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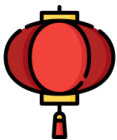
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Brazil-China oil cooperation: bilateral trade, FDI, infrastructure projects and loans (2000-2018)

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Brazil-China oil cooperation: bilateral trade, FDI, infrastructure projects and loans (2000-2018)

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Introduction

Objetivo: investigar las relaciones entre Brasil y China en el sector petrolero entre 2000 y 2018, con énfasis en el caso de Petrobras. El artículo va a analizar cuatro pilares de la cooperación bilateral – comercio, inversiones chinas, proyectos de infraestructura y financiamiento –, con énfasis en los tres últimos, y tres fases de la relación con China – líneas de crédito respaldadas por energía (préstamos por energía o “energy-backed loans”), exploración de petróleo y cooperación diversa (refinerías, plataformas de petróleo, etc.). Serán temas de discusión la complementariedad de la relación bilateral, el rol de Brasil en la diplomacia energética china y la creciente dependencia brasileña de China, entre otros temas.

Hipótesis preliminar: el Brasil tiene un papel importante, pero todavía marginal, en la estrategia china de seguridad energética en el sector petrolero. El crecimiento de las exportaciones brasileñas de crudo hacia China va en camino de la política china de diversificación de proveedores.

4 pilares de relación bilateral: comercio bilateral, inversiones (COFDI), proyectos de infraestructura y préstamos para entender la relación bilateral en petróleo, uno debe analizar los 4 pilares de manera conjunta

Cuestiones:

¿Por qué Brasil es ahora un importante proveedor de petróleo crudo a China?

¿La relación bilateral es de complementariedad o dependencia?

The United States was historically a reliable importer of Latin American energy, but with the US shale oil revolution, this is quickly changing.

In the early 2000s, Chinese leaders, fearing the growth of their economy could be slowed by expensive energy resources, directed their officials to begin securing access to large and diverse oil and gas resources. (PV, 2)



In 2013, China became the world's largest net importer of oil. Latin America, like China, has seen oil production stagnate over the past decade. However, proven reserves have gone from 110 billion barrels in 2006 to 320 billion in 2016 as a result of Venezuela making its reserves official. Further, the United States, long a reliable importer of Latin American oil, has begun to reduce imports from the region. This has led to an explosive growth in Chinese-Latin American cooperation on energy.

Latin America now represents more than 13 % of China's oil imports, up from 2 percent in 2005—the year China began providing Latin American countries with more capital to exploit oil reserves. This capital has come in the form of foreign direct investment (FDI) and government loans, mainly from China's policy banks: the China Development Bank and China's Export-Import Bank. From 2004 to 2016, Chinese companies invested over \$25 billion in oil and gas projects in the region; and from 2007 to 2016, China's policy banks loaned nearly \$140 billion to Latin American governments and state-owned enterprises (SOEs). (PV, 2)

China's seemingly insatiable appetite for energy is reshaping the balance of political and economic power in Latin America as it transforms the global energy landscape. Chinese investments and lending in energy extraction and infrastructure, amounting to over \$XX billion since 2000, have already upended long-standing energy partnerships in the hemisphere. With China's over-all demand for oil and gas expected to more than double by 2035, the region's lack of sufficient capital to develop its vast and largely untapped energy resources makes it a continued magnet for excess Chinese capital. (PV, 3)

As China's economy has grown, its demand for commodities has skyrocketed, fueling a quadruple increase in per-capita energy usage since 1980. In 2008, China overtook the United States as the world's largest consumer of energy, and from 2005 to 2015, it accounted for around 50 percent of global growth in oil consumption. (PV, 4)

The trend toward US energy self-sufficiency and the simultaneous growth in China's energy needs have changed Latin America's energy outlook. Three factors have led to the region accounting for 13 % of China's oil imports as of 2016 (from 2 percent in 2005): a decline in sales by producers like Mexico and Venezuela to the US market; major Chinese efforts to grow and diversify its energy imports; and a hunger for capital in countries like Venezuela. (PV, 5)



Since 2015, China has been the top destination for Latin American crude oil, surpassing the United States.

China's more recent push into Latin America's oil and gas sector has materialized in two ways: Foreign direct investments (FDI) and Massive government loans. (PV 7)

Foreign direct investment in the hydrocarbons sector is dominated by China's three state-owned oil companies—CNPC, Sinopec, CNOOC and Sinochem. These companies are frequently supported by several Chinese oil service and engineering businesses (Chinese oil service and engineering companies with operations in Latin America include BGP, Shandong Kerui Petroleum Equipment, Hilong Oil Service & Engineering, Shengli Oilfield Highland Petroleum Equipment Co., Jerih, Great Wall Drilling, and Changing Petroleum Exploration Bureau) (PV 7)

Chinese FDI in oil and gas in Latin America saw a remarkable increase after the 2007-08 global financial crisis, when oil prices dropped. As economically strained Western companies sold their assets to cut down costs, Chinese companies jumped in to buy assets in key oil and gas-producing regions at competitive prices. (PV 7)

China provided a financial lifesaver, as part of its strategy to strengthen commercial relationships in Latin America and diversify energy sources.

Brazil's state-controlled oil company, Petrobras, was granted seven loans by Chinese banks from 2007 to 2016 under the loan-for-oil mechanism. Petrobras's connection to a huge corruption scandal resulted in the company losing its investment grade rating while its shares plummeted. This significantly hindered its ability to access international financing. Petrobras, with debts of \$24 billion and facing low oil prices, turned to China for financial help. (PV 11)

But most Chinese loans do carry other types of conditions. For example, a portion of the funds of some Chinese loans to Venezuela, namely the \$20 billion credit line of 2010, must be used for contracting with Chinese companies or for financing joint projects.⁶⁰ Critics of this type of conditionality see it as a form of interventionism that negatively affects domestic employment and the expansion of local or regional companies.⁶¹ In Brazil, where institutions are relatively strong and workers' unions very active, some conditions on Chinese loans became unsustainable and had to be weakened. Loans to Petrobras, for example, initially required the purchase of



equipment and services from Chinese companies for up to as much as 60 percent of its credit lines.⁶² This requirement was then relaxed due to Brazil's strict local content legislation and following strong opposition from workers' unions. (PV 12; Alves 108)

Selling the physical oil in the United States may actually make sense, because it is cheaper than shipping it all the way to China. In the case of Venezuela, many refineries in the United States are specially equipped to process Venezuelan heavy crude, its most common petroleum export. Venezuela's state-owned oil company, PDVSA, even owns a refining arm in the United States, Citgo Petroleum, to process its crude. Though these analyses are based on assumptions that the loan-for-oil deals are made at market prices for oil. (PV 13)

China assumed an increasingly significant role in Brazil's foreign relations, particularly under Lula da Silva (2003–2010) (Leite 2009). This flourishing phase in bilateral relations was accompanied by the intensification of high-ranking bilateral exchanges, the institutionalisation of bilateral dialogue mechanisms and instruments, and a dramatic expansion in the volume of trade. (alves 113)

From 1992 to 2015, the cumulative investment reached US\$ 270 billion, including US\$ 90 billion in loans. But as oil prices fell, China slowed down its overseas investment spending. (IEA 2017, 14)

The initial investor in overseas oil and gas fields was national oil company. As of 2015, more than 20 Chinese oil companies have invested nearly 200 oil and gas projects in 54 countries. (IEA 2017, 14)

In 2009, Beijing began to provide loans to oil producing countries, while the borrowing countries used oil to repay the loans. Venezuela, Russia, Angola, Brazil, Ecuador, Bolivia, Turkmenistan and Kazakhstan all signed "oil for loan" agreements with China.

Therefore, in 2016, the total amount of overseas equity oil in China reached 3.1 million barrels/day, nearly five times of the total amount in 2009 (700000 barrels / day), accounting for more than 25% of the total domestic demand, equivalent to 40% of the crude oil import. PetroChina, Sinopec and CNOOC account for more than 90% of the total output of overseas equity oil.



(IEA 2017, 14) ... growing energy interdependence between China and the rest of the world. China became a net importer of crude oil in 1993. (IEA 2016, 8)

According to the NEA, China has established 42 bilateral energy co-operation mechanisms, covering the world's major energy consumers and producers. Meanwhile, it co-operates with 26 international energy organisations and forums, deepening international co-operation in the field of energy (NEA, 2016). (IEA 2016, 15)

China has established bilateral energy co-operation dialogue mechanisms with nearly 30 partner countries which are generally large in size economically or rich in energy resources (Annex 2).

The IEA defines energy security as “the uninterrupted availability of energy sources at an affordable price”. Energy security has many dimensions. Long-term energy security mainly deals with timely investments to supply energy in line with economic developments and sustainable environmental needs. Short-term energy security focuses on the ability of the energy system to react promptly to sudden changes within the supply-demand balance. (IEA 2016, 28)

The sectoral characteristics of Chinese FDI abroad have shown that the relative scarcity of natural resources in the country has made investments in these activities, as well as in energy, appear as a necessary and priority option. In this sense, the government has developed an aggressive policy of external investments of the Resource Seeking type - oriented towards natural resources. (Ferreira 994)

In 2003, China became a net importer of commodities. This meant that the domestic pressure on the Chinese government to get access to these products increased substantially, and with this naturally came reason to find methods to intensify cooperation and search for new markets with Brazil. (Xu 44) oil has vanished from bilateral trade since the early 1990s and resurfaced in the bilateral trade chart in the 2000s, but this time with flows going in the opposite direction. This trend is the result of China's decreasing surplus production and the result of Brazil's rising oil output. After proving the potential of its pre-salt reservoirs, Brazil is gradually emerging as a major oil producer and an exporter. (Xu 49)

no início dos anos 80, a República Popular da China exportava petróleo, produto que chegou a representar mais de 90% de suas exportações para o Brasil em 1985.



A China vem há muito tempo implementando estratégias para assegurar o suprimento de insumos energéticos para o seu crescimento, com base em três instrumentos fundamentais: concessão de incentivos às estatais; investimentos em upstream em outros países; e concessão de créditos do CDB com predominância da modalidade “óleo por empréstimos”. (TR 14)

BILATERAL TRADE

For Ecuador and Venezuela, oil is the main commodity in their relations with China, but Brazil is a different case. In 2013, oil was its third leading export product to China, yet represented only 9 percent, much less than the shares of soybeans (37 percent) and iron ores and concentrates (35 percent) (ECLAC, 2015a). (HOGEN 2017 187)

Brazil is China’s most privileged partner in the region. Brazil is the largest recipient of Chinese energy investments in Latin America and these range from oil and gas projects to major projects in electricity and also wind energy (Husar & Best, 2013). (HOGEN 2017 196)

In the case of Brazil, the oil sector is only one among various shared economic and political interests with China that have been the basis for strong bilateral relations. (HOGEN 208)

In 2017, China was thus the world’s second largest refiner, followed by the Russian Federation, India and Japan. US is the first. (IEA oil info 2019, 6)

Data from the world energy balance show that oil remained the most used fuel in the world energy mix in 2017, accounting for about one third of the world total primary energy supply. The world energy balance shows that road transport is by far the main oil consuming sector.

Demand grew moderately in the United States (+0.4%, +3 Mt, +144 kb/d) in 2017, which remained the world’s largest consumer, followed by China (+4.0%, 21 Mt, +533 kb/d) and India. ... Overall, the United States accounted for almost 20% of global oil demand in 2018. (IEA oil info 2019, 10)

Oil consumption grew by an above-average 1.4 million barrels per day (b/d), or 1.5%. China (680,000 b/d) and the US (500,000 b/d) were the largest contributors to growth. (BP 2019, 2)

Contribution to primary energy growth in 2018: China 34%. (BP 2019, 3)



China gas consumption grew by an astonishing 18% last year (2018). This strength stemmed largely from a continuation of environmental policies encouraging coal-to-gas switching in industry and buildings in order to improve local air quality, together with robust growth in industrial activity during the first half of the year. (BP 2019, 5)

Although the challenge of ensuring energy security is not unique to China, in China it is particularly acute as dependence on foreign oil exceeded 60% in 2015, a new historical high. China's sense of energy vulnerability is rooted in its perspective of national security, in which energy security figures strongly. The country needs to secure reliable energy markets, energy sources and transportation routes; this requires large-scale international co-operation. (EA 2016, 28)

China's GDP grew at a remarkable 9.5 per cent per year on average during the opening decade of the twenty-first century, and while growth contracted somewhat from 2012 on, it was still at 6.5 per cent in 2018 (World Bank (The), 2019). Sustaining such impressive growth rates meant increasing demand for energy and by 2011 China had become the world's largest energy consumer (EIA, 2015). While China's oil consumption surged, its production lagged behind. (PV 2019 2)

In order to make up for the gap between production and consumption, China started to increasingly rely on imports, surpassing the US in 2014 as the world's largest oil importer (United States Energy Information Administration, 2014). The Middle East was China's largest source of imported crude (52 per cent of the total) in 2014, followed by Africa (22 per cent) and Russia and the former states of the Soviet Union (13 per cent), with Latin America (11 per cent) in fourth place. Saudi Arabia and Angola were China's largest sources of imported oil in 2014, together representing 29 per cent of the total. (PV 2019 3)

Chinese authorities realised that the domestic gap between consumption and production was unsustainable in the long run, and therefore the search for new sources of oil and gas around the world became a central priority. Following the launch of Going Out, Chinese state-owned oil companies set out on an aggressive campaign to acquire oil and gas acreage overseas. (PV 2019 4)



Major shifts in global oil and gas markets in recent years opened up an opportunity for China's Going Out strategy. In the US, the discovery of large shale resources in the last decade have moved that country closer than ever to becoming self-sufficient.

China has gradually positioned itself to offer an alternative market for these countries' exports. Reinforcing China's overseas oil expansion in recent years, the 2007-08 global economic slowdown and low international oil prices forced oil companies around the world to engage in major cost-cutting, achieved by selling assets at bargain prices and by freezing new overseas investments. Suddenly, promising oil and gas areas in Latin America and Africa became available at competitive prices, and China aggressively took advantage of these opportunities (Arriagada et al., 2014; Dollar, 2016).

In order to achieve its objectives, China engaged with producing countries through a multi-pronged approach, using investments, lending, the opening up of new trade lines, and political agreements to expand its oil and gas frontiers. (PV2019 5)

Bilateral trade grew from 2 billion USD in 2000 to 77 billion USD in 2011, with China becoming Brazil's largest trading partner in 2009. The commodities share in Brazilian exports to China rose sharply over this period, dominated by iron ore and soya. The most significant shift in bilateral trade over this period, however, was the addition of a third commodity to the Brazil-China exports: oil. Oil rapidly became the third-largest component of exports to China. Representing only 0.5 per cent of total Brazilian export value to China in 2003, the oil share expanded to 13 per cent in 2010 (4 billion USD). Owing to this surge, China became Brazil's major oil export destination in 2010, surpassing for the first time the US, which had occupied the position since the early 2000s. [alves 114] [bilateral TRADE RELATIONS]

China's largest source of oil currently is the Middle East, with Saudi Arabia the largest supplier. But in recent years, China has diversified the sources of its oil imports. Russia accounted for nearly 13 percent in 2016, up from 4 percent in 2006. And lately, Latin America has become an increasingly crucial player in China's energy mix, rising above 13 percent of total oil imports, with Venezuela accounting for roughly 40 percent of the region's supply. (PV. 4)

Policies of the Chinese government to secure and diversify future oil imports. (HOGEN 2017 173)



Whereas the Chinese government aims at energy security and the diversification of oil imports, COCs and banks are driven to invest and grow, and Latin American governments and state-owned oil companies seek to secure investments and loans and diversify the destiny of their oil exports. (HOGEN 2017 208)

China's search for energy security coupled with its large financial reserves and its 'go global' strategy for state-owned companies happen to coincide with Latin America's resource wealth and its need for foreign capital to exploit it. (HOGEN 2017 173)

China's national oil companies (NOCs) invested heavily in both regions even when other investors kept a distance due to low oil prices, or to high host-country risk premiums, or as a consequence of the 2008 global financial crisis. A seeming win-win relationship started to develop. Latin America and Africa had what China needed—oil and gas reserves—while Beijing, with huge cash surpluses, offered financing and investments to cash-strapped oil-producing countries in both regions. [complementarity] (PV 2019 2) (周捷, 29)

Energy security is clearly a top political priority. According to Lee (2012: 77–78), “Beijing considers not just reliable and uninterrupted but also cheap supply of energy as essential to its national and domestic political interest”, and beyond economic reasons, “securing such access is also essential for mitigating risks to the survival of the regime in China”. (HOGEN 2017 173)

The Chinese government has published two energy white papers, China's Energy Conditions and Policies (2007) and China's Energy Policy (2012). In the 2012 white paper, the Chinese government called for international efforts in the following three respects: ... They should work together to minimise volatility in the prices of bulk energy commodities, secure the energy needs of various countries, and maintain the normal order of the energy market.

The international community should work collaboratively to maintain stability in oil producing and exporting countries, especially those in the Middle East, to ensure the security of international energy transport routes and avoid geopolitical conflicts that affect the world's energy supply. (IEA 2016, 11)

Indirectly China's expanding demand was beneficial in pushing world market oil to great heights.² As Figure 6.1 shows, from 2008 to 2013, on average international oil prices were three

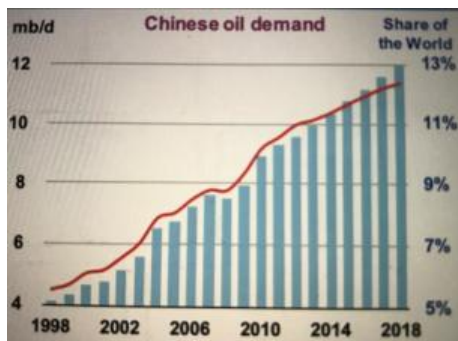
times as high as in the early 2000s. However, in 2015 the value of crude oil was back to where it had begun ten years before. Alongside other elements, including the growing availability of non-traditional energy resources, the slowdown in China's economy has been a key explanatory factor.

Especially when Europe and North America were struck by an economic crisis, on-going high performance in China helped to sustain high prices and consequently Latin America's commodity exports and economic growth. In Latin America, this 'China effect' on global prices resulted in even greater extra revenues from mineral exports than the direct effect of increased export volumes to China. (HOGEN 2017 173)

Oil: Consumption in thousands of barrels per day* (2007-2017) – China 5,1% (#3)

China has the second highest refining capacity in the world. (BP 2019, 27)

With essentially no growth in domestic oil production last year (4.18 mb/d in 2013), 59% of Chinese demand in 2013 was met by imports. China's top ten crude oil suppliers (in order of import volume) were Saudi Arabia, Angola, Oman, Russia, Iraq, Iran, Venezuela, Kazakhstan, United Arab Emirates and Kuwait. Once again, China relied heavily on supplies from the Middle East, with 52% of its 5.64 mb/d of crude imports in 2013 originating from the region (Figure 2) and 19% of imports supplied by Saudi Arabia alone. According to the United States Energy Information Administration (US EIA), in September 2013 China surpassed the United States to become the world's number one net importer of petroleum and other liquid fuels (US EIA, 2014). (AIE 2014, 10)



(AIE 2014, 10)



With decreasing national production and increasing domestic consumption, China's oil companies see the shares of imports augmenting and thus needed to go to the international market to look for assets.

[IMPORTS] China's 12th Five-Year Plan for Energy Industry Development (FYP) (NEA, 2013a), published in early 2013 and covering the period 2011 to 2015, called for the capping of China's oil import dependency rate at 61% by 2015. In 2013, China imported 5.64 mb/d, and the foreign oil dependency rate had already reached 59%. IEA data suggest that China's foreign oil dependency rate is likely to reach 60% in 2014 and 61% in 2015 (IEA, 2014a; IEA, 2013b). (AIE 2014, 11)

Direct acquisition has been the main strategy used by NOCs in the past several years to expand overseas oil and gas production and to work side-by-side with IOCs and other NOCs globally to gain experience and reduce risks. Upstream investments by Chinese companies have contributed to the increase in global oil and gas supplies. (AIE 2014, 13)

China's influence on the international oil market is increasing. At present, China is the second largest oil consumer after the United States, the second largest crude oil refining country, the first largest net oil importing country and an important crude oil producer in the world. (IEA 2017, 3)

In recent years, China's crude oil imports have increasingly come from countries outside the Organization of the Petroleum Exporting Countries (OPEC). While OPEC countries still made up most (57%) of China's 7.6 million barrels per day (b/d) of crude oil imports in 2016, crude oil from non-OPEC countries made up 65% of the growth in China's imports between 2012 and 2016. Leading non-OPEC suppliers included Russia (14% of total imports), Oman (9%), and Brazil (5%). (<https://www.eia.gov/todayinenergy/detail.php?id=30792>)

China surpassed the United States in annual gross crude oil imports in 2015.

China had become the world's largest net importer (imports minus exports) of total petroleum and other liquid fuels in 2013, of crude oil in 2015, surpassing the USA.

China is the second largest oil consumer in the world after the United States. (AIE 2014, 10)



China importador líquido de óleo cru, em 1993, e o maior importador mundial do produto, em 2015.

Entre 2000 e 2015, a China foi responsável por 51% do crescimento da demanda energética mundial e 44% da demanda de petróleo. O crescimento médio anual da demanda chinesa de petróleo no período foi de 6,3%. As importações líquidas de petróleo da China passaram de 40% para 68% da demanda chinesa, ou quase 8 milhões de bpd. (TR 14)

During the first half of the 1980s, the bilateral trade reached high values. Brazil imported mainly oil from China and exporting industrial assets, petrochemical products and steel. (Xu, 43)

Oil has vanished from bilateral trade since the early 1990s and resurfaced in the bilateral trade chart in the 2000s, but this time with flows going in the opposite direction. This trend is the result of China's decreasing surplus production and the result of Brazil's rising oil output. After proving the potential of its pre-salt reservoirs, Brazil is gradually emerging as a major oil producer and an exporter.

In 2000, Brazil accounted only for 1% of China's total petroleum imports. Having achieved energy self-sufficiency in 2006 and discovered gigantic offshore oilfields in 2007 and 2010, in an interesting turn of events, the PRC became Brazil's largest trading partner in 2009 and it also became Brazil's main oil export destination in 2010 as indicated in Table 3.1.

According to the EIA's data, Brazil is the 10th largest producer in the world and was the largest producer of petroleum and other liquids in South America in 2013. (Xu, 49)

Brazil is now regarded by Beijing as a very promising long-term oil source. This new feature in Brazil-China trade unmistakably illustrates the emergence of Brazil in China's oil diplomacy. (Xu, 50)

FDI and infrastructure projects

China's NOCs invested heavily in both regions for approximately a seven-year period beginning around the middle of the first decade of the new millennium by acquiring oil and gas assets or entering into joint ventures to develop specific areas, and also by financing downstream projects. By 2014, China's overseas oil and gas investment rhythm had cooled off, in part due to a drop in



the price of oil. Another key factor contributing to the slowdown was a vigorous anti-corruption campaign in China that put NOCs at the centre of a storm. [slowdown in brazil??] (PV 2019 6)

GASENE [Alves 114-116]

GASENE project secured a good foundation in Brazil, not only for Sinopec but also for the CDB. This certainly played a role when Petrobras approached the CDB in late 2008 looking for funding to develop the pre-salt oil reservoirs. [Alves 116]

While Sinopec was contracted for the Gasene pipeline, it did not receive an oil supply contract in return, and had to agree to source a minimum of 75 percent of the project's goods and services from Brazil. (Xu 54)

Table 3: Petroleum Assets of Chinese NOCs in Brazil

Oil asset	Estimated reserves (barrels)	Estimated block production for 2012 (barrels per day)	Net share of Chinese NOCs
Acquired in the framework of the CDB's 10 billion USD loan to Petrobras			
Sinopec 20% Block BM-PAMA-3 & 20% Block BM-PAMA-8 Para-Maranhao (May 2010)	Unknown	Still at exploration phase	20% 20%
Acquired by Chinese NOCs independently			
SINOCEM 40% Block BM-C-7: Peregrino Campos Basin (May 2010)	300-600 million	100,000	40% (40,000 bpd, 2011)

Bacia	Área	Reserva recuperável mínima esperada (em milhões de barris)	Concessionária	Participação das chinesas no pré-sal (%)	Volume de óleo da concessionária chinesa (em milhões de barris)
Santos	Carioca	500	Sinopec	25,0%	125
Santos	Sapinhoá	2.100	Sinopec	25,0%	525
Santos	Libra	8.000	CNPC CNOOC	10,0% 10,0%	800 800
Santos	Peroba	2.000	CNOOC	20,0%	400
Santos	Entorno de Sapinhoá	200	Sinopec	25,0%	50
Campos	Alto de Cabo Frio-Oeste	Não informado	CNOOC	20,0%	-
Campos	Pão de Açúcar e Gávea	1.200	Sinopec	35,0%	420
Total		14.000		22,3%	3.120

China's large oil companies, that still operate with little competition in the protected domestic oil sector, began to transnationalize through overseas investments in which they operate as commercial entities and face international competition. (HOGEN 2017 175)

On Fortune's 2015 list of 'Global 500 largest companies', ranked according to total revenues, COCs have reached impressively high positions: Sinopec as number 2, the CNPC as number 4, the CNOOC as number 72, and Sinochem as number 105. As Table 6.1 shows, measured by revenues and sales, Sinopec, the CNPC and the CNOOC are among the world's largest oil companies, but their level of profits is rather low and their number of employees is high. (HOGEN 2017 178)

TABLE 6.1 *Attributes of Chinese oil companies compared to selected other oil companies (revenues, profits, and assets in USD\$ millions)*

Company	Ranking	Country	Revenues	Profits	Assets	Employees
Sinopec	2	China	446,811	5,177	359,183	897,488
Shell	3	UK/NL	431,344	14,874	353,116	94,000
CNPC	4	China	428,620	16,359	634,811	1,636,532
ExxonMobil	5	US	382,597	32,520	349,493	83,700
Petrobras	28	Brazil	143,657	7,367	298,687	80,908
PDVSA	39	Venezuela	128,439	7,386	226,760	152,072
CNOOC	72	China	99,262	8,592	180,427	114,573
Sinochem	105	China	80,635	562	57,278	54,742

SOURCE: FORTUNE'S GLOBAL 500, 2015

In 2013, the CNPC and the CNOOC also made their first large investment in Brazil. They took part in the winning consortium for the bid to explore Libra, Brazil's largest oilfield. Interestingly, while each company had already collaborated in several foreign projects with Sinopec, this was



the first joint investment of the CNPC and the CNOOC anywhere in the world. (HOGEN 2017 199)

[LATECOMERS] As a latecomer to global markets, it is said that China and Chinese companies have taken a great deal on board and made room for themselves.

While North American and European transnational companies (TNCs) do remain key foreign investors in the Latin American oil sector, companies from China are rapidly increasing their involvement in extraction in the region. (HOGEN 2017 177)

[VER % DE EMPRESAS OCIDENTAIS NO BRASIL]

... in the overseas activities of their commercial branches, this division of labour has been loosened up and profitability has begun to matter more, although they generally still overpay in foreign acquisitions. (HOGEN 2017 179)

Chinese oil companies are state-owned entities that began to transnationalize relatively late, and the particular ways in which they do so is still puzzling for scholars as well as actors in receiving countries. Although also looking for revenue and profits, they sometimes take on projects that western multinationals would not, as the latter might find the physical, economic, or political and social conditions too risky or demanding. Chinese companies partly invest in 'difficult' countries (e.g. Ecuador), areas (e.g. requiring additional infrastructure investments), and projects (e.g. with a conflictive history or also requiring extra expenditure). Compared to companies from western countries, COCs can invest more easily in projects that require infrastructural development and they are less restrained by short-term shareholder value maximization. (HOGEN 2017 208)

Explanations for this difference range from the fact that they are state-owned (and therefore guided more by policy aims for national resource security), that they are new-comers to contemporary globalization (and therefore cannot be too picky about where and how to start-up businesses), and that they surf on a high economic and financial wave compared to the conditions of North American and European MNCs. (HOGEN 2017 208)

INVESTMENTS BY STATE COMPANIES (SOEs): Leao & Puty 2, Dussel Peters,



especially the CNPC and Sinopec have become economically and politically very powerful. They are ranked at ministry level (as is the SASAC that is supposed to supervise them) and their top executives “must wear two hats, as leader of major commercial enterprises and as top Party operatives” (Jiang & Sinton, 2011: 26). (HOGEN 2017 180)

there were a few anti-Chinese protests, that President Rousseff immediately criticized in the media, as “absurd xenophobia”. (HOGEN 2017 200)

while COCs claim that they are market players, and their foreign branches are indeed listed at international stock markets, it is less clear if they also compete with each other, and whether their investment decisions are made independently of the Chinese government. The new, large oil-backed loans to crisis-ridden Brazil, Venezuela, and Ecuador have raised another key question: are these loans based on decisions of the Chinese development banks themselves, or are they an expression of the political agenda of the Chinese government? In this particular case, the political influence seems evident. (HOGEN 2017 209)

REASONS OF COFDI:

Annex 3: Motivations for NOCs to invest overseas and strategies used

Motivations for investing abroad	Main strategies used to expand
Expand oil and gas reserves and production.	Diversify energy supply sources and take advantage of new business opportunities.
Diversify energy supplies to avoid risks.	Target assets to add synergy to existing assets.
Become “international NOC”.	Partner with other NOCs and IOCs, build relationships and diversify risk.
Develop an integrated supply chain.	Pursue market-for-resources deals that exchange access to China’s market for access to resources.
Gain technical know-how and streamline managerial capacities.	Utilise strong financial resources and government policy support.

Sources: FACTS Global Energy (2009), “China’s Overseas Oil and Gas Investment, Recent Developments”, *FACTS Global Energy*, Issue 33; PFC Energy (2010), *Chinese NOCs, Global Expansion Drivers*, PFC Energy, Washington, D.C.; Xu, Xiaojie (2007), *Chinese NOCs’ Overseas Strategy, Background, Comparison and Remarks*, James A. Baker III Institute of Public Policy, Rice University, Houston; IEA research.

(IEA 2014, 40)

On Brazil’s side, interest in resource access on the Chinese side and the need for finance on the Brazilian side are primary drivers lead to the fast growth of bilateral trade relations. Petrobras benefited not only from China’s demand for oil, but also from much-needed Chinese investment in the company amid plans to explore deep-sea oil fields off the coast of Brazil. (Xu 54)



[Mudanças legais no Brasil] 2016 the government decreed a reform of its local content policy in order to attract more investments. (HOGEN 2017 202)

The context of the global financial crisis opened an unprecedented window of opportunity for Chinese NOCs to pursue their interests in Brazil. China's position as a global lender improved dramatically in tandem with the credit crunch in the international financial markets. This was particularly the case in developing regions, where many governments were facing low credit ratings in a context where infrastructure and resource development had become critical elements to sustain the economic growth cycle. Furthermore, by gaining easy access to cheap credit from state banks (see Downs 2010: 89–95), Chinese NOCs were among the few companies that had available cash in a period in which many resource assets were placed on the market by Western international oil companies in financial difficulty. As a result, Chinese NOCs tapped into the much sought-after pre-salt reservoirs, through M&A. Notably, this happened without any support from the Chinese government or any special favour from Petrobras or the Brazilian government. [Alves 122]

Chinese NOCs venturing out on their own managed to secure much better assets in 2010 through mergers and acquisitions (M&A), benefitting from the severe liquidity contraction of other players active in the Brazilian oil industry. [Alves 117]

When the Brazil's Pre-salt and its potential exportation of oil were announced, the Chinese oil companies became interest in the Brazilian energy sector. In the last five years, all the four big state oil companies, in China, had entered into the Brazilian market. Moreover, given the needs to finance the E&P activities in Brazil, they have been considered an important source of liquidity to invest in the domestic oil business. (Almeida 2014, 1)

[Access to technology] the case in Brazil, where Sinopec's partnership with Petrobras was intended to help the Chinese company gain know-how in deep-water drilling, although it showed little success at first (Husar and Best, 2013; Alves, 2013, 周捷, 31).

Acquiring new hydrocarbon blocks and reserves overseas is part of China's concerted effort to diversify its sources of oil imports in order to offset its large dependence on supplies from the politically volatile Middle East (PV 2019 7)



Chinese oil companies, like all others, are mainly profit-driven (Chen et al., 2016). By the time of their aggressive entry into Latin America and Africa during the Going Out period, the best acreage in non-risky areas had long been taken by Western companies. It has been suggested that due to a scarcity of promising hydrocarbons areas around the world, Chinese companies had no choice but to invest in countries previously avoided by Western investors due to their political or geological risk (Kong, 2011). (PV 2019 16)

The lowered price level affects the profitability and viability of capital-intensive projects, such as those in the deep sea, as well as the possibilities to invest in technological development. Since 2014, the major private oil companies have been forced to lower their costs globally and rethink their strategies. While this can have some negative effects on the projects in which they are involved with the Chinese, in theory the crisis in the oil sector can also offer Chinese companies a possibility to expand their share in Brazil and elsewhere. (HOGEN 2017 202)

On 29 November 2017, Brazilian president Michel Temer sanctioned a law removing Petrobras's mandatory minimum 30% operating stake in unlicensed pre-salt acreage. Under the new law, Petrobras will retain preferential rights to new pre-salt areas awarded under the PSA contract regime and may participate in licensing rounds if it wants to bid for more than a 30% stake. Furthermore, the government has approved regulatory changes that lower the local content percentages for areas to be offered under the PSA regime. Brazil, which only held three bid rounds using the concession contract regime and tendered only one new pre-salt block over the past seven years, plans to hold three auctions in 2017. More frequent licensing rounds, with reduced NOC participation, as well as expanded partnerships and divestments by Petrobras, will open up increased opportunities for IOC investment.

IOCs are already scaling up their investments in Brazil. Shell recently allocated USD 10 billion to its projects over the next five years, in addition to any potential acquisitions of new upstream assets. The capital is set to go mainly towards increasing sub-salt output and most notably towards the development of the 8 - 12 billion barrel Libra field, in which it holds a 20% stake alongside Petrobras (40%), Total (20%), CNOOC (10%) and CNPC (10%). Shell forecasts its Brazilian production to reach more than 800 kboe/d by 2020, from around 300 kboe/d currently. Total and Petrobras signed a strategic partnership in October 2016, and in December Total acquired a 35% operating stake in the Lapa field - which started production in December - and a



22.5% stake in the Berbigão and Sururu fields for USD 2.2 billion. Statoil, meanwhile, paid USD 2.5 billion for a 66% stake in the BM-S-8 block containing the Carcara discovery in July, in what was Petrobras's first major subsalt sale.

Petrobras reported total debts of USD 122.7 billion in 2016, and it has taken steps to reduce this burden by increasing the sale of non-core assets. The company has said it plans to expedite the ongoing divestment process. <IEA - Oil 2017_analysis and forecasts to 2022 (2017) (p. 55)>

Energy-hungry China has for decades invested in overseas oil and gas production in a bid to secure supplies and develop technical expertise. From 1992 to 2015, cumulative investment reached USD 270 billion, including USD 90 billion of loans. But lower oil prices have seen spending slow down.

Initial investments were made by national oil companies (NOCs) in overseas oil and gas fields. By 2015 more than 20 Chinese oil companies had invested in nearly 200 oil and gas projects in 54 countries. In 2009 Beijing started to offer loans to producer countries which were repaid with oil. Venezuela, Russia, Angola, Brazil, Ecuador, Bolivia, Turkmenistan and Kazakhstan have all signed "loans for oil" contracts with China.

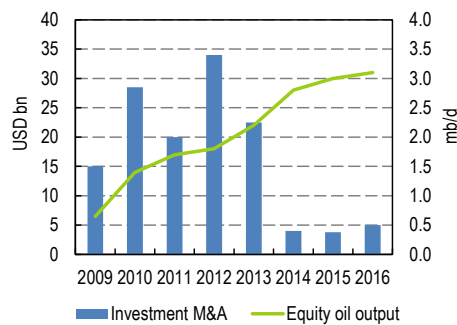
As a result, China's total overseas equity oil amounted to 3.1 mb/d in 2016, nearly five times the 2009 level of 0.7 mb/d. That is over 25% of total domestic demand and is equivalent to 40% of crude imports. The top three NOCs - CNPC, Sinopec and CNOOC - accounted for over 90% of total overseas equity oil production.

However, the rapid expansion of the NOCs' investment portfolios increased their management risks. Some high-cost acquisitions experienced heavy losses after the oil Price slumped in 2014. The price drop also hurt their domestic output and earnings, piling more pressure on overseas investment budgets. Additionally, more than half of China's international investments are in Africa, the Middle East and Latin America – regions that experienced political instability that has hit their production and thus Chinese companies' ability to lift oil output.

Chinese NOCs thus reconsidered their strategy and became more conservative. In 2014, overseas oil investment dropped sharply by 80% year-on-year to less than USD 5 billion. More than 70%

of the investment came from private Chinese companies and the NOC share continued to decline in 2015 and 2016.

**Figure 2.27 Chinese overseas investment
M&A and equity oil output**



IEA - Oil 2017_analysis and forecasts to 2022 (2017) (p. 60)

Chinese NOCs first ventured overseas in 1993, investing in oil and gas production in Thailand, Canada and Peru, followed by Sudan in 1995. Since those early days, China's NOCs have emerged to become international operators, with activities spreading across more than 40 countries and producing 2.5 million barrels of oil equivalent per day (mboe/d) of oil and gas overseas in 2013.

Between 2011 and 2013, NOCs invested record amounts of capital totalling USD 73 billion in upstream mergers and acquisitions, and USD 29 billion in long-term loan-for-oil and gas deals with Russia and Turkmenistan to bring additional oil and gas supplies to China. (IEA 2014, 6)

A total of ten Chinese companies, spearheaded by the three NOCs, own production entitlements in 42 countries, of which half are located in the Middle East and Africa. Although the marketing of this production is largely based on commercial considerations, the increased level of production serves to calm growing concerns within China about the country's inevitable increasing import dependency and, thus, exposure to global oil market volatility. (IEA 2014, 7)

[RISK] New acquisitions since 2011 clearly demonstrate that China's NOCs are moving away from riskier parts of the world towards more politically stable investment climates such as those in Organisation for Economic Cooperation and Development (OECD) member countries. Taking advantage of the North American energy boom, Chinese companies have enjoyed some degree



of success there, but, at the same time, they face growing challenges to overcome significant management and operational issues. (IEA 2014, 7)

Despite their success in both upstream and downstream investments around the world, the Chinese NOCs have faced difficult challenges in parts of the world where political instability is mounting. Security concerns and some ethnic tensions have heightened in Central Asia. (IEA 2014, 8)

Over the past three years, events in the Middle East and North Africa have made the energy business environment even more challenging: the Arab Spring and the Syrian and Libyan civil war, which are reshaping the political landscape of the Middle East; the ongoing Iran nuclear negotiations and sanctions imposed by the USA on Iran's oil and gas industry; and the escalating conflict between Sudan and the newly independent South Sudan, as well as recent violence within South Sudan and security concerns in countries like Nigeria (IEA 2014, 27). China's NOCs have found themselves caught in the middle of geopolitical crises that have caused production to be shut down and personnel to be recalled. (IEA 2014, 8)

The unstable political situation in the Middle East poses great challenges to Chinese companies. A destabilised Middle East could have serious consequences for China's energy security, as the region supplied 52% of China's oil imports in 2013. (IEA 2014, 29)

Kidnapping and murders of Chinese in Nigeria, evacuation in South Sudan. (IEA 2014, 31)

Elsewhere, some of the NOCs' investments in Africa face reversal of contracts, such as in Niger and Chad. (IEA 2014, 34)

To ensure adequate oil supply and mitigate geopolitical uncertainties, China has diversified its sources of crude oil imports in recent years.

The Middle East remains the largest source of China's crude oil imports, although African countries, particularly Angola, began contributing more to China's imports in the past decade. As part of China's energy supply security policy, the country's NOCs are attempting to diversify supply sources in various regions through overseas investments in upstream oil projects and long-term contracts. In 2014, the Middle East supplied China with 3.2 million bbl/d (52%). Other regions that export oil to China include Africa with 1.4 million bbl/d (22%), the Americas with



667,000 bbl/d (11%), Russia and the former Soviet Union with 778,000 bbl/d (13%), the Asia-Pacific region with 127,000 bbl/d (2%), and 27,300 bbl/d (<1%) from other countries. Saudi Arabia and Angola remain China's two largest sources of oil imports, and together they account for 29% of China's total crude oil imports. [ATUALIZAR]

Global oil supply disruptions in recent years have shifted China's crude oil supply portfolio and forced the country to diversify its sources. Sudan and South Sudan became significant oil exporters to China until production was shut in at the beginning of 2012, following political conflicts between the two African nations over their oil resources. Exports from Sudan and South Sudan to China dropped from 260,000 bbl/d in 2011 to zero by April 2012.

Following U.S. and European sanctions on Iranian crude oil sales resulting from disagreements on Iran's nuclear program, China reduced its average annual oil import levels from Iran. (<https://www.eia.gov/beta/international/analysis.php?iso=CHN>)

[comercial interests] a close look at the data demonstrates that Chinese SOEs and policy banks are driven more by commercial interests than by central government directives (PV, 2)

The 2011 report concluded that, while Chinese NOCs are majority-owned by the government, they are not government-run. Chinese NOCs enjoy a high degree of independence, and their actions appear mainly to be driven by commercial incentives to take advantage of available opportunities in the global market place, especially upstream. (IEA 2014, 6)

As China's NOCs invest more globally and co-operate increasingly with other international oil companies (IOCs), suspicions about their investment intentions appear to be declining. In contrast to the past, Chinese NOC acquisitions in OECD member countries have been met with less scepticism. (IEA 2014, 7)

... no evidence to suggest that the Chinese government imposes a quota on the NOCs regarding the amount of their overseas oil that they must ship to China. Marketing decisions concerning NOC oil are based on the details of each PSC and on short-term commercial considerations.

The higher levels of production being reached by NOCs outside China should help to calm the growing nervousness within China regarding its inevitable growing import dependency and greater exposure to global oil market volatility. Some in China argue that NOCs have not

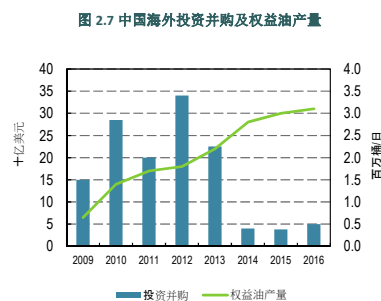
fulfilled their responsibility to China's energy security needs and that they should bring their oil back to China. However, Chinese overseas production increases supplies to the global market, which China has become a part of and, increasingly, relies on. (IEA 2014, 16)

From 2011 to 2013, Chinese NOCs have emerged to become global players in M&A, with the aim to expand and diversify their reserves, internationalise their operations and gain technical know-how. These three points are listed in the IEA 2011 paper as key motivations for NOC investment overseas. (IEA 2014, 16)

By 2013, Sinopec and Sinochem had a combined 48 kb/d of oil production in Brazil. (IEA 2014, 19)

PetroChina, CNOOC and Sinopec, the three major oil producers, reduced their total upstream oil and gas investment in 2015 and 2016 by 40% and 28%, respectively, to \$32 billion in 2016. To avoid losses from falling oil prices, they shut down multiple fields and slowed down drilling activities in China. (IEA 2017, 10)

Mas em 2017 retomaram os investimentos no país com a melhora dos preços do petróleo. (IEA 2017, 11) [MAS NO BRASIL...?]



(IEA 2017, 11)

In the 1980s, when Petrobras was still in the process of developing its deep-water expertise, it entered into a technology transfer agreement and JV with CNOOC for offshore exploration in China. (Xu 53)



Chinese loans

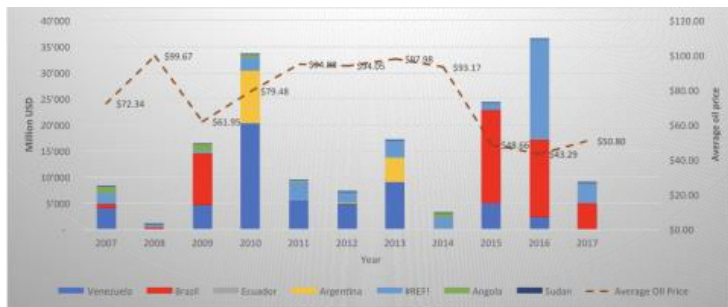
For countries with low credit ratings that were not able to provide strong repayment guarantees, using future resources as guarantees helped to lower risks and improve payment security, which in turn allowed projects in general to be financed with loans with better interest rates. (PV 2019 9) [EBLs]

In the case of Brazil, Chinese loans went to state-owned oil company Petrobras, under the loan-for-oil mechanism. Petrobras borrowed some USD 36 billion from Chinese banks in the period 2009-16 (Vasquez, 2018). Back then, Petrobras was going through a turbulent period. The company's shares had plummeted, and it lost its investment grade rating when an investigation put Petrobras at the centre of the largest corruption scandal in the history of Latin America. In a context of low oil prices and debts in the order of USD 24 billion, Petrobras turned to China for financial help (Vasquez, 2018). In 2015 and 2016 alone, Petrobras received loans of USD 10 billion and USD 15 billion, respectively, mainly from China's CDB. For part of the 2016 loans, the company agreed to ship 100,000 b/d of oil to China for a ten-year period (Petrobras, 2016).¹⁰ In 2017, the largest Chinese loan to Latin America—USD 5 billion—also went to Petrobras, in exchange for oil shipments (Myers and Gallagher, 2018). (PV 2019 10) [EBLs]

The wave of Chinese hydrocarbons investments and loans of the new millennium's first decade was advantageous for Latin American and African countries for at least three reasons. First, during the global financial crisis when loans by private international banks shrank and international oil companies (IOCs) reduced their investment portfolios, Chinese state-owned banks and companies rose to the challenge. Chinese banks exceeded the monies loaned by traditional lending organisations in those years (Gallagher and Irwin, 2017) and Chinese NOCs took up assets that IOCs were forced to leave behind due to lower oil prices and the economic meltdown. Moreover, in countries whose poor credit ratings restricted access to conventional international financing—like Venezuela and Ecuador, or Argentina under the last Kirchner Administration—Chinese loans came to the rescue.

Second, Africa in particular, and to a lesser degree Latin America, benefited from Chinese loans in areas—such as infrastructure—[no caso do Brasil, investimentos no pré-sal]

Third, countries whose revenues depend mainly on exports of oil were greatly affected when the price of oil fell at the end of 2008 and until it rebounded two years later. Unable to access conventional credit lines in international markets due to high domestic economic and political volatility, they resorted to China, which became a lender of last resort (Chimenti and Creutzfeldt, 2016). (PV 2019 11)



Over the past decade, the extension of credit lines for infrastructure has featured as a recurrent economic statecraft instrument used by China in resource-rich developing countries. In addition to seeking markets for its construction companies and materials, China uses these credit lines to obtain long-term supply contracts and often favoured access to resources assets (Alves 2012a: 28–30). Mainstream literature demonstrates that this kind of loans tend to knit together the Chinese central government with state policy banks and national oil corporations (NOCs). [Alves 100]

Policy banks put forward larger loans to fund infrastructure, energy and mining; they offer lower interest rates and longer repayment periods; their disbursement is much quicker than that of Western banks, and they do not impose policy conditions on the borrower. In return, however, they require procurement of goods and services from China.

Despite the similarities of their financial packages, the two banks appear to play different roles and to follow different strategies. China Exim Bank holds the exclusive mandate to extend concessional loans (low interest rates subsidised by China's Ministry of Commerce), which fall under the official development aid (ODA) category. Most of its oil-backed loans, however, are extended on a more commercial basis. CDB credit lines, on the other hand, offer exclusively market-based interest rates. [Alves 100] [CDB X EXIM]



Throughout most of the past decade, Chinese oil-backed loans were rare in South America, being mostly confined to Venezuela. This reality has, however, changed substantially in recent years, largely owing to the global financial crisis (see the Brazil case study). [EBL]

Contrary to popular belief, oil-backed loans are not repaid in kind (meaning, through oil shipments). Rather, they are guaranteed by the proceeds of oil sales, which are required to be deposited into the borrower's account as a means of guaranteeing repayment. Oil-backed lending is not a Chinese invention, however. It surfaced as a common practice among Western private banking institutions in the 1990s (JBIC 2006), mostly as a means to circumvent the weak credit ratings of African oil-producing countries (such as Angola). In addition to lower interest rates and longer repayment periods, the distinguishing feature of Chinese oil-secured loans is that the repayment is guaranteed by the sale of a certain amount of oil (normally set in barrels of oil per day) throughout the loan repayment period to a specified Chinese NOC, usually Sinopec or the CNPC. The NOC is required to deposit the payment in the borrower's account with the Chinese lending institution, which is then used to service the loan. At the same time that this arrangement allows China to limit lending risks, it also serves China's energy-security purposes by ensuring a continuous flow of oil over the repayment period. [alvez 101]

[EXPORTS NOT TO CHINA] Profit concerns may not always align with national interests: Sending the oil back to China will mean lower profit margins for the NOCs, as the prices are controlled by the state. Ultimately, though, there is a reasonable compatibility between national and commercial interests. It remains unclear how much of the oil secured through these loans is sent back home and how much is sold in the international market for profit. [alves 102]

Only a fraction (10 to 15 percent) of the oil produced abroad by Chinese state-owned enterprises is shipped to China; most is sold on the global market. If the primary goal of the government's 'Go Global' strategy for Chinese state-owned oil companies is to secure supply, this is "primarily done through increased participation on the global oil market" (Graaff, 2013:164). Evading lengthy transport and selling at the best price, maximizes the COCs' revenues, that is also in the interest of the state. However, it also encourages profit-seeking behavior and the evasion of government control. Therefore, the foreign expansion of Chinese oil companies is becoming increasingly driven by corporate incentives and interests. (HOGEN 2017 181)



A considerable part (roughly around 50 percent, although this is hard to estimate and the percentages differ greatly year to year) of the oil that the PDVSA sells to Chinese companies is not shipped to China (Ferchen, 2013). Instead, Chinese companies sell it in the US market, that is geographically closer than their home country. This business mentality can also be seen in the CDB loans and oil deals with Brazil and Ecuador (Sanderson & Forsythe, 2013: 132–140). (HOGEN 2017 194)

As in Venezuela, a substantial part of the Ecuadorian oil sold to Chinese companies to service these loans is not shipped to China but sold to traders and imported into the US, that remains the main export destination for oil from Ecuador. This reselling has caused some debate in Ecuador, as the price when the state-owned company PetroEcuador sells oil to a befriended nation is a few dollars below the market price. It seems that this price difference offers the Chinese companies a nice profit at the cost of the Ecuadorian public sector, but because of the lack of transparency in the accounts of the actors involved (and in oil-trade markets in general), it is hard to estimate the amount of money involved. (HOGEN 2017 205)

pre-salt oil reservoirs. Petrobras had developed the technological skills to undertake this endeavour on its own, but lacked the necessary capital. One year after the announcement of the pre-salt deposits, Petrobras started searching for funding abroad. However, 2008 turned out to be a bad year for this, due to the global credit crunch. In November 2008, on his way back from an unfruitful trip to the US and Japan, Petrobras' chief executive officer, José Sérgio Gabrielli, stopped over in Beijing, where he met with the CDB president. Although the economic context was most unfavourable (with a freefall in oil prices, the sustainability of pre-salt exploration was hardly profitable), the CDB agreed to a loan of 10 billion USD. The 10 billion USD loan agreement was formally signed by the CDB and Petrobras in May 2009 during President Da Silva's visit to China. [alves 116]

The content arrangements have clearly been adapted to Brazil's institutional constraints, with only a minority share of the loan (3 billion USD) having been earmarked for the procurement of machinery and equipment from China.

In what turned out to be a meaningful move, shortly after the loan extension Petrobras offered Sinopec a partnership in two oil blocks located off the coast of northern Brazil (Pará-Maranhão



Basin: BM-PAMA-3 and BM-PAMA-8). It took a year of negotiations between the two companies before a final agreement was signed during Hu Jintao's visit to Brazil in April 2010, whereby Sinopec was formally given access to a 20 per cent stake in each block. The amount China paid for the stakes was not disclosed. [alves 117]

The 2009 deal was not aimed at infrastructure but rather at financing the development of the pre-salt reservoirs. Last, building on the experience with the GASENE credit line, the Chinese content was reduced to a minority parcel (30%), in order to cope with the local content restrictions imposed by the Brazilian regulations. [alves 121]

The extension of oil-backed loans should therefore be expected to remain a useful positive economic statecraft tool for China in pursuing its energy goals in both regions. The major difference between the regional strategies is that Chinese oil-backed loans extended to liberal institutional settings will tend to emphasise securing long-term supply over access to acreage, whereas in centralised settings these types of loans will most probably still aim to serve both goals. [alves]

Shortly after oil prices dropped to half their previous prices, China offered the Latin American countries a helping hand with which it had established strong oil relations in previous years: Venezuela, Brazil, and Ecuador.

In 2014 China replaced the United States as the world's largest importer of crude, and Latin America accounts for around 10 percent of China's massive demand for imported oil. (Hogen 2017 172) [LEMBRAR QUE NÃO SÓ O BRA RECEBEU EMPRÉSTIMOS COM QUEDA DOS PREÇOS DO PETRÓLEO]

The Chinese state controls as well as aligns the energy and finance sectors by appointing the top executives of state-owned companies and banks (by the CCP)... These and other forms of active support from the Export and Import Bank of China and the China Development Bank indicate a state-led synchronization of COCs and Chinese banks (Kong, 2010: 67–69; Kong & Gallagher, 2016). (HOGEN 2017 180)

Policy banks must ensure the dual aim of COCs: being commercially successful while also securing supplies. (HOGEN 2017 181)



The CDB ranking number 87 in Fortune's 2015 list of the world's largest companies. In 2010, when the financial crisis forced the World Bank, the Inter-American Development Bank, and the US Export-Import Bank to limit their activities, Chinese loan commitments jumped to \$37 billion. In effect, China temporarily surpassed the amount of loans provided by these traditional main channels for credits to Latin America (Gallagher, Irwin & Koleski, 2012). This happened again in 2015, when Latin America received 14 loans, valued at \$29 billion in total, as visualized in Figure 6.2. Since 2015 state-owned commercial Chinese banks have also commenced providing some large loans, but these are not included in Figure 6.2. The following sections will show that Venezuela, Brazil, and Ecuador have received the lion's share of Chinese loans, in various ways connected to oil. (HOGEN 2017185)

A particular Chinese way of working involves the making of package deals that include various agreements, investments, and/or loans, based on negotiations in which both governments do business for their state-owned companies. In this government-to-government model.

[EMPRESTIMO 2009] contrary to Washington-based financial institutions, China does not impose macroeconomic policy conditions on their loans or interfere in national affairs. Nevertheless, Chinese development banks have become more commercial and profit seeking, now often lending at commercial rates (Downs, 2011). The CDB rates can be higher than those of the World Bank, as was the experience of Brazil in 2009 and Ecuador in 2010 and 2011 (Kong & Gallagher, 2016: 26). (HOGEN 2017)

Because of the global crisis and lack of finance options at that moment, Petrobras has settled for this Chinese deal, even though it is relatively expensive. (HOGEN 2017 198)

[EMPRESTIMO 2009] Its US\$ 10 billion loan from CDB carried an interest rate of 2.8 percent over London Interbank Offered Rate (LIBOR), or roughly 3–4 percent.

[CRISIS PETROBRAS] Low prices of oil and other key commodities, partly caused by China's economic slowdown, caused Brazil's GDP to shrink by 4 percent in 2015. The social effects have fed wider civic discontent that has resulted in various large social mobilizations against the government. Petrobras has simultaneously been under investigation in Brazil and the United States for corruption. Evidence shows widespread money laundering and bribery. (HOGEN 2017 200)



in 2014 with a combination of the oil crisis, corruption charges, and Brazil's economic instability, Petrobras faced an increasingly precarious situation with falling credit ratings, share values, and production forecasts. (HOGEN 2017 201) [QUEDA DAS AÇÕES]

The China Export-Import (ExIm) Bank offered four large Brazilian companies funds to pre-finance the acquisition of Chinese (technology) equipment. [CHECAR] In the case of Petrobras, the loan will allow for importing high-tech. ships and oceanographical equipment, for which \$1 billion was indeed agreed upon in the first half of 2016. Furthermore, Petrobras was offered \$2 billion credit by the Industrial and Commercial Bank of China (ICBC) through the construction of the lease of two offshore oil platforms. (HOGEN 2017 201)

China has increasingly moved to diversify its natural resource base in recent years as part of an effort to mitigate exposure to political instability in a number of its major Middle Eastern and African crude suppliers. (Fitch p. 87)

Moreover, while securing crude has clearly been a main concern for China, we believe that an additional motivation is China's desire to secure service contracts with Petrobras and smooth the way for any Chinese companies looking to go into Brazil. With Petrobras investing heavily in the pre-salt development, which will require the use of new proprietary technology, Chinese companies have started seeking participation in pre-salt exploration projects, especially given possible technology connections with other offshore regions such as West Africa. (Fitch p. 87)

Set 2017 - A Petrobras aprofundou seu relacionamento com a China por meio de um acordo de cooperação estratégica com o CDB, que é o primeiro passo para a concessão de financiamento de US\$ 5 bilhões à companhia. Também será a base para a parceria em investimentos em toda a cadeia de petróleo e gás e a eventual concessão de crédito a empresas chinesas interessadas na compra de ativos da estatal.



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