through a combination of descriptive and explanatory research. To analyze the sustainable development consequences of EU’s and China’s resource endowments, I am going to apply the framework of the Dutch Disease and Cross Sector Spillover, (Stiglitz 2002,2007), (Zafar 2007) and (Leite & Weidmann 1999), this in combination with statistical information from UN Comtrade and World databank. Lastly their ability to accumulate socio-economic development deriving from the trade in energy resources is analyzed by using IMF working papers, (Charles 2009), (Kaplinsky 2008), (Oliviera 2007) and (Raine 2009)

I will furthermore undertake a relational case study of the EU and China, while conducting a multiple case study of Angola, Nigeria and Sudan, as these are among the most oil rich countries in SSA and highly dependent on oil and gas exports. Furthermore China and the EU have had or have interests and representation in all three country samples.

3. Concept of energy security

This chapter tries to look at how geo-politics and geo-strategic policies, set in motion by the EU and China, affects the framework of international relations and IPE. Central for the analysis is the ever changing sphere between governments in the exporting states, the EU and China, where actions taken by either one of the three have positive or negative effects on one or several other actors.

Source: World Databank
For both the EU and China import dependency is seen as a risk factor to the security of supply. The risk affecting supply security can occur, when the international political or economic system is tense or thrown into disorder as a result of power politics, internal or external conflicts as well as increased competition, which are all variables that could potentially upset the availability and price of international energy resources.

The EU is behaving as an international actor, despite the fact that the European MS and their IOC affiliates parallel to the EU are behaving as single actors separate from the EU in trying to influence the overall direction of the external European policies as a whole. The behavior of China as an international actor is extended to include the behavior of the Chinese NOCs, because they act in close relation with the Chinese government in their geopolitical energy strategy. Governance structures and the legitimacy of the energy producing countries affect the policy directions of the EU and China differently. This issue will be examined further, later in the analysis.

Free trade since the 1970s, has been hailed by Western powers as the preferred mean to secure supply, the argument being that high oil prices raised the economic incentive to increase exploration and production hereby having supply self-regulate. The geopolitical dimension of insuring oil installations, oil infrastructure and transport routes were not prioritized, and in the event of serious disruptions the US was seen as the enforcer insuring the supply needed. Within the EU, foreign policy maneuverability was limited by the indirect effect of down-prioritizing geopolitics in favor of liberalizing the international trade system. At the time the international system of trade oil was not treated differently than any other commodity.

The fallacy of letting the free market regulate supply and demand, came to an end for the EU, when Russia turned off its gas to Ukraine in 2006 with political and economical consequences for many EU MS. In the case of China they actively started their geopolitical “oil diplomacy”, when they back in 1993 became a net oil importer and accelerated their activities even further in 1997 by encouraging Chinese NOCs to buy up overseas stakes in the oil industry.

The multilateral approach to energy security slowly changed with the lack of progress within the WTO, and the US distancing itself from the other Western powers, by not agreeing to the

\[\text{Youngs (2009:8)}\]
Kyoto protocol. The US unilateralism spurred following the 9/11, and gave rise to changes in US international relations and homeland security, the US no longer sought to reach an international consensus through the UN Security Council over Iraq\(^ {24} \). The direction of international energy security moved from an institutional and multilateral approach towards a more bi-or unilateral course focusing on geographical regions or specific states.

China’s entry on the international oil scene brought with it a revived view of energy security, a much more politicized geostrategic dimension that sought after undercutting Western IOCs, to secure production capacity through acquisitions in producer states. The “playing field” evened out between China and the institutionally more powerful EU, as the field of international energy trade changed away from the multilateral and institutional approach towards a more geostrategic centered.

Until fairly recently international coordination was based on solutions that would foster good governance standards, multilateral institutions and cooperation, meanwhile producer states eventually felt that consumer states dictated their policy direction and were consequently drawn by the prospect of large up front premiums offered by bilateral deals. Throughout this analysis this new trend and the implications thereof will be examined extensively.

### 3.1 Sub-conclusion

Over the last decade, the international energy policies on issues of energy security have shifted towards a more geostrategic and geopolitical approach, with greater emphasis on directing policies toward specific regions or states. This shift in mentality, have lead China to increase its power leverage relative to the EU. AT the same time the EU focus on self-regulating markets have diminished in favor of actively engaging in energy related diplomacy, coherence between the EU and its MS are limited and have lead to different external policies being advocated.

### 4. Quest for energy

In order to understand the discourse behind the energy strategies of the EU and China, an examination of the energy mix has to be conducted. The energy mix that make up the countries energy demand, vary according to geographical origin, way of transportation,

\(^{24}\text{CIEP Study (2004:24)}\)
reliability and security of supply. This chapter examines EU’s and China’s current and expected future energy mix, and the derived policy deliberations associated.

4.1 Background

Following decades of increase in trade and production, we have witnessed a boom in demand for energy. Energy shortages and the insecurity that could potentially follow have been seen as one of the major challenges we face in modern society. The major economies of the EU and China have seen how internal energy output no longer matches domestic demand, especially since fossil fuels, primarily oil continued to be the premier source of energy for the foreseeable future. In the mist the region of SSA has emerged as a potentially important energy exporter, not least because countries seek to diversify their supply of energy imports away from the volatile Middle East.

The question then arises, of how to further the partnership with the oil exporting countries of SSA, in a way that both delivers steady flow of energy to their markets at stable prices, while acting responsible in their endeavors to sign deals with sometimes unstable or corrupt regimes. No major oil and gas producer in the developing world has a consolidated democracy, and all have corruption disproportionately high for their respective levels of development, high centralization of executive power and high military spending, all hindering boarder social development.\(^\text{25}\). These are facts that governments have to keep in mind, when choosing their energy mix.

Competition between Beijing and Brussels over SSA’s energy resources can play out two ways; Either as a zero-sum game, where the party with the lowest denominator, willing to act the most ominous will secure control over energy supplies, through for example bribery, with upmost disregard for the well being of the local community or environment. Bilateral relationships with autocratic regimes have through history shown not to increase sustainability of energy security, no matter the character of the agreements, loyalty in times of crisis, have gone to the highest bidder.\(^\text{26}\).

It also has the potential of evolving in quite the opposite direction, the energy importing countries can bring to the region improved technological skills, which would increase the overall output on the international market, providing a more stable flow hereby increasing

\(^{25}\)Sachs & Stiglitz (2007:12)

\(^{26}\)Jaffe (2005:12)
stability. This, while putting in place governance structures meant to increase political accountability, transparency and democratic principles. All together, this could help further the usage of the new found wealth in a way, where it would accumulate in the overall development of the economy.

4.2 EU’s current energy mix

Oil reserves are uneven distributed around the world, with the largest proven reserves located in the less political secure regions, such as the Middle East, Venezuela and Russia\textsuperscript{27}. The only known European reserves are located in the North Sea, but these oil fields have already peaked and are declining on production. The overall energy trade balance of the EU is showing a £225 billion deficit with huge economic and political consequences. In order to minimize the reliance of foreign suppliers, the EC has set a target of improving the way we consume energy within the EU by increasing resource efficiency with 20 percent by 2020\textsuperscript{28}.

The Ukraine-Russian gas dispute back in 2006, underlined how foreign dependency can move the balance of power in an instant, it also showed that energy security was an issue too important to be handled on a national level, without the coordination from the EU. Further steps had to be taken on a supranational level, in order to corralled energy strategies across the borders.

The way decisions used to be taken within Europe prior to the ratification of the Lisbon Treaty, was determined by the nature of the policy area. The EU was structured around a pillar system illustrated in appendix D, which consists of a combination of supranational decision making and intergovernmental co-operation. The Ukraine-Russian gas dispute was an eye opener that kick-started negotiations on moving some of the energy related issues from the Common Foreign and Security Policy (CFSP) \textsuperscript{2nd} pillar to the EC \textsuperscript{1st} pillar, which in time would, make it easier for the EU as a whole, to act long term, in securing the energy needs of the future.

The Treaty of the Functioning of the European Union (Lisbon Treaty) ended the pillar system, but introduced a new distribution of competences defined by policy area. What was formerly part of the CFSP \textsuperscript{2nd} pillar policy area now became part of the shared competence illustrated in appendix E. The implications for Europe’s external energy policy formulation have been

\textsuperscript{27}Oil & Gas Journal (2008)
\textsuperscript{28}Piebalgs (2008:2)
limited, because the policy formulation has continued to be shared competences, just as it were under the former pillar system\textsuperscript{29}. Changes on energy policies have largely been limited to the internal working of Europe’s own energy market as part of the common commercial policy (CCP). This in spite of continuing concern over an overreliance on Russia as major energy supplier, which as a consequence has increased Russia’s relative power towards the EU and whom has shown a willingness to use the control of energy as a “weapon” to influence EU’s foreign or economic policies\textsuperscript{30}.

Already signs are emerging of Russia using its upper hand, when they refused to ratify the Energy Charter Treaty that helps secure open market competition and free transit of energy. In addition Russia refuses to let European energy companies invest in Russia’s oil and gas fields, while at the same time threatening the EU with action if they refuse to let Russian energy companies invest in the European energy sector. As shown below the EU dependency on oil and gas are high, and with Russia being the single greatest supplier it holds quite some bargaining power.

EU’s secondary supplier of energy, the Middle East, likewise raises concerns of future energy supplies. The region is continuously fraught with war, terrorism and politically unstable regimes threatening the West on “energy politics”\textsuperscript{31}.

**EU’s energy consumption 2006\textsuperscript{32}**

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{energy_consumption.png}
\end{figure}

\textsuperscript{29}ISIS Europe (2007)
\textsuperscript{30}CRS Report for Congress (2007:3)
\textsuperscript{31}CRS Report for Congress (2007: 6)
\textsuperscript{32}Source: Eurostat statistical books “Energy yearly statistics 2008”
In 2006, the European Council endorsed the Commission’s proposal to include energy security as part of the intergovernmental co-operations within the framework of the CFSP. In the endorsement the Council made it clear that individual MS were in their right to pursue their own external agendas in regard to securing individual energy needs, a right that later was cemented in the Lisbon Treaty. The EC underlined it viewed by adding; that a common effort made within the institutional setting of the EU, was an optimal choice, hence it is more capable of exercising the leverage necessary for the collective interest of the union.

The continuous choices made by national MS, have the disadvantage of obstructing efforts made by the EC to coordinate a joint approach and benchmarking on the issue. As a natural consequence the working of the EU’s external energy policy, is continuously affected by the choices made on a national level by individual MS in regard to their future energy mix. The “common voice” is being undermined by unilateral authority exercised towards external energy producing countries. Common for all the national approaches are the commitment to EU environmental policy and the Kyoto Protocol.

An example of the unilateralism that exists within the EU was expressed in the 2005 Russian-German gas pipeline project, where Germany failed to coordinate with other EU members, including Lithuania, Poland and Sweden raised concerns over the construction of the pipeline running underneath the strategic Baltic Sea area. They argued that Germany would be opening up for increased Russian military presence and surveillance in the area. Again in 2006, the German Chancellor opposed a Polish proposal for an EU energy treaty that included a clause that evoked the aid from other EU members in time of energy shortfalls. The German position was based on a presumption that the treaty excluded Russia, and therefore undermined interdependence between Russia and the EU.

The ratification of the Treaty on a European Constitution (Lisbon Treaty), have only had limited effect on MS external energy policy decision making. The treaty elevated energy policies from mainly a national competence to a shared competence under the authority of the Commission. The Lisbon Treaty states that the Union shall respect essential member state’s functions before the Treaties in safeguarding national security and that national security

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33 See appendix E  
34 EC Jun. 06 Documents160/06  
35 Spiegel online “Sweden Afraid of Russian Spooks” Nov. 15 2006  
36 CRS report for congress 2006
remains the sole responsibility of each member state\textsuperscript{37}. This in effect means that the MS unilateral external energy politics maneuverability remains unaltered by the new treaty.

The energy challenges of the EU are centered around three issues. Firstly, how to develop a strong partnership with energy producing and transit countries. Secondly, how to maximize the usage of exiting indigenous energy sources, while cutting overall consumption. And lastly, how to establish an internal energy system that can provide secure and dependable energy supplies in the future\textsuperscript{38}.

In the meantime, none of these challenges can be tackled successfully, without taking into account diversification. The EU has to face the security challenges of strategically diversifying their energy supply, along with the geostrategic consideration of transporting energy into Europe\textsuperscript{39}.

When talking about diversification of energy, one has to look at sources of energy versus supply of energy. When looking at the sources, Europe is moving towards a strategic diversification away from conventional fossil fuel towards renewable, clean fossil fuel such as Carbon Capture and Storage technologies (CCS)\textsuperscript{40} and nuclear energy in order to reach the target of 20\% renewable energy by 2020. On the supply of energy the EU is looking to diversify its sources away from primarily Russia, towards the Caspian, Central Asia, North Africa and SSA\textsuperscript{41}.

\subsection*{4.3 EU’s future energy imports}
Energy dependency will increase in the future, and the EU Commission has predicted in its Green Paper on Security of Supply (Nov. 200), that dependency on imported energy supplies will increase from today’s level of 50\% to 70\% percent in 2030. In 2030, current baseline projections have EU oil production declining by 73\%, gas production would be 59\% lower and solid fuel production is expected to sink by 41\%\textsuperscript{42}. This can potentially cause adverse affects the EU’s power position in the international realm and make it vulnerable and less self

\begin{footnotesize}
\textsuperscript{37}CIG 14/07 2007Art. 3a, paragraph 2
\textsuperscript{38}Presidency conclusions – Brussels 8/9 March (2007:20)
\textsuperscript{39}Presidency conclusions – Brussels 8/9 March (2007:19)
\textsuperscript{40}CCS is an technology aimed at capturing and storage CO2 emissions, from especially power plants, in a way so that the CO2 do not enter the atmosphere
\textsuperscript{41}Piebalgs (2008:3)
\end{footnotesize}
determent in its strive for geostrategic issue and in negotiations with governments of energy exporting countries.

**EU dependency on energy imports by 2030**

![Graph showing EU dependency on energy imports by 2030]

This leaves the EU even more dependent on non-European countries in providing its energy in the future, today Norway is a major and stable exporter to the EU but is expected to export less oil in 2030, because production has already peaked. Another key point in the Commissions Green Paper on Security of Supply was diversification of its sources. Priority was given to diversify away from Russia that otherwise is expected to account for 60% gas and the Middle East for 45% of oil imports by 2030.

The EU currently imports 25% of its gas from Algeria, and regard the country as a competent substitute to Russia, and further measures have been taken to expand the relationship with Algeria and other North African countries, by gradually setting up a free trade area in effect by 2010. In addition a gas pipeline from Nigeria to the EU through Algeria is planned for 2015, which will further diversify the supply of gas to the EU, Nigeria proven gas reserve of 5 trillion cubic meters surpassing those of Algeria.

EU relations in the Gulf of Guinea have mostly been centered on The Economic Community of West African States (ECOWAS), with a fragmented approach dealing with issues mostly on a regional level, and not with specific governments. In 2005 the EU tried to increase coherence by adopting a joint EU Strategy for Africa, with emphasis being put on good governance, peace and security, with an augmented focus on economic and trade integration.

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45 Joint Declarations of the Parish summit for the Mediterranean Paris 13 July (2008:12)
46 OPEC “Africa gas reserves 2006” World oil and gas journal
Within the framework of the new joint strategy issues have continued to be negotiated on a supranational level within the realm of the AU, ECOWAS etc.\textsuperscript{47}

Within the EU Strategy for Africa, a partnership agreement on energy was made in 2006 this meant that the relationship went from being a strategic to being a mutual partnership. It was to reinforce the current dialogue on issues such as access to energy and energy security, scaling up investments in energy infrastructure and increasing the proportion of oil and gas revenues in development activities, by making energy cooperation an explicit part of the EDF budget for the first time\textsuperscript{48}.

\subsection*{4.4 China’s current energy mix}

During the 1980s the Chinese Central government predicted that the country would not be able to continue being self-sufficient in energy, therefore the Chinese government established three large National Oil Companies, CNOOC\textsuperscript{49}, SINOPEC\textsuperscript{50} and lastly CNPC\textsuperscript{51}. China became a net importer of oil in 1993, and energy as a whole in 1995, even though today China continues to be an exporter of coal but has realized its increased dependency on foreign energy supplies.

When China became a net oil importer, it had to rethink its energy strategy. The dependency on foreign energy resources was and is still regarded as a vulnerability from which the U.S. can take advantage of, by using its control of especially Middle Eastern oil to pressure Chinese interests by disrupting supply. As a result China has sought to set up alternative energy supplies, diversifying away from the Middle East.

Coal make up the clear majority of China’s solid fuel consumption, compared to other energy sources coal is a disproportionate polluter, and China is slowly recognizing that industrialization based largely on solid fuels are un-sustainable. Oil seems the best medium term alternative to solid fuels, and China has increasingly tried to secure supplies from and access to oil in SSA.

\textsuperscript{47}COM(2007) 1 final art. 3.9
\textsuperscript{49}China National Offshore Oil Corporation, controlling the offshore oil business.
\textsuperscript{50}China National Petrochemical Corporation, refining and marketing
\textsuperscript{51}China National Petroleum Corporation, oil exploration and production within national borders
China’s energy consumption 2006\(^{52}\)

The Chinese NOCs are distinct from the Western, with strong ties to the government, their strategy can be coordinated as part of a long term strategic Chinese plan. They can also act less risk-averse, because they do not have the same responsibility towards shareholders at home. Their responsibility is towards the Chinese government and it is using the NOCs as a tool to alter the countries current energy mix, by diversifying both the energy source and routes of transportation.

By 2008 China’s GNP had reached $1.4 trillion, and it is expected to quadruple by 2020 to $4-5 trillion about one third of that of the EU. The problem is that the oil, water and electricity supply system cannot maintain a growth of such magnitude. It has become the world’s second largest oil consumer trailing only the U.S., and the accession of China into the WTO has resulted in cars being more affordable, causing more citizens to abandon their bicycles and busses in favor of cars. Today China has 90 times more cars than it had in 1990, and in spite of rapid industrialization, vehicle emissions are now the single greatest polluter in the major cities, the result of outdated oil refineries, poor fuel quality and about 5-10 times lower vehicle fuel efficiency, when compared to developed countries\(^{53}\).

4.5 China’s future energy imports

China has set an arduous goal for itself to create a “xiaokang shehui” meaning a “well of society” by the year 2020\(^{54}\). If China is to reach an economic level, equal to secondary developed countries by 2050, every Chinese will be excepted to have a purchasing power

\(^{52}\)Source: EIA International Energy Annual 2006.

\(^{53}\)China Development Forum 2003 (2003:40-41)

\(^{54}\)China Development Forum 2003 (2003:31)
parity of 25.000 $ pr. capita, which in average consume 5.0 tons coal. These calculations are based on a similar lifestyle and exempts technological improvements, and show that China is expected to consume 5.5 times more energy than what it already does, equal to 57% of the world energy consumption (2003 level) by 2050\(^55\).

The government has intensified its focus on sustainable development orientated policies directed at industry development, restructuring, import/export especially energy intensive products and leapfrogging. By doing so China hopes that it will reach the per. capita GDP goal of 2050, but with only half the energy consumption of other developed countries.

Energy is at the backbone of this evolution, and the way energy is exploited, converted and used influence the ecological and economic development of the country. China is time and again ranked as one of the top economies in term of growth, but the rapid industrialization has also resulted in 16 of the 20 most polluted cities in the world being situated in China\(^56\).

As part of their rapid industrialization the demand for oil and gas is expected to increase disproportionate, when measured up against other energy sources. The environmental concerns have made the low-sulphur oil that can be found in the Gulf of Guinea highly desirable, also because it can easily be processed in the Chinese refineries without an expensive retrofiting\(^57\). As it is shown below nothing at the moment indicates, that the Chinese longing for energy is diminishing anytime soon.

**Chinese dependency on energy imports by 2030\(^58\)**

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\(^{55}\)China Development Forum 2003 (2003:35)  
\(^{56}\)World Bank Development Report 2001  
\(^{57}\)Vines (2006:64)  
\(^{58}\)ZhiDong (2003 art. 4.2)
From becoming a net importer of gas in 2010, China is rapidly becoming dependent on gas imports, while in the same period China is expected to continue to be self-sufficient in solid fuels.

The government has backed CNPC and SINOPEC in their endeavors to engage in international exploration and development, Chinese NOCs have outbid other contestants by presenting favorable conditions to the governments with “no political strings attached” in the form of international conditionalities and arms-for-oil barter arrangements\textsuperscript{59}.

The main reasoning behind the Chinese “going out” strategy is that China is a developing country, and therefore more vulnerable to oil price fluctuations and supply disruptions than industrialized countries\textsuperscript{60}. Chinese analysts found that high oil prices directly caused inflation and were one of the main reasons behind the 1989 demonstrations on Tiananmen Square\textsuperscript{61}.

An important consideration, when measuring China’s economic leverage is the fact that China holds the world’s largest foreign exchange reserve. Until recently the reserves have mainly been used to keep exchange rates and energy prices artificially low, but as part of China’s “going out” strategy, the central government has encouraged homegrown companies to go abroad in the hunt for new markets and investment opportunities\textsuperscript{62}. The Chinese FDI’s in SSA can politically be characterized as based on non-interference, China is merely clinging to the perception that “business is business”, no matter where or who this business is conducted with, whether it be Sudan or Zimbabwe\textsuperscript{63}.

**4.6 Sub-conclusion**

Energy demands will increase in the future for both the EU and China. The EU is by increasing the resource efficiency aiming to reduce dependency on energy imports, keeping total demand for oil and gas unchanged, but with a greater dependency on imported energy. The future energy mix of the EU is expected to change on both the source and supply side, as the introduction of renewable and nuclear energy is to play a greater part in the future. Priority has been given to diversify supply away from overreliance on Russia, by engaging in energy partnerships through regional institutions like the AU.

\textsuperscript{59} Raine (2009:98)
\textsuperscript{60} Annan (2000)
\textsuperscript{61} Downs (2004:31)
\textsuperscript{62} Friedberg (2006)
\textsuperscript{63} Crabtree (2008:5)
China is heavily dependent on solid fuels, but possesses the world’s second largest coal reserve, and will therefore remain self sufficient. The import of oil and gas play a big part in the development and industrialization of the country. To further the reliability of supply and down scale the threat of being reliant on security from the US, China has set up NOCs to buy up stakes in overseas oil producing countries with the direct backing of the government. The goal has mainly been to create diversification of supply, by altering the geographical origin of the imported energy.

5. The role of SSA in EU and Chinese energy strategies
The region of SSA is interesting because it is the least explored region of the main continents, with some of the fastest growing oil and gas productions and discoveries in the world. The governments of SSA are still open for foreign investors to buy in on production sharing-agreements (PSA). In contrast to some of the other countries like Russia or Venezuela, where oil exploration and productions are predominantly done by NOCs and where regulation deters IOCs from investing. The chapter examines how the EU and China try to act in this situation, in order to gain greater influence over the energy assets located in the region.

5.1 EU and the role of SSA in their energy strategy
Strong ties exist between the EU and Africa largely due to the presence of European empires on the continent during its colonization. The EU is supplying a steady flow of development aid totaling €15 billion in 2003, which make up 60 % of all ODA to the continent.

By the early 2000s SSA energy potential became apparent, because the region showed the highest rates of new oil and gas discoveries, and registered the fastest growing production in the world. The EU was encouraged to reassess its commitment, but the words were not followed by targeted action and as a natural consequence other actors namely US and China gradually overtook European influence. The EU has since tried to change the way they approach cooperation with African countries, before the Cotonou Agreement they had largely dealt with SSA states separately. The EU is now aiming to engage in cooperation with African countries, through the pan African institutions, such as the AU and NEPAD considering SSA as one entity.

64 Reuters (2 Aug. 2010)
65 COM(2005) 489 final (2005:2)
The EU has taken steps to make aid effectiveness and donor coordination central in its aim to realize the UN Millennium Development Goals (MDGs) for Africa. This is done on the basis of the Parish Declaration and the European Consensus for Development, but the initiatives have had limited effect on alignment and complementarity, in regard to the implementation of macroeconomic reforms or structural adjustments programmes⁶⁶.

In the EU Strategy for Africa, it is stated that the 8% growth rate necessary for achieving the MDGs for Africa, only can be reached by implementing macroeconomic and structural policies that stimulate foreign direct investments and pro-poor growth⁶⁷. Furthermore the EU believes that increased trade can be optimized by integrating economies, by taking advantage of economies of scale. In that regard the EU has entered into negotiations with four SSA regional economic communities, in order to set up Economic Partnership Agreements (EPA).

The indirect effect of increased interdependence through trade would be a decreased incentive for the oil exporting states to engage in behavior that would hurt the EU, like supply disruptions. Helped under way by sound and balanced economic relations the overall energy supply security would be increased⁶⁸. Meantime high demand for oil would result in the bargaining power falling in favor of producing states, and with autocratic regimes the smell of short term profits by bilateral agreements, may seem more attractive than long term economic sustainability offered by the EU through demand stability.

In order to tackle the infrastructure problems the EU has set up a Partnership for Infrastructure, that initiates and supports programmes that create interconnectivity at a continental level along with integration at a regional level, the programme makes special priority to energy projects and aims at increasing focus on energy.

As a result of the institutionalization much of EU’s energy policies directed towards SSA emerged from development policy initiatives. This is different from the high level political and diplomatic engagement in other energy exporting regions and states like the Middle East or Russia⁶⁹. By making energy policies through the development angle, the EU achieved a stronger link between energy interests and government reforms on the ground. Conflicts spurred by disputes over economic rents coming from oil production, has been known to

⁶⁶COMMISSION STAFF WORKING PAPER (2008:4)
⁶⁸CIEP Study (2004:69-71)
⁶⁹Youngs (2009:126)
cause both political and social rivalry with disrupted total oil outputs as a consequence\textsuperscript{70}. On the other hand by focusing on good governance and development, the EU may lose out on Europe’s own strategic energy concerns.

In spite of Shell, BP and Total still exerting significant presence and economic leverage in SSA, the importance of the region as a source of European energy supply has not grown significant since the early 2000s. The region only accounts for 6 % of Europe’s oil imports as illustrated below.

**EU-27 imports of crude oil from third-party countries (2008)**\textsuperscript{71}

![EU-27 imports of crude oil from third-party countries (2008)]

Somewhat the same picture can be painted about EU’s gas imports from the SSA, that in spite of Nigeria’s large gas export potential, it is currently supplying only 4% of EU’s gas import the amount is expected to increase, when the planned Nigerian-EU gas pipeline is constructed.

**European imports of gas from third-party countries (2008)**\textsuperscript{72}

![European imports of gas from third-party countries (2008)]

\textsuperscript{70}Correlje (2006:538)
\textsuperscript{71}Market Observatory for energy report 2009 (2009:38)
\textsuperscript{72}Market Observatory for energy report2009 (2009:23)
Underplaying the significance of African energy potential changed in 2006, when violence in the Niger Delta region of Nigeria caused a 20% drop in production, which resulted in one of the most significant oil price spikes in the mid- and late 2000s, exceeding the result of similar disruptions in other countries like Iran.  

In spite SSA importance as an international oil supplier, the EU had not made much progress or efforts in the pursuit of securing a larger diversification of their energy supply from SSA. The EU has fallen behind the US, whom already back in 2005 secured more oil from SSA than the Middle East, and have announced that it would increase its imports from the region to 25% by 2015. Also in comparison with China who imported 30% of its oil from SSA by the mid 2000s, was an indication of the potential for diversifying energy supplies by focusing on the region.

One of the reasons for this trend can be explained by the EU not joining pro-actively in setting up a strategic framework on securing the energy supplies from SSA. It has only been done on a national level, by MS like the UK who in 2005 bilaterally joined the US in setting up an operational command post in the Gulf in Guinea to secure the oil and gas installations and infrastructure. The UK and Germany have until now remained the only EU members to actively engage in energy security discussion with the US within the framework of NATO. Overall the EU still remains to take active part in the strategic securitization of the supplies, mostly because it would be too focused on strategy and not enough on development.

By agreeing on the European Consensus on Development in 2006, it reiterated the conviction of a two-way linkage between development and security, one being necessary for the other and both equally important in making progress. With an overreaching Policy Coherence for Development (PCD) principle already in place from the year before, it was agreed to insure that all security and energy policies impacted positively on development. The development efforts have as a consequence since been an intertwined part of European external energy policies.

The PCD has committed MS to tighten coherence between aid efforts and a range of other policy concerns in the region, the coherence principle meant that non-development policies,
should respect the development policy objectives and development cooperation should, whenever possible contribute to the objectives of other EU policies. In short, the EU tried to engage in development orientated cooperation, with a broader agenda in mind, aimed at making non-aid policies correspond and positively impact developing countries in achieving the MDG’s. The PCD also influenced the energy sphere in the way that it tried to strengthen the regulatory framework, regional cooperation and the marrying of energy strategies with poverty-eradication strategies, together with giving the recipient countries more freedom in choosing their own energy strategy77.

Despite the political willpower and evidence for the importance of the PCD, the MS have been struggling with the implementation. Because of the complex nature of the strategy, a softer implementation of a more operationalised PCD is being called for, one that is more strategic or partnership orientated78.

In the EU 2007-9 Energy Action Plan, the EU sought to balance the strategy of securing SSA as a supplier of energy to EU’s own market, while at the same time creating a platform for the creation of a more secure energy supply for the local citizens. This was set in motion by calling for two things: One, making European MS ear-mark a portion of their aid directly to energy related issues, and Two, by facilitating a review process that actively pushes for the oil and gas revenues in exporting states, to be used for development orientated means. This has raised concerns as to how attuned the EU is with its own domestic strategic energy concerns, and is conflicting with for example the IMF loan agreements with Angola that gradually reduce fuel subsidies, making it more expensive for local consumers and in effect increasing the energy poverty79.

The focus on good governance and democratic principles primarily related to Zimbabwe was one of the main arguments behind the delaying of the second EU-African summit back in 2007. This underlined, how low on the agenda, the prioritizing of energy security was, compared with other issues in the SSA. EU engagement in oil endowments in SSA has been marginalized and low profiled, compared to other regions. Countries like the UK, France and the Netherlands all with close ties to their respective IOCs were heavily engaged in the region, but shared a focus on a conflict orientated approach. The goal was to create an

79Letter of intent of the governments of Angola (2010:4)
environment that secured a steady and uninterrupted flow of oil, meantime the joint EU approach have been largely fragmented80.

It became apparent that the EU was stressing a development orientated approach to build the foundations for an energy partnership, when it for initiatives such as the World Bank “Energy for all” or the EU Energy Initiative for Poverty Eradication and Sustainable Development. The EU was distinguishing itself from other actors, by linking energy security with other development policies, in particular in focusing on Africa’s own energy infrastructure and needs.

Since the Russian-Georgian conflict, a reemergence of the necessity of diversifying away from Russian gas surfaced. Provoked by the state owned Gazprom signing a memorandum of understanding with the Nigerian National Petroleum Corporation (NNPC), to collaborate in gas exploration, the EU reacted by offering financial backing of £15 billion to construct the 4,300 km long gas pipeline from Nigeria to the EU.

The importance of energy security has been slow to make headway on the European agenda, but with the creation of the Joint African EU Strategy (JAES), the EU has begun arranging meetings on energy security at the highest level, with meetings held for the first time in 2009. Especially Germany and Austria have been in the front seat, and energy related issues are among the fastest growing areas of the JAES81. With close EC-AU cooperation, and the inclusion of civic society and private sector actors, the plan is to make a blueprint for electricity in Africa together with capacity building programme to support the African energy pool, this is still heavily focusing on Africa’s own energy poverty, rather than increasing the energy security of the EU, and it might be one of the reasons, why countries like France, Netherlands and the UK, have not prioritized the JAES to the same degree.

For European donors in general only 3-4 percent of ODA is allocated towards projects that are aimed at supporting democratic principles and good governance. In the Cotonou Agreement, ODA is only subject to conditionalities and regulations, only if it is channeled as part of the EU budget, but meantime it is exempt from the same regulation, when it is part of bilateral national programmes. This in effect means that aid allocated through the EU programmes are attached to a string of conditionalities and often linked to migration control or the removal of

80Youngs (2009:131)
81ECDPM (2008)
trade barriers\textsuperscript{82}. The joint efforts and initiatives that have been pushed forward over the last decade or so, is designed to increase ODA coherence and coordination between MS. In spite of lobbying from the European Union, to make MS allocate a greater portion of their aid and ODA through EU programmes, only $8bn were channeled through EU, while $26bn were spent as part of national programmes\textsuperscript{83}.

**Nigeria**

In spite of Nigeria’s energy potential, with both proven oil and gas reserves ranked among the top ten largest in the world, the EU has shown tremendous shortcomings in the balance between energy interests and government relationship building. The country has been flagged as “fragile state” with increased prioritization from the EU in the fight against terrorism and the stabilization in the region of the Niger Delta. This oil rich region of the country that prior had disrupted international oil supply with adverse affects on prices. The increased prioritization only resulted in the UK allocating $100 million annually by 2006. The aid from the EC in the period 2001-7 was just below €50 million, and with no other MS donating more than $10 million yearly, the influence of the EU was slow to make headway in Abuja\textsuperscript{84}.

Unrest in the country was advanced by the manipulation of local and national elections in 2003. In the mediate aftermath, the re-elected President Obasanjo introduced various schemes to boost investments in the oil sector of the Niger Delta. The manipulation of elections was in steep contrast to the persona the government wanted to portray, by being the first state to sign up for the Executive Industries Transparency Initiative (EITI)\textsuperscript{85}. Unsurprisingly the increased efforts by the regime on issues on anti-corruption did not seem to have any meaningful effect in the mysterious disappearing of state oil revenues, just like the graduation from being an EITI candidate country to a full member of EITI was never realized.

Instead of enforcing the role of law, the Nigerian government sought to buy off militant rebellions of the Niger Delta region, with the unsurprisingly consequence of handing the rebels even greater incentives to continue down their destructive path. Several security firms linked to militant groups were given security contracts for securing the oil installations. In the period after the 2007 elections deteriorating internal strife, the funding from the EU and its

\textsuperscript{82}Mulvey (2007)

\textsuperscript{83}Mulvey (2007)

\textsuperscript{84}Nigeria – European Community (2002)

\textsuperscript{85}Khakee (2008:3)
MS shifted focus towards increasing securitization in the oil producing regions through a heavy state orientated approach, largely overlooking the civil society and matters of corruption.

The UK was the most proactive EU member in trying to engage directly with the Nigerian military forces together with the US they bilaterally formed the Gulf of Guinea Energy Security Strategy (GGESS). The UK delivered its security assistance to the Nigerian government, in damming up for sabotage and illegal bunkering, this was out of self interest and not to increase overall European energy security. The UK was also the primus motor in the 2005 deal offering the Nigerian governments the biggest ever debt relief package of $18bn, a way for the British to get on good terms with the government in Abuja.

Supply disruptions as a concern
Illegal bunkering is one of the major concerns for the oil sector operating in the Niger Delta, estimates have shown that between 70,000 and 300,000 bpd of crude oil is being stolen every day. The issue is not only a matter of revenues slipping through the fingers of the oil companies, but it also possesses a major security threat. 70,000 barrels a day at $60 a barrel gives $1.5bn annually, which could go a long way in buying arms and bribing officials in efforts from the Niger Delta militants to gain influence and power.

Not many pro-active measures have been taken towards the country, which can be accredited to the fact that the EU does not want to take any steps that could potentially disrupt the energy supplies for Europe. There have not been any punitive measures taken towards the country over the last decade that have had any meaningful impact on the democratization process.

Angola
The EU was slow to recognize José Eduardo dos Santos’s MPLA as the only legitimate Angolan government. Consequently President dos Santos continuously refers to the Western states with relics to the imperial past. This has created an obvious obstacle for Western oil companies from the get go, in their efforts to secure oil contracts in the country.

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87Bunkering: Siphoning and transporting stolen crude oil and other hydrocarbon liquids.
88bbc.co.uk (30 June 2005)
89International Crisis Group (2006:8)
90Africa Confidential (2007)
When doing business in Angola, it is one of the most isolated countries in SSA, with close to none transparency, and it remains to be seen, what effects the loan agreement with IMF will produce in terms of increased transparency. As a consequence, it has been difficult to exercise any meaningful influence in tackling some of the pressing issues of corruption and transparency. The country went through a tremendous transformation, when some of the world’s largest new oil discoveries were found within their borders, and so catapulted the Angolan economy into the fastest growing economy in the world in 2005-6. The oil revenues and control of oil deals have in the meantime been concentrated on a small elite, and not been dispersed within the society^91.

With high exports earnings, the government refused an IMF liberalization package in 2007 and the government went even further by not accepting to join the EITI initiative, and tightened the laws regulating the amount of information in relation to the Angolan oil sector allowed for publication. The country saw an escalation of the internal conflict in the Cabinda enclave, where separatist movements demanded an increased share of oil revenues. In this area no local democracy exists, and all officials are appointed by the central government in Luanda.

The great majority of crude is exported and makes up 90 percent of the country’s export and 80 percent of the GDP, in spite of the overwhelming production of oil, access to energy for the local population continues to be insufficient^92. The European initiatives such as “Energy for all” do not make headway in competition with the prospects of high earnings from exporting the oil instead of using it internally to increase electrical power availability. Furthermore the incorporation of the removal of domestic fuel subsidies as conditional for the IMF loan approval is only expected to increase the incitement for increased exports.

The EU is still the country’s biggest donor, but the amounts of assistance have been negligible in comparison to other funds that the country had access to. As a result the donor-recipient relation has not yielded the EU any relative influence on the countries policy directions.

In 2006, when Angola’s energy reserves became more apparent, the French President Sarkozy opted his attention to Angola, he was determined to get the French oil company Total back in the arena, especially when it came to licensing of drilling rights. Total had formerly been

^91Smith (2008)
^92cia.doc.gov/cabs/angola
cold-shouldered by President Dos Santos, as a consequence of the Elf trials\(^93\), and consequently lost the renewal of some of its licenses to Chinese Sinopec. The efforts by President Sarkozy paved the way for Total, who once more got awarded expanding drilling rights by the Angolan government, in 2008.

In 2007 Germany offered Angola a new line of credit only second to that of China from 2004. This was still a relatively soft approach from the EU, compared to that of the US or China, who by offering Angola new military cooperation gained more influence than for example the German approach by offering loan credit\(^94\).

In spite of the relatively soft approach taken by MS, they received criticism from the EP for not taking a strong enough stand on issues of bad governance and of what the EP saw as the oppression of civic society and opposition parties in the country\(^95\). The EC argued that it tried to use the provision that existed within the Cotonou Agreement, but that its efforts were being obstructed by Angola’s unwillingness to sign up for the EITI initiative as well as its peripheral position on the energy cooperation initiatives launched by the EU.

**Sudan**

The European energy cooperation with Sudan is largely marked by the country’s internal conflicts and persistent human rights tensions. In 1992 the IOCs were forced to leave the country, as a consequence of US lead sanctions. Since the early 1990’s the EU has predominantly followed in the footsteps of the US, and has to a great extent remained relatively low key, and deterred from direct diplomatic involvement in the conflict. The vacuum that followed the departure of the Western oil companies, have since been filled with Chinese NOCs, who to a large extend do not operate under the same restrictions as European or American companies.

Following the 2004 peace deal, the EU agreed on a €400million aid package to the country, but the package allocated roughly two-thirds to basic humanitarian relief. In spite of the energy potential of the country, the EU engagement cannot be characterized as being “soft” with strong international institutional lobbying like the US nor can it be characterized as

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\(^93\)See appendix H

\(^94\)allafrica.com (24 March 2010)

\(^95\)Youngs (2009:145)
diplomatic unconditional “business is business” like the Chinese. It is rather a combination of the two, with one foot on each side, though leaning more towards the US.

EU aid continued uninterrupted through the years following the 2004 peace deal, this in spite of allegation of grave human rights abuses in the Darfur region. Heavy military presence was enforced by north Sudan on oil installations in the south, against attacks from southern rebels groups.

The Darfur crisis
When the Darfur crisis escalated, the EU refused to intervene directly, and imposed only modest sanctions against the government in Khartoum, relative to those of the US. The EU approach focused on financing the AU peace force to be deployed to the region, Sudan subsequently accepted a hybrid UN force, but only after the Chinese government assured the government in Khartoum that intervention would be non-intrusive.

At about the same time as the EU and the US pushed for a UN security resolution to be implemented, the China increased its military aid to the Sudanese regime, which was critical to the Sudanese government on the issue of Darfur. Much pointed in the direction of conflict being energy related, with China keen on bringing some kind of stability to the region of south Sudan, in order to free up even greater reserves, and to keep rebel attacks on oil installations on a minimum.96

On the other hand the EU seemed more aware of keeping good relations to the country, because of counter-terrorism issues rather than energy related issues. The Western governments initially pushed for a greater autonomy of south Sudan in the 2004 peace deal, in hopes that the predominately Christian south would grant Western oil companies greater benefits than that of the Northern Muslim government.

The government of Sudan has since been more eager in setting up energy cooperation with Europe, rather than the other way around, this in order to diversify away from an overreliance on exports to China.97 French Total was the only one of the major European oil companies, who actively tried to get back in to Sudan, but was eventually caught in a brawl between the

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96 Africa Confidential (Feb. 2008)
97 Africa Confidential (Mar. 2008)
north and south governments, with the south government ruling a license issued by the northern government invalid.

In 2006, when the government of south Sudan fell short of retaining control over the oil contracts and licenses for the south Sudanese oil fields. The ruling party of the south was left without any power to control international oil contracts, and only limited say on specific issues. The EU consequently put greater emphasis on getting a good foothold with the north Sudanese government, the relationship have since deteriorated after the EU together with the US backed the International Criminal Court in issuing an arrest order for President Al-Bashir over violations concerning the Darfur crisis.

5.2 China and the role of SSA in their energy strategy

China has been in Africa since the 1960’s, back then their main reason was to get the backing of the African states in the UN assembly, in order to isolate Taiwan and claim the Chinese seat of the UN Security Council98. China succeeded then, and is now trying to imitate the success in a slightly altered way, namely to secure access to the continents vast natural resources, which can help the Chinese economy further its industrialization99.

The Chinese strategy towards Africa has not been the same since 1993, when China changed status to a net oil importer. The new approach was evident when then Chinese President Jiang-Zemin toured the African continent during 1996, presenting the “Five Point Proposal” that was to form the foundation of a new China–Africa partnership100.

Its central points were reliable friendship, sovereign equality, non-intervention, mutually beneficial development and international co-operation101. China had learned from the history of the Western powers presence on the continent and was emphasizing that it was a partnership between equals “South-South” and not a strong country trying to impose or enforce its will on weaker countries, in order to take advantage of the imbalance in power.

In 2000, China created the Forum on China-Africa Cooperation (FOCAC), within the forum meetings are taking place at ministerial level every three years, comprising 46 out of 53 African countries. As a symbolic gesture of the importance of the new Sino-African

98 Alden (2007:21)
99 Alden (2007:11)
100 fmprc.gov.cn (17 Nov. 2000)
101 Vines (2006:64)
relationship, the Chinese foreign minister’s first official overseas trip each year is made to Africa, this holds much hidden diplomatic weight. In its second FOCAC meeting in 2003, Premier Wen Jiabo announced that China was cancelling the debt owed by 31 African countries, worth $1.3bn dollars, along with a promise of greater aid and an increased engagement in UN peacekeeping operations in the continent\textsuperscript{102}.

Later President Hu Jintao announced a new Five-point program for China-Africa partnership. China has set up arrangements regarding military cooperation, namely training of personnel and transfer of military equipment. These arrangements are sought after because many of the resource rich countries are autocracies and as a consequence limited in acquiring military equipment from for example European MS.

To speed up the Chinese NOCs abilities to operate internationally the strategy has been based on acquiring already existing oil companies through mergers. The Chinese Sinopec has, just to illustrate, bought Addax Petroleum, a Swiss oil exploration company formerly owned by a Canadian oil giant. The purchase from 2009, gave Sinopec access to oil and gas assets in Iraq and West Africa, but furthermore it gave them access to much needed high end experience in human resources, management systems and business operation in overseas upstream operations\textsuperscript{103}.

**Commercial value of oil investments in Africa 2007\textsuperscript{104}**

\begin{figure}
\centering
\includegraphics[width=\textwidth]{chart.png}
\end{figure}

One has to keep in mind that Chinese NOCs are relatively new on the international scene, and therefore as shown above, have quite some catching up to do, in order to compete with the

\begin{itemize}
\item \textsuperscript{102}Alden (2007:31)
\item \textsuperscript{103}allafrica.com (13 July 2010)
\item \textsuperscript{104}Downs (2007:44)
\end{itemize}
already established IOCs and other NOCs. The Chinese NOCs do not have in place an existing apparatus capable of, for example deep sea drilling, in contrast to many of the other actors operating on the international market.

At the same time China is trying to build up goodwill around the continent, they have cancelled a total of $10billion in bilateral debt, arranged for duty free access for an array of SSA exports, build roads, dams and infrastructure at low costs, good quality and at a fraction of the time it would usually take for conventional actors like the EU. It has set up health clinics and agricultural centers along with actively participating in UN peace keeping missions around the continent. Even so, China has been much criticized for undermining human rights, labor conditions and environmental considerations in their engagement in SSA, and taking advantage of the uneven playing field, by not having to comply with the conditionalities set forward in realm of the Cotonou Agreement, OECD, IMF or World Bank.

Despite the criticism, many SSA countries welcome Chinese companies, because they have shown interest in smaller energy fields that larger western companies have bypassed or relinquished, this way China is actually keeping oil on the market, which would have alternatively been taken off the market, hereby keeping prices low. Since 2001 Chinese business enterprises have been encouraged to go abroad seeking new consumer markets and outsourcing production, this has brought with it positive outcomes, for example cheaper goods for the SSA consumers.

**Sudan**

China has since 1996 invested heavily in Sudan’s oil industry, this after western companies were forced to redraw from the country, because of sanctions. In 2006 China had invested $4 bn. in the country, making China Sudan’s second largest foreign investor, the FDI was among other things used to build a 1,500 kilometer pipeline, connecting oilfields in the greater Nile region with the Red Sea, where they also constructed a $215 million export tanker terminal. The Chinese investments have resulted in a twofold increase of the oil production between 2003 and 2006.

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105Hanson (2008:3)
106Downs (2007:51)
107Vines (2006:65)
Meanwhile on the dark side of the trade off, you will find that as much as 80% of the revenue generated from the Sudanese energy export has gone to finance the internal North-South civil war along with the conflict in the Darfur region. China is the country’s largest arms supplier and has threatened to veto against sanctions aimed at Sudan, through the UN Security Council several times, in order to protect Khartoum-Beijing relations\textsuperscript{108}.

Beijing is using political means to achieve a competitive advantage in front of Western companies in the race to acquire natural resources. China has found that hard currency has helped them, in achieving the much needed licenses to the energy fields. In the meantime competition has been known to drive up the upfront bonuses paid to governments, in order to secure the licenses, a method that has grown in popularity, especially in West Africa\textsuperscript{109}.

**Nigeria**

In Nigeria, the Chinese CNOOC has bought stakes in oil exploration ventures into the Niger Delta, along with a 45% share in the underdeveloped Akpo field purchased for an estimated $2.27bn. Promises have also been made from Beijing to the Nigerian government to repair the old railroad system a contract worth $8bn. The refinery in Kaduna has been taken over by a Chinese company, while other Chinese construction companies are set to build new electrical power stations in the country.

In May of 2010, a $23 billion deal was signed between the Nigerian state run oil firm NNPC and China State Construction Engineering Corporation (CSEC). The Chinese will cover 80% of the costs associated with the building of the three oil refineries and the fuel complex incorporated in the contract\textsuperscript{110}. With the first $8 bn. set aside for a refinery planned for construction in the Lekki free trade zone outside Lagos, Nigeria’s largest city. Largos will provide the needed infrastructure and land necessary for the construction.

Nigeria already has four oil refineries but they only run at 40% capacity, because they have been poorly maintained. In spite of their status as a major oil producer and exporter, this has resulted in Nigeria having to import 80% of their refined fuel. The new facilities are expected to increase production capacity of refined oil with 750,000 barrels pr. day. This is much in line with the Nigerian government plan of first making foreign companies invest in Nigeria’s

\textsuperscript{108}Vines (2006:69).
\textsuperscript{109}Vines (2006:66)
\textsuperscript{110}BBC.co.uk (6 July 2010)
own infrastructure and economy, before harvesting the benefits of Nigerian oil and gas exports\textsuperscript{111}.

On a more controversial note, China has surpassed the US in efforts to lock a deal on the delivery of security services and military equipment, to secure the Niger Delta oil installations against rebellion attacks. The Chinese bid was eventually chosen after the US stalled negotiations wanting to tie-in human rights and anti-corruption measures in the deal, meantime no such measures were required by the Chinese government\textsuperscript{112}. Obviously China similar to the US have reasons to help the Nigerian government, to secure the oil installations in the oil rich, but also rebellious Niger Delta region, this in order to secure against supply disruptions.

During the run up for the 2007 election the then ruling President Obasanjo, tried to bribe his way through Senate, in an attempt to secure a third term. A subsequent investigation later determined that he was not alone in the mishandling of oil revenues and a total of 31 of 36 state governors saw themselves subject to investigation\textsuperscript{113}. Primarily as a consequence of bribes, either coming from oil companies themselves or from the state oil revenues that were made more accessible for Niger Delta governors, after they had lobbied for a change in the way oil revenues was divided. The reform had earlier secured the regional states 17\% of regional oil revenues directly, instead of having the revenues channeled back through the central government.

**Angola**

Since 2005 Angola has been shifting positions back and forth with Saudi Arabia, as China’s main oil supplier. Angola is as the newest member of OPEC, which also constitutes the immense importance that Angola has in the Chinese energy strategy.

The Angolan government has shown that it is not afraid to use oil as a bargaining tool. Reports point in the direction, that the reason behind Total’s recent loss of its lead-operator rights to Block 3/05, was the result of a France court ruling in an oil-for-arms case from the 1990’s involving Dos Santos’s government. Later China’s SINOPEC took over Block 3/05 in a joint-venture with the Angolan state owned Sonangol. Even so, China still trails far behind

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\textsuperscript{111}BBC.co.uk (14 May 2010)  
\textsuperscript{112}Mahtani (2006)  
\textsuperscript{113}BBC.co.uk (Sep. 28 2006)
in their oil operations compared to other Western oil companies, like Shell, Exxon Mobile, BP, Total and ChevronTexaco.

The $2 billion loan from China given to the Angolan government has a great impact on the country’s approach to other partners, mainly because of the size of the loan. China with its $2 bn. far supersedes all previous loans and with loan tranches spanning only two years, a five-year grace period and 12 years repayment period along with a demand for far less amounts of oil in collateral\textsuperscript{114}. China has since increased its loans to Angola to minimum $8.5bn. but with all of China loans and aid being either project based or tied-inns it has created concern\textsuperscript{115}. This made it possible to rebuild much of the infrastructure that had been destroyed during the 27 year long civil war that ended in 2002, costing the lives of 1.5m. out of a population of 7m.

The Chinese aid has been welcomed by President Jose Eduardo Dos Santos’s government, because it has not been bound by the introduction of more transparency in the oil sector. China hope, that the increased flow of assistance to the country’s infrastructure will result in the country’s oil production output increasing, from 1.6 million barrels per day (bpd) in 2006 to 2m. bpd by 2010\textsuperscript{116}. Meanwhile investments from both BP and Total have increased overall production capacity to 2.5m. bpd, well in excess of Angola’s OPEC quota of 1,517m. for 2009. As a consequence no new investments have been made for the last 2 years\textsuperscript{117}.

Angola’s government broke off talks with the IMF once more in 2007, and instead turned to China to secure loans, they looked unlikely to comply with international pressure, as a result of the relatively high oil prices, and the willingness from especially China, Brazil and India to offer loans\textsuperscript{118}. Later, when the international oil prices fell, Angola turned to the IMF to stabilize their trade balance, and in 2009 Angola and the IMF agreed on a loan agreement up to $890m\textsuperscript{119}, with an additional stand-by agreement (SBA) of up to $6bn. to be negotiated in sep. 2010\textsuperscript{120}.

\textsuperscript{114}Vines (2006:71)
\textsuperscript{115}Huse & Muyakwe (2008:12)
\textsuperscript{116}Vines (2006:70)
\textsuperscript{117}Petroleum economist (2010)
\textsuperscript{118}Vines (2006:70)
\textsuperscript{119}bbc.co.uk (29 sep. 2009)
\textsuperscript{120}Letter of intent of the governments of Angola (2010:3)
Chinese development assistance programmes in general
Compared to the EU, China’s development assistance programmes are much more difficult to break down in an analysis. In some cases grants for infrastructure projects have been approved as part of an oil licensing deal, which helps Chinese NOCs secured contracts at an above market value. This way the grant does not show up in the budget as a part of Chinese development assistance programme, but instead in the budget of the Exim Bank as a commercial investment. The Chinese approach has been labeled the Beijing Consensus (Ramo 2004), involves a combination of aggressive diplomacy and the cultivation of friendly ties with its “no strings attached” financial and technical assistance programmes.

However the same policy direction of neglecting to prioritize human rights, democracy or governance, when supporting authoritarian regimes like Sudan or Zimbabwe along with the un-linking of aid to political reforms, have created uneasiness because of fear that it would legitimize pariah governments. Critical voices have been raised, saying that the greatly needed policy reforms would be delayed, and much necessary measures on issues of transparency and accountability essential to eradicate the crippling corruption would likewise be put on hold.

5.3 Sub-conclusion
The European approach is based on increased regional cooperation, and especially focusing on incorporating development as the foundation on which the future energy strategy for SSA is to be based on. The EU has mainly used aid and development assistance in order to further the incentive for the SSA governments to focus on accountability, transparency and good governance. Coherence between MS are lacking because the EU does not have competence. As a result individual MS have bilaterally engaged in cooperation with SSA countries, but have not been able to exercise much leverage. The only concrete action taken to diversify EU’s energy supply has been the signing of a deal with Nigerian NNPC to construct a gas pipeline through Algeria into Europe. For now the importance of SSA as a potential major energy supplier, has not received special prioritizing within the EU-Africa overall relation.

China has sought after negotiating bilaterally with specific countries in the SSA. Unlike the EU, China has not imposed or threatened to impose sanctions on any of the energy exporting countries in the SSA. In contrast they have been more than willing to assist both Sudan and

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121 See appendix N
Angola, when the Western governments hesitated because of democratic or humanitarian considerations. China has engaged in cooperation with SSA, at the highest diplomatic level underlining the importance of the Sino-African relationship. China is set to expand its future geostrategic presence in the region, hoping to gain greater access to energy resources.

6. EU and Chinese oil companies
In pursuit and competition for international energy sources, international oil companies and national oil companies are used as “tools” for their respective governments and vice versa, in securing a reliable and stable supply of energy. This chapter looks closer at the differences between the Chinese and the European oil companies, in the way they engage in resource endowments.

6.1 EU’s oil companies
While European governments struggle to come to grips with the modern geopolitical challenges of energy security, the IOCs are faced with their own challenges because of increased competition from emerging NOCs. By 2007, Chinese CNPC became the largest international oil company overtaking the position of Exxon-Mobile by way of market capitalization, in the same year another indicator of the changing energy sphere surfaced, when only 7% of the known oil reserves in the world were in the hands of IOCs.

The EU and its MS, appear to be out of step with the IOCs and vice versa. While the EU was not prioritizing diversification of its energy sources, Total were already spending 30 percent of its budget on global exploration and production in endowments, to open up new areas in Africa. This gap between governments and the IOCs have lamented the lack of a coherent EU geopolitical strategy. The IOCs are calling for increased European coordination, in order to gain greater bargaining power on the international scene, but at the same time they are joining their respective governments in signing bilateral deals with producing states.

To some extent the IOCs are asking for two opposite policy directions. They want increased European cooperation and integration of energy geopolitics in an array of EU initiatives and partnership agreements, while at the same time keeping the door open for maneuverability and autonomy to acts bilateral in the energy field.

\[122\text{Agashe (2010)}\]
\[123\text{Mouawad (2009)}\]
The bodies that regulate the conduct of IOCs remain relatively at ease with letting the companies continue to act just like they always have. The different initiatives such as the EITI, UN Global Compact and OECD Guidelines for Multinationals are all voluntary initiatives and even if signed they only regulate the IOCs own internal operations and procedures. This way, their private partners, subsidiaries and autocratic government partners are not subject to the provisions on human rights, environment and labor rights.

The European IOCs, the MS and the EU share a common goal in obtaining oil deals and contracts in front of Chinese NOCs. The European IOCs do not want to impose mandatory measures to increase the transparency, because the measures, will give the Chinese NOCs an advantage by not having to “play by the same rules”.

6.2 China’s oil companies
In opposition to the European IOCs, the Chinese oil companies remain state-owned or state-controlled, making their strategic investment plans heavily influenced by the government’s energy strategy and calculation, rather than focusing on profitability. In principle, this goes against the European perception of a market based economy with free competition. With their headquarters based in China, which is still a low income country and therefore not under the same pressure, relative to Western IOCs, to attend the same responsibility towards human rights, CSR or environmental concerns, they are this way to behave more ominous and indiscrete than their Western counterparts.

The three main Chinese NOCs, SINOPEC, CNPC and CNOOC and their partially privatized subsidiaries are the main drivers of the “supply side” of China’s energy policies. Their influence is a result of their oil expertise and their political leverage. The Chinese government and the Chinese NOCs interdependency extend to both political and fiscal areas. Top positions within the companies are being appointed by the Central Committee of the Chinese Communist Party (CCP), giving the CEOs direct access to the Chinese government, but also give the Chinese government direct access to the CEOs of the NOCs.

With only few exceptions the Chinese NOCs have to get clearance for investments larger than $30million, by the National Development and Reform Commission (NDRC). The NDRC

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124 Zaborowski (2008:3)
125 Kaplinsky (2008:5)
126 Downs (2004:25)
which is a state agency and is in charge of the Chinese Five Year Energy Plan along with determining the state controlled energy prices\textsuperscript{127}.

The fact that China does not have an Energy Minister fragment the policy directions, even though the NDRC has direct authority in energy matters, with the overall energy strategy influenced by 25-35 leaders that normally articulate national policy\textsuperscript{128}. This group consists mainly of CCP members but also members of the CCP secretary, state council, provincial leaders and senior military commanders. They yield influence over both the NDRC and the NOCs.

From the beginning, the strategy pursued by the Chinese NOCSs has been to purchase equity positions in already discovered oil fields, rather than engaging in oil exploration themselves, this strategy is believed to be less risky and more cost effective\textsuperscript{129}. A strategy usually realized by buying a license or a production sharing agreement for oil extraction and production. The revenue is then subsequently divided between the oil company and the government.

As a consequence of cutting out the middlemen, the equity oil gives the investors (Exim Bank/Chinese government) a steady flow and usually at a lower price. Equity oil is mostly unaffected from price fluctuation and shocks on the international market, though not against price spikes and volatility. However it does offer an overview of exactly how much and for how long oil can be expected to be coming from the oilfield.

\textbf{6.3 Sub-conclusion}

Coordination between the European IOCs, the EU and their respective governments has been limited because they all pursue different agendas. Their direct engagement in the formulating of the European strategy has, in contrast to the Chinese NOCs been profitability orientated rather than security of supply orientated, because they are private companies with responsibility towards their shareholders. The IOCs have not synchronized a geostrategic plan with EU, and in addition sought to make the initiatives voluntarily on issues of good governance, transparency and human rights as part of their agreements.

The Chinese NOCs are strongly interdependent with the Chinese Government, they act under direction of the state controlled NDRC in coordinating a joint energy strategy. As a result the

\textsuperscript{127} en.ndrc.gov.cn “Main functions of the NDRC”
\textsuperscript{128} Downs (2004:30)
\textsuperscript{129} Downs (2004:35)
NOCs can exercise greater leverage with the direct backing from the Chinese government and the State controlled Exim Bank. The strategy has been to expand by acquiring existing companies and gain control of the entire value chain, from exploration to consumer market.

7. EU and Chinese energy Strategies
The energy strategy is the overreaching maxim forming the policy direction of the different actors on the issue of energy strategy. Coordination between the different actors is important, when pursuing an energy policy agenda. With this in mind the chapter looks at the energy strategies of the EU and China both separately and in comparison to each other.

7.1 EU’s energy strategy
With the geopolitics going in the direction of increased focus on regions and states the EU is trying to enhance its international leverage, not only as a civilian and economic power but also as an emerging security provider. The EU and its MS are evolving on several fronts and attempts to utilize all possible means to tackle the issue of energy security. The EU tries to use policies in areas of deterrence, prevention, containment and crisis management together with other foreign and security policy tools.

The obstacle for the EU is that it is not a military or security enforcer in nature, but rather an economic and civilian power, since the EU does not have a military force\(^{130}\). This in effect results in individual governments pursuing their own energy, foreign, defense and security policies separate from those of the CFSP. Secondly, the framework of the CFSP leaves the responsibility of coordinating the policies up to the MS, they can choose what and when to inform and consult each other. In this way they are not taking full advantage of the international influence that they could yield if they worked more closely together.

The voting system for the CFSP is based on unanimous voting in the EU council, to initially establish a common position, with every government able to veto against a given proposals\(^{131}\). This structure leads to a very conservative policy output because policy outcome is defined by the lowest common denominator. This is one of the major obstacles, when the EU collectively has to increase its supply security, by engaging in security operations in the producer states. It is unlikely to see an EU counter to, China’s extensive military presence in the oil producing regions of Sudan or the United States African Command (AFRICOM) a

\(^{130}\)See Appendix I
\(^{131}\)Cini (2007:243-245)
military command to help secure production and supply the Gulf of Guinea. The EU appears only to rely on its economic diplomacy using its security of demand as the premier policy tool\textsuperscript{132}.

This goes against the realist perspective that seeks to counter balance the rise of relative power of other actors in this case it would be both to counter new emerging consumer countries as well as growing exporting states. By not increasing militarization in regard to pariah regimes, it shows that either the EU does not possess the capabilities to enforce their will or that the EU does not want to be viewed as a military power. In contrast the normative power of the EU is reflected through their constructivist behavior, seeking through cooperation and institutionalization to influence and exert its power in relation to other actors.

This leaves the issue of the EU as an international actor engaging in energy security by utilizing its institutional and economic strength pursuing a market based approach rather than a bilateral and geopolitical approach to energy politics. The EU has tried to influence the producer countries internal stability through different programmes and initiatives, hereby aiming at decreasing the internal civil strife, potentially resulting in a more optimal investment environment that together with less supply disruption are expected to result in a greater energy output and the potential for larger quantities to be exported to the EU.

Meanwhile the external economic policies of the EU are closely linked with the internal policy processes, which are not always beneficial for everyone involved. Problems with coordinating the development assistance policies of the MS can be accredited to two factors. Firstly, the internal institutional factor, where development assistance is a mixture of policy competences between the EU and its MS, and secondly, the way development assistance has been increasingly politicized by overriding agendas\textsuperscript{133}.

All though the EU claims to be the largest aid donor, the majority of the aid is given as part of MS national programmes, and hereby not bound by the policy pillars set out in the Cotonou Agreement. Furthermore the system is made up from mixed agreements and it is left to the MS to ratify them or not\textsuperscript{134}.

\textsuperscript{132}CIEP Study (2004:76)
\textsuperscript{133}Where development assistance and aid are directed at immigration, anti-terror, poverty, energy etc.
\textsuperscript{134}Cini (2007:230)
This could lead in two directions, either the MS could correlate their development assistance strategies so they conform with the policy pillars in the Cotonou Agreement, hereby in effect empower the efforts made by the EU on democratization, human rights or good governance. Or they could use their development assistance allocated through their national programme, to further their own national interest, potentially overrunning the joint EU approach, to sign bilateral agreements.

The second option would relatively undermine the efforts made by the EU on development, but strengthen the leverage of the MS, by indirectly subsidizing their own IOCs and their energy security interest in general, when competing against other actors. It then comes down to whether the EU can and will compete on its own terms, or if they have to “sink down” to compete on the same level as for example China, lowering their level of environmental, human rights and labor rights concerns.

The initiatives on good governance and human rights that were launched as part of the 2005 EU Strategy for Africa programme, have also had limited effects in reality. The idea was to support AU peace forces in their engagement in the region and support those ACP countries that would push for democratization. This was to be done, by diverting a larger part of the aid from the MS, through the European commission budget, instead of delivering it bilaterally, but France for instance had the initiative blocked by key diplomats, who wanted to keep France’s military engagements bilateral, in order to protect French-African post colonial relations.135

At the moment it does not seem like the EU has determined its vital energy interests, it seems that the EU cannot reach a consensus among themselves, which has lead to a fragmented external policy strategy, not giving energy security priority over other development or economic issues. The lack of consensus between MS reflected in bilateral actions taken by a single member state or a group of MS on specific issues often closely tied to national interests and not supranational common interests. This has resulted in EU’s influence and presence in SSA being surpassed by other actors engaging with the region at a higher political level and with greater determination.

135Youngs (2009:137)
Increased coordination is therefore necessary to increase overall European energy security, however with individual MS exposed to different levels of energy vulnerability, the goal of reaching a common interest in developing a external energy policy still remains difficult.

7.2 China’s energy strategy

Much speculation has been made outside of China in regard to how China’s growing dependency on foreign oil will play out. On the one hand, China is viewed as potentially becoming more integrated into the international energy sector on free market terms and in competition with other international player. On the other hand, realists fear that the growing dependency could potentially result in China increasingly trying to minimize its interdependence with other actors, with potential destabilizing effects by radicalizing its international behavior\(^{136}\). As a result of its rising relative power status, military capabilities and economic leverage China is viewed as potentially becoming more confrontational in order to defend its right to self-determination\(^{137}\).

If China were to pursue an offensive realist (neorealist) strategy we could very well see the rise of a belligerent state that would try to build its own military capabilities, in order to protect its energy suppliers and supply routes. China will then no longer be dependent on the US to secure its sea routes through for example the Malacca strait or the supply states in the fragile Middle East. China could potentially try to increase its arms for resource deals with regimes hostile to Western governments, in order to sign energy deals\(^{138}\). The country will in other words lower its multilateral engagement and international co-operation, in favor of a more bilateral strategy and one that could potentially rival the presence of the US on the international scene, if not globally then geo-strategically\(^{139}\).

In contrast if China chooses to pursue a more moderate and benign neoliberal energy strategy it would most likely not alter much with the current international power status. It would then integrate itself more progressively and participate more actively in the international system and not least the institutional setting\(^{140}\). In this way, China will try to coordinate its efforts, to secure reliable energy supplies, together with other neighboring states and in cooperation with Western governments. This is what China appears to be doing for the moment being, by not

\(^{136}\text{Downs (2004: 21)}\)
\(^{137}\text{Mearsheimer & Brzezinski (2005)}\)
\(^{138}\text{Downs (2004: 32)}\)
\(^{139}\text{Toft (2005)}\)
\(^{140}\text{Downs (2004: 22)}\)
confronting the US or the EU directly, but rather through institutions, this however could change when China is projected to overtake US military capabilities by 2025-2030\textsuperscript{141}.

On the issue of energy security, traditional thinking has a tendency of being state centric supply side biased, overwhelmingly focused on oil and tend to lean against a maxim that equals self-sufficiency in energy resources with energy security. This has also largely been the mainstream thinking in China’s own debates over how to best attain energy security\textsuperscript{142}. The Chinese position on self-sufficiency has focused on investing in nuclear and hydropower, while relying on coal as the primary source of energy, hence it possesses the world’s second largest coal reserves, this in order to minimize dependency on imported fuels.

At the moment China uses its diplomatic leverage very differently than the West, it uses its geopolitical position to gain access to resources in SSA, with disregard of the internal situation that may exist within the country. This makes China an attractive partner for many marginalized countries that are flagged by Western companies because of corruption, internal conflicts or human rights violations.

As a consequence of its status as a permanent member of the UN Security Council, China has likewise used its civilian power leverage. For example in the case of Sudan, China has blocked measures to sanction the country, because it was viewed as being damaging for Chinese interests in the country\textsuperscript{143}.

China is also looking to impact the post WW2 era, using its international economic leverage. The international economic policy that has set the standard for international development has mostly been built around what is commonly known as the Washington Consensus\textsuperscript{144}. It is to some degree this politically based economic theory that has been used as the foundation for the globalization process, and the economic conditionalities imposed on the developing economies. China is trying to circumvent this system by increasingly participating within international institutions and by bi- and multilaterally cooperating with other actors, without having to “get permission” to avoid economic guidelines set forward by the US, the EU, the IMF, the WB and to some extend WTO. The “Chinese model” is being labeled the “Beijing

\textsuperscript{141} Lee (2008)  
\textsuperscript{142} Downs (2004:23)  
\textsuperscript{143} Vines (2006:67)  
\textsuperscript{144} See appendix M
Consensus” and is to act as a counter to the Washington Consensus in the way developing countries ought to evolve their economies\textsuperscript{145}.

These dynamics represent a shift away from a quasi-unilateral US-dominated world order, to a more multi-polar power constellation. This transformation might potentially create some tensions between the rising powers and the declining powers, within the international system. However with US hegemony set to prevail for at least 15 years to come, a direct confrontation is unlikely to occur.

At the same time the Beijing Consensus will act as a platform for increased self-determination, when it comes to the dynamic development strategies of the developing economies, it will not be locked on one specific political ideology. While at the same time the model increases its focus on geo-economics in constants relation to geo-politics, it no longer measures development in per-capita GDP or GNI, but rather the sustainability of the economic development or the allocation of wealth in the society\textsuperscript{146}.

China has managed to rise because it has been able to downplay and largely peacefully settle its border disputes, hereby creating a relatively peaceful neighborhood, in spite of the diverse political, economic and security situations. It has shown that by cooperating with its neighbors, through the Shanghai Cooperation Organization (SCO), it has been able to grow, while creating prosperous neighboring countries, through cooperation in the areas of energy, trade, economy and lastly military partnership\textsuperscript{147}. With this in mind, China is presenting itself to other developing countries as an example of how engaging in economic and political cooperation with Chinese companies can play out.

By being backed by the Chinese government in term of development assistance or by the Exim Bank in term of infrastructure projects, the developing economies do not have to conform to international standards of transparency, macroeconomic reforms or environmental considerations, but are merely asked to support China’s “One China” policy.

7.3 Prioritization of energy security
Energy Security used to be a two part tradeoff between Western states and the prominent oil producing region of the Middle East. The European and Western powers guaranteed

\textsuperscript{145}Ramo (2004:4)
\textsuperscript{146}Ramo (2004:12)
\textsuperscript{147}Ramo (2004:52)
protection against the Soviet Union and its allies, only to be granted an “energy lifeline” in return vital for the survival of their economies. In this trade off, energy equaled security, and all other issues were second, this in effect meant that democracy, good governance and human rights were put on the back burner.

This might still be the case in relations between Western power’s and the Middle East, but it does not seem to be the overriding consensus, when dealing with SSA states. In contrast, the consensus among EU MS and especially EU institutions seem to be shifting towards a “softer” more development orientated approach. Democratization and the promotion of human rights and good governance are given priority over energy securitizations of the European market. It appears that the so called “energy lifeline” is not viewed as having the same importance coming from the SSA, compared to the one coming from the Middle East or Russia, visible by the relative low diplomatic engagement in the region. The EU, has not managed to diversify away from conventional suppliers, and is struggling with reaching a common position towards military and security cooperation with the US.

China on the other hand has carefully watched and learned from the Western powers relation building with the Middle Eastern regimes. They have indeed engaged in cooperation with the energy rich regimes of the SSA, with the same prioritizations as the Western powers had given the Middle East. They have put energy related issues in front of softer issues such as democracy, human rights and good governance. China has in effect, successfully diversified away from Middle Eastern oil, and lowered dependency on the US as a security provider.

They did this in order to diversify away from overreliance from one or a couple of energy suppliers, but what they also achieved was a shift in the balance of bargaining power, in reality they shifted, away from large scale producers whom largely “dealt the cards” like Saudi Arabia, to smaller producers in the SSA, where China has the opportunity to “pack the deck” in its own favor like with Angola or Sudan.

7.4 Sub-conclusion
The Lisbon Treaty has not altered the EU’s CFSP structure, hereby continued to make coordination fragmented and without an overreaching maxim on a coherent energy security

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148 Correlje (2006:534)
149 Kalicki & Goldwyn (2005:561)
150 Crabtree (2005:5)
policy, that binds policy areas together around the goal of increasing energy security. An initiative equal to the PCD has not been implemented in regard to energy security, and the external energy policies of the EU remain marked by individual MS national interest superseding common EU interests. There are no prospect of a common EU army, and the usage of the current EU taskforce is of little help in increasing overall supply safety from the SSA. The prioritizing of energy security is not above, but rather equal to other policy areas like immigration, environment or democratization. The leverage of the EU has largely been based on it being an economic, civil and normative power seeking to act internationally by engaging in a multilateral or institutional setting. The EU has not been able to reach a common European approach to energy security which is being reflected by the EU engagement being fragmented and heavy development orientated.

China has tried to diversify away from the Middle East, and away from relying on the US as a security provider. It has used its civilian power to deter sanctions against Sudan and used its military power to secure energy installations in the exporting countries. China’s engagement in Africa has been much higher profiled than the EU’s, it has by engaging at the highest political level, prioritized an assertive energy strategy towards SSA. The economic assistance given to the region has been based on the Beijing Consensus that offers greater freedom of choice by the developing countries and not attached to economic conditionalities.

8. Analyzing the framework of the Dutch Disease and sector knowledge spillover
The inflow of capital is usually a very welcomed sign of a better future to come. But when the inflow of foreign direct investments are limited to investments in oil and gas it often comes at the price of undermining the democratic process, because foreign actors have a real incentive to obtain access to natural resources at low prices\textsuperscript{151}. The income that it brings often has an adverse effect on the positive transformation of the society, because it can create a foundation for the development of a dual economy with only pockets of wealth, and with large parts of the population eventually being worse off than before. This chapter is dedicated to analyzing the mechanisms affecting the societal and industrial development of resource rich countries.

8.1 The framework of the Dutch Disease
One of the most intriguing paradoxes, when examining developing economies, is the so called “resource curse” and the Dutch Disease, which has lead to poor growth performance and even increased poverty. Historical experience has shown that high outputs of natural resources and

\textsuperscript{151}Stiglitz (2002:72)
especially oil weakens the government’s incentive to diversify its export and actively promote investments in industries other than the natural resource based. In resource strong economies corruption is also adversely affected because wealth in natural resources increases the opportunities for rent-seeking behavior\textsuperscript{152}, therefore the level of corruption is generally relative high in countries with vast reserves of natural resources\textsuperscript{153}.

To understand the economic paradox an examination of the workings of the Dutch Disease is conducted. The framework of the Dutch Disease is based on a classic model of an open economy, that divides the economy into three sectors, (1) non-tradable goods (including tradable services), (2) a booming tradable sector (especially natural resources based), and (3) a lagging tradable sector (including non-resource based and agricultural produce). Within this framework an increase in demand for oil will push up oil prices, and induce the incentive for increased oil production\textsuperscript{154}.

The high oil prices will result in two things: Firstly, it will allocate labor and capital away from the lagging tradable sector towards the booming tradable sector, and secondly, the boom will increase the demand for and the price in non-tradable goods and services. This will gradually generate upward pressure on the exchange rate and further weaken the competitiveness of the lagging tradable sector.

As a result the Dutch Disease will lead to an increase in GDP, but with corresponding de-industrialization and de-agriculturalization of the country. The competitiveness of the country’s export in lagging tradable sector will decrease, because of higher production costs and continue to decrease as a consequence of declining gross corporate investments that will be allocated towards the booming tradable sector\textsuperscript{155}.

The public and gross corporate investments needed to actively further the development and industrialization of the lagging tradable sector has in many SSA developing countries been made even more difficult by the debt burden. The revenues coming from the export of natural resources cannot be reinvested in the countries lagging industrial sectors or public sectors such as healthcare or educational system, if it is being used to pay back external debt owed. In

\textsuperscript{152}The behavior to increase their own income at the expense of theirs. Rents can for example be bribes, skimming off the profits or awarding lucrative deals or contracts to themselves.
\textsuperscript{153}Leite & Weidmann (1999:3)
\textsuperscript{154}Corden & Neary (1982:828)
\textsuperscript{155}Zafar (2007:6)
appendix K, there is clear indication of this problem, which has also affected the three SSA country samples.

As indicated in appendix K no significant investments have been made in the transportation, telecommunication, water sanitation or energy sectors, in the time with relative high debt service. Investments in infrastructure are considered long term commitments and have difficulties in attracting investors without first increasing the economic stability of the countries.

This means that without national reserve’s to stabilize the exchange rates, the potential instability as a consequence of souring inflation deters investors, because of the high risks associated with making long term investments in the country. The country samples show that only, when debt services had reached a controllable level the potential for investments in the lagging industrial sector and public sector could be realized. Getting these kinds of infrastructure investments are ever more necessary if a country wants to achieve more competitive industries other than the natural resources intensive.

In the case of Nigeria the country experienced an increase of their industrial sector ratio of total GDP from 13.8 % to 57% between 1970 and 2005, while the increase was dominated by the extractive industries especially oil. During the same period, Nigeria experienced a decrease in their industrial lagging tradable sector. Before the oil boom Nigeria was a major exporter of agricultural products, today it is a major importer156.

At the same time the share of non-manufactures primarily non-tradable commodities ranged from 22% to 55% of GDP, creating a very unstable environment157. No country can absorb the kind of price volatility the oil commodity have created, from 1999 to July 2007 the price increased from $10 per barrel to $147 per barrel, before the price dropped to $60 per barrel in 2008. SSA countries highly dependent on only a few commodities are more likely to experience this kind of volatile revenues, which moreover has a tendency to translate into political volatility as well158.

156 Stiglitz (2007:148)
157 Ogunkola (2008:9)
158 Shaxson (2009:58)
The trade relation between Nigeria and China also reflects some of the problems with a high natural resource export. Nigerian exports to China in 2007 consisted of 92.5% oil and fuel, where as the imports from China consisted almost solely of manufacture. This is one of the main arguments used to explain the near disappearance of the once flourishing Nigerian textile industry\(^\text{159}\).

As a consequence resource rich countries tend to have larger service sectors, and smaller manufacturing sectors compared to resource poor countries. Booms in the export of natural resources, have a tendency to be followed by an export strategy increasingly focusing on resource based export, which in term de-prioritizes the low-end and labor-intensive manufacturing sector, resulting in increased unemployment because the extractive industry has a low demand for labor. In 1975 77% of manufacturing capacity in Nigeria was utilized, the percentage decreased to around 35 in the mid 1980s and have stayed at an almost constant level ever since\(^\text{160}\).

As illustrated below unemployment is not the only development indicator adversely affected, by Nigeria’s development since the beginning of its booming natural resource based export. Even though GDP per capita has only dropped modestly from $1113 to $1084 from 1970 to 2000, the population poverty rate has increased from 36% to 70%, combined with increase in total population, the number of poor has increased from 19million in 1970 to 90m. in 2000. It is pointing in a direction that the wealth accumulated from the revenues arriving from the trade in natural resources has been centralized. In 1970 the income hold by the top 2% of the population equaled the income hold by the bottom 17%, by 2000 the number had spurred to 55%.

As illustrated below there is clear indication of the adverse affect the natural based export has had on the socio-economic development of the country. Even so, in order to measure the more precise real impact of Sino-African and EU-African trade relations the framework will have to incorporate each countries factor endowment\(^\text{161}\) and comparative advantage into the framework. Exchange rates likewise have to be taken into account, oil is priced in dollars on the international market, while SSA countries receive commodities in other currencies notably

\(^{159}\text{Ogunkola (2008:33)}\)

\(^{160}\text{IMF WP/03/139 (2003:14)}\)

\(^{161}\text{Factor endowment: Understood as country specific factors like land, labor force, capital, technological or innovative level that create the foundation for commodities and manufacture.}\)
in euros. The fall in relative value of the dollar, induced by China selling off of their enormous dollar reserve, could result in lower export earnings and higher import costs for the oil exporting countries.

**Development indicators for Nigeria from 1970-2000**

![Graph of development indicators for Nigeria from 1970-2000](image)

**Barter exchange with China**

Trade relations with China have not only been centered on a consideration of the premium price paid in hard currency. China has secured oil supplies by offering aid packages, development assistance, debt relief and tie-in projects, where oil is used as collateral for loans that in return are used to finance infrastructure projects or military services. The exchange of oil for infrastructure projects have some distinct advantages for the exporting countries exchange rates, because it reduces the degree of appreciation, hereby opening the door for the export of other commodities than solely natural resources intensive, by making them more competitive on pricing.

China has been offering to exchange “oil for infrastructure” or “oil for arms”, the exchange is undertaken without the actual exchange of currency and is referred to as bartering. When China is “buying” an oil extraction license they offer goods or services in exchange, instead of hard currency, this way demand for Sudanese pounds, Angolan kwanza’s or Nigerian Naira’s does not increase, reducing the degree of currency appreciation.

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162 IMF WP/03/139 (2003)
This method of transaction holds several considerations. If the SSA countries need hard currency to pay back on external debt or build federal reserve’s, bartering does not serve them well. In contrast if they need infrastructure or goods, whether it be in the shape of arms, machinery or technological equipment, the trade off may be preferable for both China and the SSA countries.

**Sovereign wealth funds**
The oil exporting countries also have to take into consideration another option, to keep some of the assets outside the country in an overseas investment fund, because the appreciation occurs only, when the foreign exchange is converted into domestic currency. The option of an overseas fund would then reduce the amount converted, hereby reducing the degree of exchange rate/currency appreciation. The fund would then slowly and in a controlled manner be channeled back into the country over a period of time. This means that the country has to raise their revenues through local taxes, an approach that is commonly not very popular\(^\text{163}\).

This model that helped Azerbaijan and Norway to successfully cope with its “Dutch Disease”, is meanwhile not possible with the barter exchange with China. Meanwhile none of the three SSA country samples have sovereign wealth funds, while Nigeria and Angola have plans to establish such funds they remain to be realized. Whereas Sudan only has an oil revenue stabilization account, were revenues derived from oil exports sold at an above benchmarked price is kept, to be allocated to stabilize the countries account budget\(^\text{164}\).

Without adequate foreign exchange inflow Sudan’s stabilization fund has been inadequate to support government expenditures, and with the Darfur crisis still deterring international donors, the country have been selling notes of promise of payments, and areas of land\(^\text{165}\). The creation of sovereign wealth funds entail a surplus in public spending, and a reduction of the country’s external debt stock, and as it is illustrated in appendix K, while Nigeria and Angola have almost repaid their external debt owed, Sudan remains with an external debt stock at 128% of total export in 2008.

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163 Stiglitz (2007:148)
165 IMF Working paper (2010:5)
Gradual conversion of foreign currency by way of auction

A model has been agreed upon by Angola and the IMF, where auctions will gradually convert international currency reserves into local currency, a model much similar to the one used by Nigeria\textsuperscript{166}. The problem with this model has been that it creates a dual economy, with parallel currency exchange markets and black markets often diverging substantially from the official exchange rate. And because inflation and not alternative interest rates usually are the real cost of money in developing countries, the population with access to foreign exchange often keeps savings in foreign exchanges and not in domestic currency, the middle class and rich then increase their wealth overtime relative to the poor\textsuperscript{167}. The currency is pegged and not free floating, which puts pressure on the currency exchanges in times of low oil prices\textsuperscript{168}. In Nigeria this dual system has resulted in privately sources foreign exchange being able to circumvent the currency stabilizing state controlled system by using the parallel currency market\textsuperscript{169}. Businesses, one the other hand have been restricted in their maneuverability and seen their foreign debt accumulate during periods of currency appreciation and inflation spikes, by being restricted in their ability to convert local currency in foreign currency to repay debt\textsuperscript{170}.

Tracing the money flow between actors in the energy sector

Even if macroeconomic policy reforms decrease the negative consequences of the Dutch Disease, money flows between actors remain elusive to track. The EITI initiative, along with other initiatives is voluntary and only in effect, when both parties of the transaction are signatures to the initiatives. The EITI initiative is limited to increasing transparency in three areas of the money-flow: 1, to the cost-base such as oil rigs, helicopters etc., and 2, to company shareholders, and lastly to host government in form of royalties, company tax, production shares or bonuses\textsuperscript{171}. Within this framework, it is difficult to track payments to third party, for example armed groups party to an internal conflict, or a privately owned company with offshore accounts\textsuperscript{172}.

Maneuverability is one aspect of, why the IOCs have been reluctant to make the voluntary programmes applicable to all actors. Just to illustrate, Shells operations in Nigeria have had to

\textsuperscript{166}Letter of intent of the governments of Angola (2010:2)
\textsuperscript{167}Hassan & Choudhury (1995)
\textsuperscript{168}Okiti (2010)
\textsuperscript{169}Source: Central Bank of Nigeria
\textsuperscript{170}Les Afriques Feb. 13 2009
\textsuperscript{171}Source: Eiti
\textsuperscript{172}Global Witness (2007:15)
conform to increased taxation up to 95% of profits, which they interpreted as a clear indication of the governmental inability to act long-term, along with a sign of institutional weakness. The IOCs have had to compensate even further for the lack of rule of law, by having to pay for local “security services” in order to avoid attacks on installations\textsuperscript{173}. The MS cannot totally remove corruption and bribery in exporting countries through increased money-flow transparency, but by removing the tax heavens, they would make the transfer of money more difficult, less discreet and easier to scrutinize\textsuperscript{174}. The European governments have the authority to regulate the tax heavens, after all, EU MS control most tax heavens around the world\textsuperscript{175}. Corruption and bribery is not a case of pocket money disappearing, to complement the low wage of government officials, an estimated $380bn. of Nigerian state revenues have disappeared since independence in 1960\textsuperscript{176}.

Measures like regulating or removing tax heavens, would not only level the playing field between Chinese NOCs and European IOCs, but also go hand in hand with the positive developments of the oil exporting countries, hence the population would no longer suffer from the same amount of capital flow out the country\textsuperscript{177}. What then remains is to make the European countries accept and implement the changes, even though they have long benefitted from the outflow of capital from the SSA. The European countries need to prioritize energy security over capital gains\textsuperscript{178}.

\textbf{8.2 The framework of cross sector spillover}

Much along the lines of the Dutch Disease, where a growth in GDP, not necessarily improved the economic situation of a country, but rather created unsustainable growth in opposition to achieving the MDG, the lack of cross sector spillover can be just as devastating to a country’s long term competitiveness and development. The un-questioned support of unilateral focus on GDP growth as the main facilitator of wide spread benefits for the population as a whole, is generally referred to as “trickle-down economics”. This theory has time and again been proven to be incorrect, because it does not necessarily spread the wealth in a given society\textsuperscript{179}.

\textsuperscript{173}International Crisis Group (2006: 8)
\textsuperscript{174}Stiglitz (2007:56)
\textsuperscript{175}Reuters.com (April 18 2010)
\textsuperscript{176}bbc.co.uk (Oct. 20 2006)
\textsuperscript{177}Voss (2005)
\textsuperscript{178}Kaninda & Schepers (2010)
\textsuperscript{179}J. Stiglitz (2007:23)
Cross sector spillover together with a country’s absorptive capacity defines a country’s ability to increase or take in knowledge that exists within different industries. Cross sector spillover is happening for example when the knowledge that goes into the production of machinery for oil extraction, “spills over” into other industrial sectors, like the production of machinery for hydro powered electricity.

The capacity to absorb the knowledge that exists in the production of machinery for oil extraction has to be present in order to successfully have the knowledge absorbed the minds of the people producing the machinery for hydro powered electricity. The capacity can be in the form of educational level, language capabilities etc. The ability to take in the knowledge available is referred to as the absorptive capacity.

One of the key factors behind China’s development was investments in education and the regulation of companies setting up production in the country. By educating the labors China increased the overall absorptive capacity, and by regulating the foreign companies to engage in joint-ventures with domestic Chinese counterparts, they created the basis for knowledge spillover from the foreign companies to the Chinese companies. The basis for the Chinese graduation from mainly a primary commodity producer to an exporter of manufacture was then laid.

China’s tie-inn projects, especially oil for infrastructure has the potential of revitalizing the SSA infrastructure, hereby investing in the countries future. A well functioning infrastructure makes it easier to attract foreign direct investments, because the country then have a well functioning electrical grid, railroad system and roads that connect the strategic regions. The problem is that in spite of the great potential for industrial spillover in the tie-inn projects very little spillover occurs.

This is because China has included a clause that commits the oil exporting countries to reserve 70% of government public works spending for Chinese companies, and the Chinese companies are infamous for importing their own Chinese immigrant workers to conclude their projects. An example of this method can be found in Angola, where the government since 2004 has taken oil backed loans amounting between $8-12bn. under the condition that 70% of the loan is spend on Chinese companies. These companies import everything from cement to

\[^{180}\text{Gill & Riley (2007: 37-38)}\]
construction workers from China, leaving no opportunity for Angolan workers to learn from their more advanced Chinese colleagues. The import of Chinese workers and building material also undermines the labor market and the industrial subsectors.

This is very important to keep in mind, when analyzing the long term development aspects of trade in energy, because the extractive industry creates very limited cross sector knowledge spillover as well. The governments have to invest in increasing the absorptive capacity, but also have to use interventionist policies in order to actively promote the knowledge spillover.

8.3 Sub-conclusion
With a overreliance on natural resource based exports the energy exporting countries are at risk of adversely affecting their own lagging industrial sector, eventually causing de-industrialization and de-agriculturelization, by making non-resource intensive exports too expensive making them uncompetitive. China’s exchange of barter both hold advantages and disadvantages, but with most of the countries hampered by a large debt service, they need hard currency in order to build reserves to stabilize the currency and to invest in their domestic lagging industries.

The cross sector spillover is limited within the extractive industries and functions with a low demand for labor. The Chinese tie-in projects, have managed to revitalize the SSA infrastructure, which have been conditioned by a high ratio of Chinese labor and material used in the projects. The opportunity for including SSA workers and local companies in the projects has been very limited and hereby making knowledge and cross sector spillover almost none existing.

9. The consequences and opportunities of increased trade in energy resources
The increase in trade brings with it, a possibility to kick start a period of growth and prosperity, however the growth is not unconditionally successful. If ill-managed, a booming export can both cause serious degradation for the environment and decrease living standards. This chapter looks closer at the consequences and potential future outcomes, originating from increased trade in energy.

Many lessons have been learned from overreliance on a single exporting commodity, Take Nigeria for example, it has 85 % of its export earnings coming from oil and gas, and has not

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181 Ash (2007)
managed to create equal growth in other non-energy intensive industries. The country has over the last two or three decades tried to create a diversified export industry. It has been unsuccessful in spite of joining numerous institutions such as the Economic Community of West African States (ECOWAS), Southern African Development Council (SADC) and the East African Community (EAC), all supposedly facilitators of increasing international and regional trade\textsuperscript{182}.

As a consequence of the Dutch Disease, the danger of overreliance on one or a few commodities for export can cause resource rich countries to end up with having rich countries with poor people. The export of resources will push up demand for the local currency, making other export commodities too expensive to compete on the international markets and hereby crowding out a diversified export portfolio. The countries are then left with a limited number of citizens or companies with great stake in the exported resources and with governments unable to create a structure that enables knowledge spillover and development of other sectors to diversify its export portfolio.

The choice of development strategy, that affects not only the country’s economic growth but also the welfare of the people and the protection of the environment, lie in the hands of the respective governments. When the resource allocations are decided upon, the respective governments have the power to decide, whether or not to prioritize different sectors of the economy, as well as deciding on the balance between private and public actors.

One of the success factors behind the Chinese transformation towards a greater market based economy and economic development in general, has been the Chinese government’s ability to gradually reform, while carefully managing exchange rate policies, high savings rate, state-directed industrial policy and investments\textsuperscript{183}. The government had put in place a set of interventionist policies that have since helped Chinese companies leapfrogging\textsuperscript{184} and taking advantage of knowledge spillover from foreign companies setting up joint-ventures in cooperation with homegrown companies. All together these policies have helped China develop into an economic power\textsuperscript{185}.

\textsuperscript{182}Charles, Ryan & Oloruntoba (2009:6)
\textsuperscript{183}Stiglitz (2002:92)
\textsuperscript{184}See appendix L
\textsuperscript{185}Zafar (2007:2)
China’s transformation has not only been based on trade openness and market liberalization through lowering tariffs, but foremost de-monopolization and de-licensing along with state initiated initiatives that promote the attractiveness for foreign firm’s to establish a domestic export orientated industry also referred to as the “outward orientated industry”\textsuperscript{186}. In contrast to other economies such as Russia, the Chinese transformation has to a great extent gone underway without the interference from the institutions that make up the Bretton Woods system\textsuperscript{187}.

China has opened up its economy but has done so carefully and gradually, in order to protect domestic industries that would otherwise have been out-competed by much more developed western competitors. Even today with a highly competitive industrial sector, China continues to regulate exchange rates, and the flow of speculative money that seek high returns in a short amount of time, and can be pulled out of the economy at the brink of economic downturn with devastating effects for the economy\textsuperscript{188}.

The problem with an uncontrolled liberalization of for instance the banking sector is that it will attract international competition. The international competition has a tendency to lend to whom they know and usually other international firms, this practice eventually leads to a crowding out effect of local banks by attracting deposits away. The outcome of the bank liberalization is the disappearing of local banks, which is usually followed by a decline of credits offered to local businesses\textsuperscript{189}.

Over the last century, attention has been given to the prioritizing to industrialize at the expense of the commodity sector, especially with Japan as the frontrunner. On the agenda of future development strategies technological progress and industrialization have triumphed.

When analyzing the balance between commodities (raw materials) and manufactures (industries) in term of trade, it is believed that the factors influencing the trend are caused by the relatively low income elasticity of demand and higher price elasticity of demand for commodities\textsuperscript{190}. The development of synthetic substitutes of raw materials and the fact that many different commodities go into the final manufacturing of a product, resulting in a low

\textsuperscript{186}Wang & Wei (2010:2)  
\textsuperscript{187}See appendix M  
\textsuperscript{188}Stiglitz (2007:10)  
\textsuperscript{189}Stiglitz (2002:31)  
\textsuperscript{190}See appendix O
triggle down effect from a proportionate increase in price of manufacture products, to the income of the commodity producer\textsuperscript{191}.

In order to overcome this obstacle weighing down development, it was proposed that long-run income growth was best promoted by moving away from price-elastic commodities, and into the income-elastic and price-inelastic manufactures. The best way to promote economic growth was done by making a strategic development commitment towards manufacture (industries).

The relatively new economies of China and India, have in the meantime challenged this perception, they have since shown that by focusing especially on the export orientated commodity sector they have been successful in fostering incredible economic growth rates\textsuperscript{192}. China as a prime example has been able to graduate from producer of commodities to producer of manufacture. More over China recently overtook Japan in 2006 as the largest investor in R&D, this seemingly without affecting the competitiveness of the export of commodities.

This can largely be accredited to the large reserve of unemployed, as countries will usually continue to be competitive on the exporting market for commodities until, there are no more unemployed and unskilled labors left, resulting in increased wages causing a drop in the competitiveness of its exports. Meanwhile this is not likely to come about anytime soon, since the Chinese unemployment labor pool stood at 31 million in 2006\textsuperscript{193}, compared to the 112 million employed in the manufacturing sector\textsuperscript{194}.

When looking at SSA and more specifically at the three country examples of Angola, Sudan and Nigeria, there are considerable evidence pointing in the directions of trade and trade policies being the single most important issues, when trying to achieve a sustainable economic growth\textsuperscript{195}. Other factors influence the potential economic growth as well as the availability of natural resources, institutional setting, geographic location and external environment, but economic growth acceleration or de-acceleration happens through the trade

\textsuperscript{191}Kaplinsky (2008:2)
\textsuperscript{192}Kaplinsky (2008:1)
\textsuperscript{193}Source: World Databank
\textsuperscript{194}McCormack (2009)
\textsuperscript{195}C. A. Pattillo, S. Gupta and K. J. Carey (2006:21-22)
channels. The role of trade-partners economic situation and the terms regulating trade and exports primarily make up the trade channels.\textsuperscript{196}

The current increase in GDP, illustrated below is not unrelated to the increased natural resource based export and particularly energy from SSA to China. The gains from such a trade partnership has the potential of benefitting both parties, by offering a basis for increased productivity and following income growth. Meanwhile one also has to take into account the comparative advantages\textsuperscript{197}, patterns of trade and levels of development.

**Selected countries: GDP 1990-2008 (Current $bn.)\textsuperscript{198}**

China and the SSA country examples have shared an impressive economic growth over the last two decades. China’s total trade with Africa has increased from only $1.2bn in 1999 to a whopping $40.5bn in 2008\textsuperscript{199}. While China’s import was 2008 made up from 99.5% resource based goods, its export was consisting of 38% machinery, 22% electronics, 5% building materials and 35% other commodities primarily textiles\textsuperscript{200}. A similar picture can likewise be painted of trade with the EU there as of 2008 it total trade stood at $34bn. with imports consisting of 95.6% natural resource based goods, while its export was made up from 25% machinery, 11.5% electronics, 5% iron & steel, 23% primarily refined fuels and 35% other commodities\textsuperscript{201}.

\textsuperscript{196}Ademola, Bankole & Adewuyi (2009:486)  
\textsuperscript{197}A country’s ability to produce certain goods or services at comparable greater efficiency than other trading partners.  
\textsuperscript{198}Source: World Databank  
\textsuperscript{199}Raine (2009:27)  
\textsuperscript{200}Source: UN comtrade  
\textsuperscript{201}Source: UN comtrade
As an indirect consequence of greater Chinese demand for oil, the oil bill for oil importing SSA countries have increased, to a degree where the rise in oil prices exceeded the total aid and debt forgiveness\(^2\). Even though Chinese textiles are benefitting African consumers, it is threatening to undermine local production because of its low cost competitiveness. In conclusion, the trade relation with China poses a challenge to good governance and macroeconomic sustainability, offering short term gains but at the expense of long term sustainability and possible harmful consequences of the Dutch Disease.

The same situation occurs in the tradeoff between the EU and SSA, the inclusion of reciprocity in the EPA’s, open up for especially export subsidized agricultural produce from the EU that may be attractive for the SSA consumer but harmful to the local farmers. To counter this adverse situation the EU opened up, tariff and quota free access to the European market through the 2001 “everything but arms” concession, to the 48 least developed countries (LCD) including Angola and Sudan.

In spite of good intentions, the programme has had limited effect on the opportunity for countries to export anything other than primary products, because the duty and quota free concession does not apply to semi- or produced goods exported into the EU\(^3\). Export of cocoa is as an example divided into three categories, the raw bean would be exempt 0% tariff, whereas 20% tariff would be added on roasted beans or cocoa butter and further escalating to 60% on produced or manufactured cocoa products. This constellation obviously makes industrialized products uncompetitive, compared to the final product that has gone through the value added production within EU’s tariff borders.

In Nigeria the resource based export strategy has lead to a decrease of total forest area with some 42 percent between 1990 and 2007 resulting from the export of timber\(^4\). Therefore solely measuring the development of a country goes beyond just measuring GDP or GNI. The impressive growth in GDP for both Sudan and Angola has not improved the MDG indicators of for example school enrollment rates. In contrast the growth in GDP has increased the percentage of the Angolan and Sudanese population living in slums\(^5\).

\(^2\) Kaplinsky (2008:15)
\(^3\) DOHA round briefing series Vol. 1 No. 4 Feb. 13 (2003:2)
\(^4\) Source: World Databank, Forest area (% of land area)
\(^5\) Source: World Databank
This can be explained by the uneven distribution of the wealth accumulated from the export of natural resources, since the demand for oil increases, as well as demand for the currency, hereby making imported commodities more expensive, which also have an adverse effect on local commodities. If the income of the local population is not increased relative to the increase in prices of commodities, they are in effect able to buy fewer goods for the same amount of currency. The resource rich countries are as a consequence of this situation often referred to as rich countries with poor people, a sad contradiction in term.

As shown below China has increased its bilateral trade with the sample countries over the last decade. The fall in exports from the SSA countries from 2008 to 2009 comes as a direct consequence of the drop in international oil prices and cements the high dependence on resource exports, to sustain growth. But what is even clearer, is that bilateral trade between China and Nigeria runs at a trade deficit against Nigeria, which can partly be explained by China not having gained a foothold in the Nigerian oil sector to the same extent as in both Sudan and Angola.

**SSA country samples trade balance with China 2000-2009 ($bn.)**

![Graph showing trade balance]

Chinese NOCs have had difficulties getting a foothold in the Nigerian oil sector, which is much more mature compared to the fairly new and growing oil sector in Angola and the fragile and conflict plagued oil sector of Sudan, where the Chinese NOCs had time to establish themselves with the worst of the competition gone. In spite of great efforts by the Chinese, only modest oil blocks in terms of proven reserves have been acquired in Nigeria, and many of the already discovered oil blocks are run by already established Western IOCs or

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206Source: UN Comtrade
Nigerian NOCs. However this is likely to change after the signing of the $23 billion deal between Nigeria and Chinese SCEC for the construction of three oil refineries and one fuel complex. The investment is meanwhile, still not in direct relation to the first part of the Nigerian oil value chain, namely the oil extraction part.

EU has, compared to China, not managed to create a similar trade relation with Angola, as it is shown in the table below. A similar picture is painted of EU’s trade with Sudan, which can be described as being insignificant as a result of year long sanctions against the country. Trade relations with Nigeria on the other hand are characterized by the presence of European IOCs. The IOCs have in contrast to the Chinese NOCs had a long history in the Nigerian oil sector.

**SSA country samples trade balance with EU-27 2000-2009 ($bn.)**

![Graph showing trade balance with EU-27 2000-2009](image)

**9.1 Analysis of the trade relation between the EU and SSA**

With increased focus on climate change and with the EU looking to secure and diversify their energy supplies relations to SSA have to be strengthened. Europe needs new sources of energy, and SSA could potentially benefit from the extensive experiences of the EU in building and regulating transnational energy markets, as well as general technological know-how on creating sustainable energy.

At the Africa-EU Summit in December 2007, the EPA’s offered by the EU was rejected by approximately half of all the African countries. It required the African States to gradually open up domestic markets for European imports, under equal commercial conditions as offered to any other country. This was the situation after the WTO had ruled the continuation of EU’s preferential trading provisions inadmissible, the provisions that had until then defined
the pre-colonial EU–ACP relationship\textsuperscript{207}. If trade was to create the foundation for a reiterated European geo-strategic presence in the region, it suffered serious setbacks, with the failure to conclude the EPA’s.

The EPA’s included in the Cotonou Agreement puts more emphasis on conditionalities and provisions that makes aid allocated through the EU conditional to good governance, human rights, and the introduction of marked economics. The system has to constantly adjust the linkages and balance between “development and trade” and “development and environment” just to name a few of the affected policy areas.

The EPA’s that are to replace the ACP preferential treatment provisions are opening up a EU market that is largely denying access for imports on fair grounds. The common agricultural policy (CAP) has in particular shown to be damaging to some of the poorest economies in the world, this by depressing commodity prices through export subsidies on EU exporting markets, while imposing high tariffs on agricultural commodities imported to the European marked\textsuperscript{208}. The apparent prioritization of energy policies as a sub-issue of a development or poverty eradication policy, makes it hard to see how this strategy relates to EU’s own energy security strategy. Just like other European programmes such as “Aid for trade” puts more emphasis on reforming the developing countries macroeconomic structures in the direction of general WTO rules on liberalization and non-discrimination, without prioritizing energy security as part of the equation\textsuperscript{209}.

The apparent strategy is explained by the development policies not only being a coherent part of EU’s energy security strategy, but also the most sustainable means of pursuing EU’s own interest. It is being implemented by creating a better and more effective energy sector in the SSA countries that will over time mount to a higher production output, with increased potential for export\textsuperscript{210}. The ineffective or lacking energy sector and especially electricity is one of the key obstacles for the development of industries and the well functioning of homes, hospitals and schools. But with only one quarter of the population in large parts of SSA having access to electricity\textsuperscript{211}, large scale investments are needed in the future, if the strategy

\textsuperscript{207}Youngs (2009:133)
\textsuperscript{208}Cini (2007:230)
\textsuperscript{210}Youngs (2009:133)
\textsuperscript{211}The Africa–European Union: Energy Partnership (2007:1)
is first to eradicate SSA own energy poverty, before exporting an energy production surplus to the EU\textsuperscript{212}.

This strategy is much similar to the current EU strategy pushing for good governance and transparency. The EU view these conditions as being fundamental for establishing a more stable, prosperous and transparent state, that through enhanced management would extract more oil and gas, hereby increasing the predictability, reliability and total volume of the energy export.

Meanwhile this reasoning is self contradicting, when the implementation of good governance, democratic principles and so forth, is continuously undermined by the international community’s willingness to support pariah or failed states. The support leaves the failed states to continue down the same road which has already left them worse off, than they were three decades, measured in poverty. The international system actively promotes the survival of illegitimate regimes by not hesitating to assist the governments with access to foreign exchange, loans, aid or development assistance\textsuperscript{213}.

The problem with this strategy is that with high international energy prices, local governments have increased incitement to limit domestic energy availability, in order to boost their energy export. The link between eradicating energy poverty in the developing countries, through aid or development funds earmarked to energy related projects, falls short of its target, because state intervention is necessary to regulate the access to energy for the local communities, but by pushing for market liberalization the EU is limiting the governments’ maneuverability in the area of imposing interventionist policies.

The increased focus on market liberalizations and reciprocity, are an interlaced part of the Cotonou Agreement, but are not viewed by all, as the best facilitator in eradicating energy poverty. Private companies are profit seeking, and in times with high international energy prices, state intervention is essential to redistribute energy to the local communities.

Much evidence can be produced, promoting the effectiveness of using economic sanctions such as denying aid, development assistance and credits along with sanctions directly influencing a country’s ability to trade. When a country is dependent on imports, sanctions

\textsuperscript{212}Kalicki & Goldwyn (2005:256)
\textsuperscript{213}Oliviera (2007:49)
will produce shortages in the goods needed to continue the normal production, while dependency on exports will create obstacles for a country to sell its produce and consequently disrupt the normal business circle.

The higher a country’s trade to GDP ratio (dependency on foreign trade), the greater the impact of trade related sanctions. As it is presented below, the international society with a proactive EU leading the way, has the option to impose sanctions against all three SSA countries with great success. During the Gulf War the US imposed sanctions on Saddam Hussein’s regime, causing a 2/3 drop in international trade with devastating effects for Iraq, this even though the trade to GDP ratio was at a modest 44% level\(^{214}\) relative to the examples below

**Trade 1990-2008 (% of GDP)\(^{215}\)**

It is however just as evident how ineffective sanctions can be if they are not enforced properly. In short, what this means for the EU is that its pursuit for democratization, good governance etc. will not have any real impact on policy or regime change in the recipient countries, if the recipient countries can get their products sold, circumvent the sanctions or get the capital needed from other actors such as China, India or Russia. China has since the Gulf War and Operation Freedom gotten stronger economically and wiser in the sense that they have learned from the supply disruptions caused by US lead sanctions on Iraq, and were determined not to let it occur again by blocking UN Security Council resolutions negative to Sudan.

\(^{214}\)Luming (2001:2)

\(^{215}\)Source: World Databank
When the stick does not have the wanted effect, the EU will try the carrot, but as concluded in the 2004 mid-term review of the Cotonou agreement, the claimed 20% of aid allocated to ACP countries, did not in reality support good governance, but was rather elementary budgetary support, and hereby did not have much impact on making governments more transparent, accountable or democratic\textsuperscript{216}. The aid did not create the far reaching reforms, but rather superficial change in the management of public affairs.

The EU has emphasized both through the Cotonou Agreement and more specifically through the energy partnership agreements, that it is a joint effort, to create energy cooperation that is beneficial to both parties. Meanwhile the African counterpart find it difficult to take what they call European government’s hypocrisy seriously. The way they see it, the EU is only modest in investing in the SSA energy sector, while at the same time pouring money into their own energy projects, primarily renewable, that are alternatives to SSA countries energy exports\textsuperscript{217}.

\textbf{9.2 Analysis of the trade relation between China and SSA}

The 2006 China-Africa summit in Beijing attracted a far greater turnout of African leaders than any other previous European counter. In the aftermath of the summit in 2007, China offered $5.5bn. in development packages, and $10bn. worth of debt relief in exchange for oil contracts. The action has consequently led to contracts being reserved for Chinese construction companies in many of the countries that benefitted from the Chinese capital injection\textsuperscript{218}.

The Chinese NOCs are known for being interested in smaller energy fields that other western oil companies have previously bypassed or relinquished. When it comes to other investments opportunities Chinese companies are preferred before western companies, because they are less risk averse and calculates with a longer time span on their return on investments\textsuperscript{219}.

Meanwhile the dumping of cheap Chinese manufactured contrabands, which have damaging effects of undermining legitimate African enterprises\textsuperscript{220}. Furthermore the migration of poorly skilled Chinese workers has challenged the livelihood of small local entrepreneurs, and created some animosity towards the Chinese presence in some communities. Competition

\textsuperscript{216}ECDPM (2006)
\textsuperscript{217}Youngs (2009:134)
\textsuperscript{218}Youngs (2009:130)
\textsuperscript{219}Vines (2006:63)
\textsuperscript{220}Ademola, Bankole & Adewuyi (2009:498-499)
occurs not only in the textile industry, but also in other industries like construction, where tens of thousands of unskilled workers are currently migrating to Angola to rebuild the country’s infrastructure as part of the tie-in “projects for oil deals” and the Chinese oil backed loans²²¹.

Already back in 2003, then Vice-Premier Wu Yi announced ",...we will actively foster our own multinational companies ….We will create all kinds of (favourable) conditions to help our multinational companies further explore overseas markets and engage more strongly in global economic competition and cooperation”²²²

This statement suggests two things: First, that a further strengthening of the Chinese currency could push even more companies to invest overseas, as a result of lower investment costs and to avoid the disadvantage of less competitive export prices at home. And second, it underlines the Chinese government’s willingness to “subsidize” its own multinationals, in order for them to expand on the international marketplace. China has shown that it is willing to do so, by sacrificing short term profits, on behalf of increased long term leverage. It is essential for the Chinese leadership to secure foreign resources and nourish new markets, to protect the country’s political indispensable growth rate²²³.

China’s foreign policy has over time been forged on the basis of a domestic development strategy and the need for increased foreign resources. However China has not limited this engagement to a quest for natural resources, Chinese presence in SSA gradually spreads through different industrial sectors, Chinese firms have gone into light manufacturing and the service sector as well as agro-processing, apparel and telecommunication²²⁴. The Chinese undertaking and involvement in large public infrastructure projects is a clear sign of the common understanding that exists between China and SSA. African regimes are in immense need of projects like parliament building, stadiums or railroads, to help make up for the lack of legitimacy in which many SSA regimes fall short off²²⁵.

Meanwhile China’s lacking attention to environmental impact assessments, resource transparency and oversight-mechanism to insure sustainability has increased concerns about the Chinese engagement. Furthermore the Chinese tendency to import labor from China,

²²¹Ash (2007)
²²²E-Brief (2003:4)
²²³Raine (10: 2009)
²²⁴Zafar (2007:3)
²²⁵Vines (2006:64)
coupled with allegations of poor labor standards and unfair competition against local entrepreneurs has fueled the anti-Chinese movements in Angola and Nigeria among other countries\textsuperscript{226}. The change in public sentiment, towards the 70,000 Chinese immigrant workers in Angola and China in general, was likely to have been a main factor causing the Angolan government to turn to the IMF, instead of China, to secure new loans in 2009\textsuperscript{227}.

9.3 Sub-conclusion

The increased trade in energy resources has the potential of triggering a wider societal development and industrialization, meanwhile export continues to be made up almost solely of natural based goods. This unbalance in exports can largely be accredited to the lack of interventionist policies and investments in the countries lagging industrial sectors. The uncompetitive non-natural based premier commodity sector is in spite of initiatives from both the EU and China still not developing, primarily because of unfair export terms for semi- and produced products and manufacture.

The EU is struggling to prioritize energy security policies in relation to SSA, while the energy policies are continuously regarded as sub-issues of an overall development or poverty eradication strategy. And the promotion of good governance, transparency and environmental concerns seem to be accomplished by development assistance and aid rather than sanctions or preferential trade, not only including premier commodities.

Chinese-African cooperation has been on a steady rise over the last decade. Chinese companies have made strategic advances in the region both in the oil sector where they have shown interest in smaller oil fields, but also within other industries. They have done so with the help of the Chinese Exim Bank which has given cheap often subsidized loans and credits. The Chinese companies have meanwhile been criticized for bringing with them low labor standards, lacking environmental concern and undermining local employment and businesses.

10. Creating sustainable development, while increasing energy security

Evidence has shown that the current system of energy trade may increase GDP growth, boost exports with positive effects on the trade balance and make it possible for the energy exporting SSA countries to pay their external debt owed. But at the same time the growth has been based on an unsustainable foundation that has lead to decreasing living standards, de-

\textsuperscript{226}Faucon & Su (2010)
\textsuperscript{227}Faucon & Su (2010)
industrialization and de-agriculturelization. In this chapter I will analyze the consequences and potential implications arriving from the current system of energy trade more sustainable, and look at how the system can potentially be made more sustainable for both sides of the energy trade.

The coupling between energy security in consumer countries and sustainable development in exporting countries can be achieved through trilateral cooperation. China, SSA and the Western powers have to find a common ground, with the objective to strengthen the judicial and legislative framework in producing and transit countries, hereby promoting good governance, stability and prosperity, while at the same time limiting corruption that would otherwise create higher energy prices for the consumers\textsuperscript{228}.

The EU is going in the right direction, when promoting a more open democratic process in producing states, because it is a mean, if not the only one, to circumscribe the power of special interest groups and political elites. In the meantime it is not the end goal but rather the effectiveness of the manner in which the process has been promoted that is being questioned\textsuperscript{229}.

The highly proclaimed European support for good governance, has until now not included the use of article 96 of the Cotonou Agreement that would otherwise have permitted a systematic use of an array of punitive policies. Within the agreement the EU is able to impose sanctions on unruly regimes, though this has only been done in ten occasions (8 in SSA) between 2000 and 2007, and none of the sanctions imposed were against resource rich countries\textsuperscript{230}.

Even so, reports are pointed in direction of the Sudanese government suffering from economic and fiscal difficulty. Exports to China and other non Western partners have not been enough to balance the government budget, and the government’s fiscal difficulty is made even worse by the low oil prices resulting from Sudan being limited to negotiate directly with consumers, in contrast to open bidding rounds. This is the outcome of Western concerns over Darfur which has restricted access to Western markets and donors\textsuperscript{231}.

\textsuperscript{228}Youngs (2009:45)
\textsuperscript{229}Stiglitz (2007:preface 18)
\textsuperscript{230}The sanctions on Sudan were not made within the Cotonou system but through the UN Security Council.
\textsuperscript{231}WP10/79(2010:38)
The EU is not being dependent on oil or gas from Sudan for the moment being, it gives the EU a benign opportunity to pressure the government for reforms. If the pressure is enforced correctly and the reforms are being implemented successfully, with better tax administration and a more efficient institutional structure, Sudan could effectively diversify its exports away from an overreliance on China. The EU would gain a diversified energy import, along with potentially lowering the risk of civil war at its near region, while Sudan would lower the level of civil strife, and gain a more stable fiscal platform to make more long term development commitments. Only time will show if Western pressure will result in incremental reforms in Sudan. The arrest warrant issued in 2009 for the Sudanese president Omar al-Bashir by the International Criminal Court have until now resulted in increased political insecurity and the expulsion of several international observers\textsuperscript{232}.

In Angola the Chinese approach of using own imported labors, have caused the population to turn their frustration towards the Chinese workers and their own government. This has lead the Angolan-Chinese relation to cool down, and between 2007 and 2009 no new major deals was signed\textsuperscript{233}. Angola has turned to the IMF, for loans instead of China, and expressed intent to increase transparency in their oil sector, by applying an IMF monitoring programme\textsuperscript{234}.

In Nigeria many of the rebel fractions of the Niger Delta region, have agreed to the amnesty offered by President Yar’Adua in 2009. The amnesty offered micro-credits loans and job training to the rebels willing to lay down arms. The Nigerian government have since failed to pay the micro-loans and not delivered on their promise of the bringing more development to the Niger Delta region that are desperate for infrastructure and justice, following decade long unrest\textsuperscript{235}. The EU can offer institutional support to set up local governance structure, offer loans and neutral international observers to help kick start the development, but the EU needs to improve the response time of fund allocation for such initiatives. At the same time China can impede on the task of rebuilding the infrastructure of the region, but with the inclusion of a greater participation rate of local workers, so they do not alienate and undermine local communities.

\textsuperscript{232} McDoom (2010)
\textsuperscript{233} Faucon & Su (2010)
\textsuperscript{234} Letter of intent of the governments of Angola (2010)
\textsuperscript{235} Ojakorotu & Gilbert (2010)
With increased involvement from oil importing countries in development projects aimed at lowering the civil strife in the oil exporting countries, oil producing governments would then have a meaningful goal to pursue. At the moment the ODA from both the EU and its MS are not enough “carrots” for the energy producing countries, to actively embark on incremental reforms, especially not, when bilateral trade continues to be conducted with unfair reciprocity.

The possibility for creating equal benefits for both energy exporting and importing countries is at hand. This can be done by fostering sustainable development in the exporting countries in a way that increases the supply security of the importing countries. In the exporting countries the importance of maintaining a political consensus among policy makers cannot be stressed enough. A basis for a broader sense of national unity has to be created, replacing the fractioned and unequal political system that exists today. Social cohesion is important if an economy is to function. Civil strife creates an environment that deters investments and growth, while increasing the risk of supply disruptions and sabotage energy infrastructure.236

The first step in development may be to promote accountability rather than democracy.237 By going forward with the creation of a national roadmap for development, it should be emphasized that it must be locally implementable, this in order to make townships and villages included in the process. When a strategy is locally implemented it gives the villagers an increased understanding of what and why the funds are being used. This enables the villagers to know if jobs are being created, public services utilized and income accumulated.

The overreaching PCD that are agreed upon by the EU and its MS in regard to the coherence of the external policies towards SSA is also complied with, by not having energy policies adversely affecting the development. This by opening up for a more equal trade, allowing access to the European market for other than premier commodities, while allowing the oil exporting countries to intervene in order to protect domestic firms from imports harmful to the survival of local industries. If the EU and China are willing to back their proclaimed good intentions, they have the power to handover greater autonomy to the governments that have shown that they are capable of undertaking the responsibility on behalf of their citizens.

As explained earlier, in the case of Sudan and Angola, a surplus exists arriving from trade with China, while trade with the EU has generated a surplus for Nigeria. In macroeconomics a

236Stiglitz (2002:215)  
237Stiglitz (2002:185)
trade surplus is usually regarded as a positive indication, because it gives economic maneuverability for societal and economic transformation, hence increased potential for investments or savings, but in the case of the three country samples the high concentration of natural based and labor undemanding exports, have not generated an expected transformation.

The countries need to follow other successful examples, and create a political consensus essential for setting up a workable social contract between the government and its citizens, where the citizens have confidence in their government to administrate the countries assets in ways that benefit most citizens and not just the elite. The countries can by focusing on specializing and developing their lagging tradable sector, like Botswana, which has been able to establish itself as a successful and competitive agricultural exporter decreasing its dependency on natural based exports, by industrializing of their agricultural sector. The coherence and quality of a country’s institutional setting, is vital in order to create the basis necessary for collaboration between experts, bureaucratic agencies and organized private sector actors.

With high economic growth resulting from trade in energy, the energy exporting countries bring to the table an opportunity to increase the economic growth of their neighboring countries, hence one country’s imports is another country’s export. Evidence from South Africa have shown that its economic growth have spilled over into surrounding economies and spurred regional interdependence. Research has concluded that regional integration and trade openness within for example the South African Development Community (SADC) have resulted in increased economic growth and trade, driven by a spurring South African economic growth.

The implementation of a sustainable energy policy has the side effect of going hand in hand with the aim of supporting the MDG of 2015. Furthermore regional economic growth, and declining unemployment, could lower the risk of conflicts in neighboring countries. Internal conflicts have been known to escalate and spread into oil exporting states with subsequent supply disruptions.

238 Stiglitz (2002:37)
239 Doner, Ritchie & Slater (2005:2)
240 Durbarry & Ramessur-Seenarain (2007:213)
241 Durbarry & Ramessur-Seenarain (2007:211)
10.1 Sub-conclusion
If trade in energy should have a chance of being a long term solution for the creation of sustainable development in the SSA in general, the EU and China have to reconsider their commitments to the region. At the moment the EU is focusing on an array of policy areas, and has committed itself to pursue the MDG’s but has refused to make trade fairer, while at the same time not been able to exercise any meaningful influence either in the form of pressuring regimes to make reforms or by offering a EPA worth pursuing.

China is looking at short term goal of achieving diversification of its supply towards the SSA, without commitment towards creating structural reforms. China’s tie-in projects could potentially improve the SSA infrastructure with positive implications, but the current structure of the agreements, undermine local employment and the development of local businesses, by using own workers and material. This has the adverse effect of not stabilizing the region over time through societal development, not resolving the internal civil strife that has been known to course supply disruption. Both China and the EU could hand over a greater say in the area of trade, to the oil exporting governments that have shown a commitment to sustainable development. This would allow them to intervene in protecting domestic lagging industries, and eventual create a more diversified export industry with the prospect of achieving sustainable growth and civic harmony in the country and eventually in the region.

11. Main conclusion
The EU currently imports half of its energy needs a figure set to rise to 70% by 2030, the development is further induced by declining EU oil, gas and solid fuel production. Measures agreed on by member states and the EC, have sought to decrease the dependency by making the usage of energy more efficient with 20% by 2020. Imports of gas are projected to increase more relative to imports of oil, creating challenges to find future alternative suppliers. Norway a reliable supplier currently delivering 14% and 27% of EU’s oil and gas imports have already peaked in production, and if diversification is not successful the EU is expected to import 60% of its gas from Russia in 2030, with the potential adverse effect of moving the power balance.

The EU is behaving as an international actor, despite having individual MEMBER STATES and IOCs behaving parallel to the EU in formulating the overall external policy directions of Europe as a whole. This can partly be accredited efforts to counter the rise of the increased
geostrategic presence of emerging actors, and partially because of different levels of exposed energy vulnerability between the respective member states.

The EU strategy on energy security has been based on increasing the interdependence between the pan African institutions and the EU hereby addressing energy security through a development orientated approach. The Strategy aims at combining different policy areas such as poverty reduction, energy poverty, environmental issues and trade, in an effort to achieve a stronger link between energy interest and governmental reforms. The focus on development has lead member states to take unilateral action, separate from the EU on issues of high politics regarding the strategic securitization of energy installations and routes of transportation. This has mainly been the case of Nigeria, where some member states have strong national interest. In contrast, the member states have jointed the EU in formulating a joint external policy direction in areas of low politics, focusing on supporting transparency, democratization and human rights, especially in relation with SSA countries, where Member states exercise a lower degree of national interest as in the case of Angola and Sudan.

The EU as an international actor engages in energy security by utilizing its institutional and economic strength pursuing a market based approach rather than a bilateral and geopolitical approach to energy politics. The EU has tried to influence the producer countries internal stability through different programmes and initiatives, aimed at decreasing the internal civil strife. Meanwhile the intertwined structure of competences, between the EU and its member states, have obstructed the external policy coordination through increased politicized overriding agendas. In addition the EPAs, which were to create the foundations for renewed economic interdependence, have been rejected by SSA countries unsatisfied by what they see as unequal reciprocity.

China is expected to go from being self-sufficient in gas, to import more than half its gas needs by 2030, imports of oil is likewise expected to almost duple in the same period from 45% to 76%. China having the second largest coal reserve in the world is projected to continue to be self-sufficient for the analyzed period until 2030.

China’s strategy towards SSA has been based on a concept of South-South partnership and non-intervention in internal policy deliberations. China has engaged at the highest diplomatic level in setting up trade agreements and contracts with especially resource rich countries, using political means to gain an advantage in front of western companies, by offering trade
relations without political strings attached such as conditionalities on human rights, transparency, trade liberalization or governance reforms.

China has used tie-in arrangements, when securing energy supplies from the SSA, offering infrastructure projects or Chinese produce in exchange of oil. This method is also used in its loan arrangements entailing SSA countries to reserve 70% of the capital for Chinese companies and produce, while not incorporating any minimum requirements for the participation of local businesses or workers. The Chinese NOCs have been working in close coordination with the Chinese government and the state run Exim Bank has actively subsidized the Chinese companies in their efforts to expand internationally.

China has used its geopolitical leverage in the pursuit of energy resources, without taking into consideration the internal situation of the oil producing countries such as transparency, environmental concerns or human rights consideration. Economic corporation and assistance have been based on the Beijing Consensus, largely circumventing the otherwise internationally common standards on trade and market liberalization, good governance along with human rights provisions, creating a kind of diffuse reciprocity, where SSA is expected to unconditionally support China’s “One China” policy, while in return being granted access to Chinese economic and military assistance. This has lead Chinese companies to evolve their cooperation with autocratic and pariah regimes.

Foreign direct investments stemming from the EU and China resource endowments are heavily concentrated in the extractive industries this has lead to increased economic growth along with an export in the SSA almost solely based on the resource based industries. The booming energy sector has lead to a capital flight away from other tradable industrial sectors, lowering the future investments in the countries non-extractive industrial sectors, at the same time the natural resource based export has crowded out the export of other more labor intensive produce, effectively increasing the unemployment and ultimately social equality, which could potentially lead to civil strife.

The SSA country samples have not engaged in state-directed industrial policies and investments aimed at proactively improving the competitiveness of their lagging industrial sectors, or forcing cross sector knowledge spillover from foreign companies. The export earnings arriving from the resource based export, have primarily been used to pay off external debt owed and artificially held the exchange rates low, as part of an export orientated growth
strategy. The Chinese strategy of bartering “infrastructure for oil” offers potential for the SSA countries to receive greatly needed improvements on their infrastructure, necessary for a well functioning business environment. Because of the bartering arrangements, SSA countries do not have to use their currency reserves to counter the subsequent currency appreciation usually following booming export. Meanwhile the accumulation of socio-economic development has as a consequence of this strategy, not reached its full potential, because of the Chinese inclusion of tie-in arrangements.

The more liberal nature of EU’s external strategy, influencing the SSA internal governance structures in the direction of increased transparency, good governance, macroeconomic reforms and trade liberalization, has in large sought to unilateral repeal the comparative advantage of the EU. Concrete steps towards increasing the regulatory framework of the extractive industries have been forged around voluntary initiatives and programmes. Meanwhile progress has been too slow and too reactionary in fear of alienation, in order to alter the current status quo.

Until now the international competition over access to SSA energy resources, has played out as a zero-sum game for the great proportion of the local citizens, by indirectly supporting the survival of autocratic and corrupt regimes. Economic growth deriving from the energy export has only created pockets of wealth, while decreasing the living standard for the majority of the population, and increased the proportion of poor in both Nigeria and Angola. In Nigeria oil output has not been able to reach its full potential, because of continues unrest in the Niger Delta. At the same time China’s unconditional support for autocracies in Sudan, Nigeria and Angola have lead to, anti-Chinese movements and attacks on their oil installations. For the resource rich autocracies of SSA corruption and nepotism are pervasive, helped underway by EU’s and China’s rent seeking behavior. Both the EU and China need to fundamentally change the way they couple social cohesion with energy security, if a more sustainable energy supply is to be reached.

**Limitations and further theoretical and empirical implications**

In this thesis, no analysis is made on the potential opportunities following the expected introduction of ECOWAS single currency by 2020. Nor a comparison between the EU as a democratic based composition of states opposite China as a one party centralized authoritarian state. The thesis has been limited by the availability of empirical evidence, in regard to
making a socio-economic cost-benefit analysis, of the Chinese “unconditional” state centric endowment strategy, opposite the European “conditional” market and institutional based approach. Further research is needed to establish a framework that to a larger extent takes into account the socio-economic costs, of doing business in autocratic or conflict plagued countries, weighed up against the potential benefits of making it a more attractive business environment through social cohesion.
Appendixes:

Appendix A: Abbreviations

AU: African Union

Bpd: Barrels per day

British Petroleum (BP): Formerly British Petroleum and Amoco (United Kingdom)

CCP: Common Commercial Policies

CCS: Carbon Capture and Storage

CFSP: Common Foreign Security and Security Policy

CNOOC: China National Offshore Oil Corporation

CNPC: China National Petroleum Corporation

DFID: Department of International Development (UK)

EC: European Commission

ECOWAS: The Economic Community of West African States

EDF: European Development Fund

EITI: The Executive Industries Transparency Initiative

EP: European Parliament

EU: European Union

EURATOM: European Atomic Energy Community

ExIm Bank: Chinese Export Import Bank
FDI: Foreign Direct Investment

FOCAC: Forum on China-Africa Cooperation

FTA: Free trade agreement

GBS: General Budgetary Support

GGESS: Gulf of Guinea Energy Security Strategy

IMF: International Monetary Fund

IOC: International oil companies

IPE: International Political Economy

JAES: Joint African EU Strategy

JESS: Joint Energy Security of Supply Working Group

MS: Member States

NEPAD: New Partnership for Africa’s Development

NNPC: Nigerian National Petroleum Corporation

NOC: National Oil Companies

OECD: Organization for Economic Co-operation and Development

ODA: Official Development Assistance

PCD: Policy Coherence Development

PSA: Production Sharing Agreements

RECs: Regional Economic Communities
Royal Dutch Shell: Commonly known as shell (United Kingdom/Netherlands)

SCO: Shanghai Cooperation Organization

SINOPEC: China National Petrochemical Corporation

TDCA: The Trade Development and Cooperation Agreement

Total S.A: Formerly Total, Petrofina and Elf Aquitaine (French)

**Appendix B: Tables and figures**

EU energy consumption 2006 16

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Appendix C: Map of Africa and its capitals
### Appendix D: Illustration of the European Union pillar system

<table>
<thead>
<tr>
<th>3rd Pillar</th>
<th>1st Pillar</th>
<th>2nd Pillar</th>
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</thead>
<tbody>
<tr>
<td>- Criminal law cooperation</td>
<td>-Customs Union</td>
<td>-Human Rights</td>
</tr>
<tr>
<td>- Police cooperation</td>
<td>- The EMU</td>
<td>-Foreign Aid</td>
</tr>
<tr>
<td>- Combating of racism and xenophobia</td>
<td>- Trade Policy</td>
<td>-European Security and Defence Policy</td>
</tr>
<tr>
<td>- Combating of drugs and arms dealing</td>
<td>- Agricultural Policy</td>
<td>-Peacekeeping</td>
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<td>- Combating of organised crime</td>
<td>- The Internal market</td>
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<tr>
<td>- Combating of terrorism</td>
<td>-Transport</td>
<td></td>
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<tr>
<td>- Combating of human trafficking and crimes against children</td>
<td>-Education and culture</td>
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<td>Intergovernmental cooperation</td>
<td>-Consumer protection</td>
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<td></td>
<td>-Health</td>
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<td>-Research and the environment</td>
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<td>-Employment</td>
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<td>-Social policy</td>
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<td>-Asylum policy</td>
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<td>-Border control</td>
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<td>-Immigration policy</td>
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<td>Supranational cooperation</td>
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<td></td>
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<td>Intergovernmental cooperation</td>
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</table>
Appendix E: Illustration of the European Union competence area’s

Distribution of competences in accordance to the Functioning of the European Union (Lisbon Treaty) 242

<table>
<thead>
<tr>
<th>Exclusive competence</th>
<th>Shared competence</th>
<th>Supporting competence</th>
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</thead>
<tbody>
<tr>
<td>Art. 3</td>
<td>Art. 4</td>
<td>Art. 6</td>
</tr>
<tr>
<td>(a) customs union;</td>
<td>(a) internal market;</td>
<td>(a) protection and improvement of human health;</td>
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<tr>
<td>(b) the establishing of the competition rules necessary for the functioning of the internal market;</td>
<td>(b) social policy, for the aspects defined in this Treaty;</td>
<td>(b) industry;</td>
</tr>
<tr>
<td>(c) monetary policy for the Member States whose currency is the euro;</td>
<td>(c) economic, social and territorial cohesion;</td>
<td>(c) culture;</td>
</tr>
<tr>
<td>(d) the conservation of marine biological resources under the common fisheries policy;</td>
<td>(d) agriculture and fisheries, excluding the conservation of marine biological resources;</td>
<td>(d) tourism;</td>
</tr>
<tr>
<td>(e) common commercial policy.</td>
<td>(e) environment;</td>
<td>(e) education, vocational training, youth and sport;</td>
</tr>
</tbody>
</table>

The Union is able to conclude international agreements, when provided for in a legislative act of the Union

Art. 4 paragraph 4 states that: In the areas of development cooperation and humanitarian aid, the Union shall have

The Union shall have competence to carry out actions to support, coordinate or supplement the actions of the Member States

competence to carry out activities and conduct a common policy; however, the exercise of that competence shall not result in Member States being prevented from exercising theirs.

Appendix F: Cotonou Agreement

Implemented in 2003, and is the treaty between the EU and the ACP countries. It is based on a “bottom up” approach where the ACP countries have a greater say in their individual development plan. In contrast to the Lomé it is largely based on conditionalities in regards to human rights, environmental concerns, good governance etc. While it opens up for a greater equal partnership and ownership from the developing countries emphasizing institutionalism and regionalism, it also invites non state actors to engage in negotiations. It replaces preferential treatment in trade with EPA’s, duty free access for export from the developing countries to the EU, but also duty free exports from the EU to their markets. The manner in which aid is allocated is changed from primarily the EDF to now primarily ODA.

Appendix G: Lomé Agreement

The Lomé Agreement was primarily a framework set in place by former European colonial power to create a strong link between former colonies and their home market through trade, by giving ACP countries preferential duty free access to their domestic market. Within the agreement the European countries also committed themselves to delivering aid through the EDF. The ACP negotiated as a group with the EC on development issues. A WTO ruling effectively ended the preferential treatment in 1996 after complains from the US.

Appendix H: Elf Trials

A trial with 34 accusers surrounding the wrongdoings of the French state owned oil company Elf-Aquitaine, many of whom where closely tied to the French government. They were accused of bribery, selling arms under UN embargo, setting up secret accounts and doing personal favors all in order to buy political influence in resource rich countries such as Angola, Gabon, Congo and Cameroon.
Appendix I: St. Petersberg tasks

Article 28 B of the Lisbon Treaty now defines the “St. Petersberg tasks” as: “…joint disarmament operations, humanitarian and rescue tasks, military advice and assistance tasks, conflict prevention and peace-keeping tasks, tasks of combat forces in crisis management, including peace-making and post-conflict stabilization. All these tasks may contribute to the fight against terrorism, including by supporting third countries in combating terrorism in their territories”.

Appendix J: World development indicators & global development finance

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<tr>
<td>Angola</td>
<td>D 1</td>
<td>0.33</td>
<td>0.46</td>
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<td></td>
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<td>299</td>
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<td>(-)</td>
<td>0.26</td>
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<td>Nigeria</td>
<td>D 1</td>
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<td>1.83</td>
<td>1.84</td>
<td>8.86</td>
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<td>1.19</td>
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<td>D 2</td>
<td>226</td>
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<td></td>
<td>D 4</td>
<td>12</td>
<td>5</td>
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<td>Sudan</td>
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<td>(-)</td>
<td>(-)</td>
<td>(-)</td>
<td>0.28</td>
<td>0.74</td>
<td>0.60</td>
</tr>
</tbody>
</table>

D1 Debt service on external debt (Current $bn)
D 2 External debt stock (% of exports goods, services and income)
D 3 Total debt service (% of export goods, service and income)
D 4 Total reserves (% of total external debt)
D 5 Investments in transport, telecom, water, energy (with private participation current $bn)

Appendix K: Leapfrogging

The use of policies to guide industrial structural transformation and advancement ahead of a country’s factor endowment. The government is facilitating a push for greater production of sophisticated goods, to correct the market failure of under-investing in technological progress because of associated risks, that otherwise deters private actor investments.

Source: World Databank
Appendix L: Bretton Woods system
International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) also known as the World Bank and lastly the General Agreement on Tariffs and Trade (GATT) that later transformed into the World Trade Organization (WTO).

Appendix M: Washington Consensus
An economic policy reform package promoted by the international institutions such as the World Bank and the IMF but also largely by the western states, in efforts to expand the free markets through liberalization of trade structures and financial markets around the world.

Appendix N: Chinese development assistance in general
Data on China’s loans and grants are too inaccurate to determine the depth and scope of the total amount of annual Chinese foreign development assistance244. Often times there would be no distinction between development assistance and commercial investments.

By China not following the rules and standards set forward by the Development Assistance Committee of the Organization for Economic Development and Cooperation, whose members report and count aid according to Official Development Assistance classifications, a more specific segmentation of the numbers based on geographical or sector disbursements, are made difficult.

The only concrete precondition for Chinese cooperation is the undisputed support for China’s “One China” policy for the unification of Taiwan as part of main land China. The pledge from the Chinese government to a noninterference policy in relation to internal matters and the non-conditionality on governance or fiscal issues have generated positive reactions in SSA and developing countries in general245.

Appendix O: Price, income and demand elasticity
Low income elasticity for commodities results in an increase in income only is going to have a limited impact on the demand for commodities, where as a high income elasticity for manufactures will result in large increase in the demand for manufacture. On the other hand,

244Chin & Frolic (2007:12)
245Zafar (2007:4)
high price elasticity results in an increase in price of commodities and in a fall in demand for commodities, relative greater than that of manufacture.

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