

Opening Statement
Michael Wessel, Hearing Co-Chair on Energy
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Thank you, Commissioner Blumenthal, and thanks also to the Chairman and Vice Chairman for their remarks as well.

Today's session will focus on China's interest in, and impact on, world energy markets. It is clear that China's rising thirst for energy resources and, indeed, natural resources of all kinds, is a key driver behind its economic, foreign policy and military posture.

There are many challenges on the international stage at this point and the driving factors behind these conflicts and tensions are diverse. But, it is important to recognize that competition for energy is, and increasingly will be, a potential point of conflict in the future.

China has already chosen a different path in terms of energy and resource acquisition than that of the United States and other major consuming nations. Despite China's desire to be treated as a market economy in many ways – a desire it has, in fact, made clear to the U.S. and other nations – in the energy arena, it is pursuing a different course. China wants to own the energy resources itself and maximize the security of its energy supplies and minimize its participation in world energy markets. That's an understandable approach. But, what impact does it have on other nations?

Last July, we saw China National Offshore Oil Corporation — or CNOOC — attempt to purchase the U.S. oil company Unocal, a move that, if successful, would have made China the owner and controller of Unocal's reserves at the wellhead. This year we have seen China continuing to pursue wellhead acquisitions in other countries. From June 2005 to June 2006, China signed thirteen agreements in nine countries for investments in upstream reserves. These thirteen acquisitions, totaling \$11.97 billion in one year alone, represent an assertive trend aimed at securing petroleum reserves for China's exclusive use.

What does this mean, in reality? First, it means that China has embraced a number of regimes whose interests are adverse to our own: Iran and Sudan to name but two. China has supplied weaponry, strengthened ties to these nations and has protected them from world pressure in venues like the United Nations. In return, China has been given preferential access to their energy reserves. We can expect that China will engage in similar efforts elsewhere around the globe.

Second, it means that as world energy demand continues to rise but reserve additions do not rise at the same rate, China's effort to procure and restrict supplies only for itself will put increasing pressure on world markets and price. Energy may be fungible. But, rising demand coupled with inadequate reserve additions means more competition for fewer resources among other nations who do act as free market purchases. Certainly, the conflict in the Middle East and political uncertainty elsewhere has had an impact on the energy markets and price speculation. But, I do not believe that it is the total answer. China *is* having an impact on world energy prices.

China alone is not responsible for the high price of oil. Our own energy policies are in need of dramatic reform. But, China does play an increasingly important role in world energy markets and that is what we are here today to discuss.

And, as we seek to redefine our own approaches to energy, we need to do so cooperatively with other nations. On this end, China's "go-it-alone" strategy will only compound the world's problems and increase tensions.

We also remain concerned about the country's inefficient consumption of energy and the environmental ramifications of that use. China's energy policy-making body, the National Development and Reform Commission, reported in 2005 that China's energy efficiency falls 10 percentage points below the average of developed nations, indicating a significant waste of resources. Inefficient energy use forces China's demand higher than it otherwise would be, and will complicate the task of reducing the growth in that demand. This will continue to drive China's acquisition of resources.

Petroleum is not the only pressing energy issue involving China. As the New York Times reported in June, China's extensive utilization of coal, the burning of which produces sulfur dioxide, contributes to approximately 400,000 premature deaths per year and poisons the water supply with acid rain. Not only does this environmental threat pose problems for China's health and development, but China's emissions carried by wind and rain also create crossboundary effects felt in South Korea, Japan, and as far away as the United States. The United States has a significant interest in China's progress toward more efficient and environmentally benign energy consumption.

The U.S.-China Commission sees this situation as an opportunity for international cooperation and technological exchange to improve both the efficient use of energy as well as the advancement of environmental controls. Specifically, the Commission advocated in its 2005 Annual Report "...the initiation of new cooperative efforts with China to (1) increase the efficiency of its energy use...(2) shift some reliance on oil to coal (using advance clean coal technology) and natural gas; and (3) explore and pursue the economic, technical, and logistical feasibility of using renewable energy sources..." It is my understanding the Department of Energy has sponsored exchanges at various governmental levels, including the U.S.-China Energy Policy Dialogue and the U.S.-China Oil and Gas Industry Forum. I hope witnesses today will offer suggestions on what can we do to improve the opportunities for cooperation—taking things beyond discussion to practical implementation.