Side Stepping the Malacca Strait Dilemma:

Exploring the Canadian Alternative to Mitigate China's Oil Insecurity

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The speaker started his presentation by highlighting the diversification process adopted by nations to mitigate their dependencies on any particular regions for their most crucial resources. Given the prevalent environment in global politics, it is imperative not just for China but to any nation to diversify the markets of their energy imports. China, world's second largest oil consumer, has been working on this strategy since a couple of decades. However, half of its oil imports still come from the volatile and unpredictable West Asian region. The recent US-Iran confrontation has exacerbated the unpredictability of this region. Most of West Asia's oil goes through the important choke point of Strait of Hormuz. Iran, in case of any physical confrontation with the US has the capability to halt any trade going through this route. The speaker highlighted the dependency of China on another important choke point, the Strait of Malacca. Most of East Asian nations including China's trade occur through this choke point. China depends on this particular choke point for its trade with Europe, Africa and most parts of Asia. To avoid the dependence on this choke point for its oil import, the speaker noted that China has adopted the strategy of diversification by investing almost $23 billion in Canadian Sand Oil. Apart from that, China has also built various oil and natural gas pipelines in Eurasian region.

In the process to diversify the destinations of its oil imports, China looks towards Canadian sand oil which provides an alternative in case of any hurdles to its oil supply from other regions. Canada has the third largest proved reserves of oil, only behind Venezuela and Saudi Arabia. At present, it is the fourth largest producer of oil. Most of its oil reserves are placed in the sands of Alberta province. Canada exports most of its oil to US Midwest market through the Trans Mountain oil pipeline, which has been operational since 1953. The speaker also pointed out that Canada is planning to build a new pipeline, which could be vital for supplying oil to other destinations such as China and other Asian markets. This project got the approval from Canadian government on 19 June 2019 and is expected to be operational in 2022 with a cost of US $ 12.6 billion.

The speaker highlighted the challenges and constraints faced by China and Canada over the viability of this investment. First, the Canadian environmentalists could pose a challenge to this project since it is going to pollute the nearby environment. Extraction of sand oil is costly as well as more prone to harm the environment. First Nations tribes that live around the source of Canadian sand oil are another major challenge face by this project. Many believe that their livelihood is significantly going to be affected by this project. Second, China lacks the advanced refining facilities for processing sand oil. Whether and how China gets the technology and facility for refining the Canadian Sand oil is a major hurdle to this investment. Third, the abundance of oil supply in global market also presents a challenge to this project. Since Canadian sand oil costs more and differs in quality from other oil sources, it is likely that China is going to use this as a substitute in case of emergency.

Final and the most important is the US-China trade confrontation that has the potential to not only affect this project, but the overall Canada-China relations. The trade confrontation between US and China, which started in mid-2018, has now become a major rivalry in every part of interaction between them. Canada, a neighbour and close US ally arrested Meng Wanzhou, the daughter of Huawei founder, Ren Zhengfei in December 2018 on the request of United States. She is also the CFO of Huawei and many believe that US is harassing the company to halt its rise and gain an upper hand in their ongoing trade talks with China. To an extent, the arrest of Meng Wanzhou and subsequent response from China by arresting two Canadian citizens, have negatively impacted Canada-China relations. Furthermore, in case of a full-blown US-China rivalry, it looks quite likely that Canada is going to side with its giant neighbour. In this scenario, the ties between Canada and China will significantly deteriorate along with the viability of this project.

With the investment of US $23 billion in Canadian Sand Oil through its state-owned companies, China is firmly diversifying its oil imports, despite the fact that investment in Canadian sand oil is quite risky and the initial investors from US pulled them out. Moreover, it costs China more compared to imports from other nations and is a longer route compare to West Asia and Africa. However, prevalent environment in world politics and geostrategic significance propelled China to diversify the destinations of its oil imports. As discussed above, most of China's oil comes from the volatile West Asian region and the renewed US-Iranian confrontations after US left the Joint Comprehensive Plan of Action (JCPOA) pact makes this region one of the most fragile regions of the world that has the potential to blow off at any time. Given this unpredictability in world politics, Canadian sand oil is a valuable source for China despite its economic impracticality.

The speaker ended the presentation by noting that there is a long way to go before the realization of this project. However, the Canadian government's positive attitude and seriousness regarding the project is a good sign. During the finalization of this project, 156 conditions were presented to Canadian government to comply with. So far, government has been able to comply with most of the conditions along with continued negotiation with the First Nations tribes in order to realize this project.

One of the important questions raised during the discussion was whether Canadian oil is economical compared to West Asian oil. The speaker clarified that Canadian oil costs more compared to West Asian oil. However, investment in Canadian Oil by China is not about getting cheap oil rather it is mainly concerned to reduce its dependency over one region. On the question of the impact of this project on the cultures of First Nations tribes, the speaker pointed out that legal battles are being fought against this project and so far, three appeals regarding this have been rejected by Federal Court. Meanwhile, the speaker in response to a question on Chinese investments highlighted that heavy investments have been made by China's big three oil giants CNOOC, Sinopec and PetroChina in Canadian oil.

This report was prepared by Mohd. Adnan, Research Intern, Institute of Chinese studies, Delhi.

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