A Strategic Sham: Explaining Beijing's Feigned Interest in Iranian Oil and Gas Resources

Jackson Neagli

ABSTRACT

With the passage of the Joint Comprehensive Plan of Action, Iran is expected to ramp up oil and gas production as foreign firms and capital re-enter the Islamic Republic. Beijing is sure to be a target for future Iranian oil and gas exports, as China is projected to drive global energy demand growth into the mid-2030s or 2040s. The completion of three crucial infrastructure projects—China's One Belt One Road initiative, the China-Pakistan Economic Corridor, and the Iran-Pakistan pipeline—would bundle Iranian oil and gas exports to the PRC, and create path dependency-inducing infrastructure links tethering Iranian production to Chinese consumption for the long term. China has expressed interest in these infrastructure linkages, which are appealing due to the relative security of the overland Iran-China export route. However, for Beijing, practical concerns—feasibility issues, competing infrastructure projects, and the diversity imperative of Chinese energy security strategy—militate strongly against the attractiveness of deepening Sino-Iranian energy ties. This article explores the likelihood of realizing Sino-Iranian energy infrastructure linkages, eventually concluding that Beijing's interest in developing Sino-Iranian infrastructure linkages was likely feigned, a geostrategic maneuver intended to put downward price pressure on Chinese oil and gas imports from other international producers, namely Russia and Saudi Arabia.

INTRODUCTION

Spurred by massive infrastructure build outs and urbanization campaigns, China will drive global energy demand growth into the mid-2030s or 2040s.[1] The EIA's 2016 World Energy Outlook (reference case) predicts that Chinese natural gas demand will increase from 5.1tcf in 2012 to 27.5tcf in 2040, constituting more than 25% of world gas demand growth over that period, and exceeding the projected demand growth of OECD states by 2.3tcf.[2] The same EIA projections predict that Chinese liquid fuel consumption will increase from 10.2 mbbl/day in 2012 to 16.4mbbl/day in 2040, 10.3 times the liquid fuel consumption increase of OECD states over the same period.[3] China, however, lacks the domestic hydrocarbon resources to quench its prodigious appetite: China imports 30% of its domestic gas consumption and nearly 55% of its domestic oil consumption.[4]

As OECD oil and gas demand continues to decline over the next two decades, hydrocarbon exporters will intensify their scramble to secure a place in China's hydrocarbon import regime in order to harness their own economies to Chinese growth. Iran, a hydrocarbon-rich state with historic economic ties to China, will attempt to capitalize on Chinese oil and gas demand growth by tethering its considerable reserves to Chinese demand sources. However, following the UN's 2016 implementation of the Joint Comprehensive Plan of Action ("JCPOA"), Iran will face a series of unique challenges in staking its claim to a slice of Chinese hydrocarbonmarket share.

Whether Iran retains or expands its share of Chinese oil and gas markets over the next two decades as other low cost producers turn to Asian markets will depend on the completion of path-dependency-inducing infrastructure projects that would bundle Iranian oil

and gas exports to the PRC, shackling Iranian supply to Chinese demand in the long term. The success or failure of three infrastructure projects in particular - China's One Belt One Road Initiative (OBOR), the China-Pakistan Economic Corridor (CPEC), and the Iran-Pakistan Pipeline (IP pipeline) – will dictate whether or not Iran is able to expand its share of Chinese hydrocarbon markets over the next two decades.

China has expressed an interest in developing all three of these crucial oil and gas infrastructure projects. However, there is a substantial possibility that Chinese overtures to Iranian producers and Pakistani intermediaries are disingenuous: current Sino-Russian gas cooperation on the Power of Siberia pipeline, the proliferation of Sino-Saudi joint refining ventures, and the waning salience of China's "Malacca dilemma," suggest that China has little practical incentive to devote time and resources (not to mention political capital) towards Sino-Iranian oil and gas infrastructure. Especially in light of China's current strategy of pursuing energy security through diversification, this investigation finds it probable that China's apparent interest in Iranian energy resources is a geostrategic power play designed to put downward pressure on the price of China-bound oil and gas imports from other suppliers – namely Saudi Arabia and Russia. That Riyadh and Moscow's state owned oil enterprises are in the midst of a well-publicized price war to enhance their Chinese market share supports this hypothesis.[5] Additionally, Chinese NOCs have a history of initiating attractive oil and gas import agreements (in this case, bundling Iranian oil and gas exports), only to balk once a more attractive supplier makes a counter-offer.

This investigation of Iran's potential future share of Chinese oil and gas markets unfolds in four sections. The first section provides background information on the current state of Sino-Iranian energy relations. The second section highlights China's "Malacca Dilemma," and considers the strategic importance of Iranian hydrocarbon resources to the Chinese import regime. The third section considers OBOR, CPEC, and the IP pipeline, and examines how, if completed, these three infrastructure projects would enhance Sino-Iranian oil and gas trade. The final section presents evidence suggesting that the three infrastructure projects are likely to fail, and that Chinese overtures to Iranian oil and gas producers are a strategic measure intended principally to put downward pressure on Saudi and Russian oil and gas imports.

THE CURRENT STATE OF SINO-IRANIAN ENERGY RELATIONS

Iran is home to some of Beijing's largest upstream projects: Between 2005 and 2010, Chinese firms signed contracts worth $120 billion in the Iranian energy sector.[6] However, progress on these projects has been underwhelming – Tehran suspended China National Offshore Oil Company's (CNOOC) North Pars development contract in 2011 for lack of progress, China National Petroleum Company (CNPC) withdrew from South Pars in 2012, and CNPC and Sinopec are both reportedly behind schedule in their respective development of the Azadegan and Yadavaran oil fields.[7] In recent years, sanctions have made it difficult for Chinese NOCs to invest in Iran while simultaneously forcing the Iranian government to forgo the replacement of hydrocarbon industry capital, resulting in massive inefficiencies.[8] During the late UN sanctions period (2010-2016), China remained the only major consumer of Iranian oil resources.[9] Though Chinese imports of Iranian oil declined during the late sanctions period, plummeting 20% between 2011 and 2012, Sino-Iranian energy trade did not suffer unduly – in 2012, Iranian oil still constituted 8% of Chinese crude imports.[10]

China played a critical role in the UN Security Council's passage of the JCPOA, which provides Iran substantial relief from both American and UN sanctions.[11] China being the largest export destination for Iranian oil, many speculated that the deal would lead to a massive boom in Sino-Iranian energy trade.[12] Indeed, less than a month after the JCPOA's implementation in January 2016, Chinese President Xi Jinping signed a

memorandum of understanding on a 10-year, $600 billion Sino-Iranian bilateral trading framework.[13] However, as figures three and four of the Appendix display, JCPOA implementation has not had an immediate impact on the Sino-Iranian crude trade.

Iranian crude exports to China have not substantially increased following JCPOA implementation for two reasons. First, the Iranian oil industry, which has been off limits to foreign investors for years, remains desperately outdated and inefficient, and thus incapable of rapidly ramping up production.[14] Second, China has begun to diversify its import sources in order to reduce the geopolitical risk posed by supply disruption from any one exporter.[15]

The present odds are stacked against Iran as it attempts to carve out a larger share of Chinese oil markets. Through September 2016, Iran accounts for just over 8% of Chinese crude imports, as opposed to roughly 14% apiece for both Russia and Saudi Arabia.[16] Iran's share of Chinese oil imports has hovered around 8% since 2012, when it plummeted from 11% in 2011 due to sanctions.[17]

Recent technological advancements in oil and gas production and transport do not favor Iran's chances of breaking into Chinese markets. The increasing accessibility of unconventional oil and gas reserves have the effect of "moving" global reserves away from Iran, while the growth of LNG trade is steadily globalizing currently regional gas markets, decreasing the importance of Iran's strategic location vis-à-vis China.[18] While Iran is seeking to "join the international LNG club" according to National Iranian Gas Export Company (NIGEC) managing director Alireza Kameli, assessments from the European Commission suggest that Iran's first LNG shipments remain over two years away.[19]

Growing global gas demand also undermines Iran's future position in world markets.[20] Because sanctions have prevented Iran from developing a regional pipeline network or LNG infrastructure, as global gas demand has increased, countries have locked themselves into long-term LNG contracts or built path-dependency-inducing pipeline linkages to fulfill their gas demand.[21] Thus, increasing global gas demand has crowded Iran out of future market share while simultaneously lowering gas prices, especially in Asia.[22]

IRAN'S ENERGY SECURITY SIGNIFICANCE – THE MALACCA DILEMMA

Oil supply security is China's primary energy security concern.[23] Approximately 80% of China's oil imports pass through the Strait of Malacca, a maritime choke point patrolled by a substantial US Navy presence.[24] China's "Malacca Dilemma" – finding oil (and LNG) import routes that circumvent US-controlled Malacca – has played a defining role in Chinese energy security strategy since 2003, when President Hu Jintao elevated it to public salience.[25]

Tehran is in a position (literally) to benefit long-term from Chinese energy security concerns. Straddling the hydrocarbon-rich Persian Gulf and Caspian Sea regions, Iran's location affords it great importance in the eyes of Chinese energy security strategists as a potential overland pipeline route for Persian Gulf and Central Asian oil and gas.[26] Currently, China is serviced by three oil pipelines – connected to Russia, Kazakhstan, and Myanmar – accounting for only 1.1mbbl/day, less than 15% of 2015 imports.[27] If Iran is to capitalize on skyrocketing Chinese oil and gas demand, it will do so because of the relative security of its export routes and China's (unguaranteed) continuing preoccupation with the "Malacca Dilemma." However, the critical infrastructure linkages that would allow Iranian resources to circumvent Malacca all remain in the planning stages. The construction of these crucial path-dependency-inducing infrastructure projects will determine whether Iran gains a hefty, and potentially irreplaceable, share of future Chinese fossil fuel imports.

CRUCIAL INFRASTRUCTURE LINKAGES: OBOR, CPEC, AND THE IP PIPELINE

This section provides a brief introduction to the three infrastructure projects – OBOR, CPEC, and

the IP pipeline – that must be completed if Iran is to substantially expand its share of Chinese hydrocarbon markets in the next two decades.

One Belt One Road ("OBOR")

OBOR, proposed by China in 2013 as a means of connecting Eurasian economies into a PRC-led economic zone, envisions a road, rail, and pipeline infrastructure network stretching from China to Central Asia and eventually Europe.[28] China has already earmarked $115 billion for OBOR and associated projects, and adopted a domestic policy framework to incentivize private Chinese investment for infrastructure projects along the route.[29] It is no accident that many of the counties along the OBOR route (Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Iran) contain substantial hydrocarbon resources.[30] Iran is a critical node in China's OBOR strategy:[31] the Kazakhstan-Turkmenistan-Iran North-South railway was completed in 2014,[32] and in early 2016, China finished the Zhejiang-Tehran railway, which slashes freight transit from Eastern China to Iran by more than 30 days.[33]

OBOR's current pipeline infrastructure (the China-Central Asia pipeline network), through it does not yet extend to Iran, offers Iran an opportunity to access the network of pipelines feeding Chinese gas consumption. The construction of pipelines often necessitates the prior construction of parallel roads or railroads: If Iran plans to connect itself to China via a direct pipeline link, the Zhejiang-Tehran railway represents a necessary first step towards construction. Additionally, the North-South railway affords Iran a potential infrastructure bridge to the China-Central Asia gas pipeline network and the Kazakhstan-China oil pipeline.

The China-Pakistan Economic Corridor ("CPEC")

CPEC comprises a $46 billion, 3000km economic project intended to connect Western China to Pakistan's Gwadar port on the Arabian Sea.[34] CPEC includes a natural gas pipeline connecting Kashgar, China to an LNG terminal at Gwadar.[35] The completion of CPEC's LNG terminal and pipeline would allow Chinese gas imports to circumvent the Strait of Malacca.

Iran's participation in CPEC would have positive implications for both China and Pakistan: electricity-poor Pakistan would benefit from a relationship with its hydrocarbon-rich neighbor, while Beijing would benefit greatly from the connection of Iranian gas reserves to CPEC's pipeline project.[36] JCPOA implementation sent Pakistani trade representatives scrambling to Tehran with the intention of winning Iranian business interests, and Iran has since agreed to consider CPEC participation.[37]

The Iran-Pakistan Pipeline ("IP")

If the CPEC pipeline succeeds, the IP gas pipeline will complete a critical infrastructure link between Iran and China. In 2013, Iran and Pakistan agreed upon the $1.5 billion IP pipeline, which would connect Iran's South Pars field to Nawabshah via Gwadar, but sanctions put the project on hold.[38] Iran has already completed its 560-mile portion of the pipeline, but the remaining 50 miles between Gwadar and the Iranian border (already connected by road) remain incomplete.[39]

JCPOA implementation sparked renewed interest in the IP pipeline. So far, Iran has opted not to exercise the agreement's penalty clause for Pakistan's failure to complete its end of the project, indicating that Tehran remains keen on the pipeline.[40] Additionally, China has agreed to help Pakistan build its 485-mile section of the pipeline, which is expected to be complete by 2018.[41]

While energy-poor Pakistan presents a substantial market for Iranian gas, Tehran understands the larger prize at stake. Both Iran's ambassador to China and the managing director of the National Iranian Gas Company (NIGC) have expressed interest in extending the IP pipeline to China, likely through connection to the CPEC pipeline at Gwadar.[42]

DISCUSSION AND CONCLUSION: THE GEOSTRATEGY OF FEIGNED SINO-IRANIAN ENERGY COOPERATION

Iran's connection to the OBOR pipeline network and the completion of the CPEC and IP pipelines would tether Iranian hydrocarbon production to Chinese consumption, carving Iran a foothold in China's domestic energy market. Unfortunately for Tehran, the near-term completion of these projects appears unlikely, due to (1) competing infrastructure projects, (2) feasibility issues, and (3) the waning salience of the "Malacca Dilemma." These strong disincentives against Sino-Iranian energy cooperation, combined with Chinese firms' history of leading on potential energy exporters, suggest that Beijing's energy overtures to Tehran were disingenuous. The currently-raging price war between China-bound Russian and Saudi crudes hints that the goal of feigned Sino-Iranian energy cooperation was to put downward pressure on oil prices from two of China's key suppliers.

Competing Infrastructure Projects

Competing infrastructure projects constitute the largest disincentive to the completion of OBOR and the CPEC and IP pipelines, as competing projects have the potential to lock China into alternative import relationships rendering OBOR, CPEC, and the IP pipeline redundant. Several infrastructure projects – particularly, Sino-Saudi refining ventures, the Power of Siberia pipeline, and the China-Central Asia pipeline – constitute potential spoilers for Iran.

Sino-Saudi Joint Refining Ventures

China's largest crude supplier for the past decade, Saudi Arabia occupies a good position to expand its share of the Chinese import market.[43] Since the early 2000s, Aramco has pursued a strategy of chaining Saudi production to Chinese consumption through joint refining ventures with Chinese NOCs.[44] By investing in Chinese refineries equipped for Saudi crudes, the Kingdom has secured itself a customer base in one of the world's most rapidly expanding energy markets. In 2007, Sinopec (50%), Aramco (25%), and ExxonMobil (25%) partnered on a refinery equipped for Saudi crude in Fujian, China, expanding its output by 200,000bbl/day.[45] Aramco is currently engaged with CNPC regarding the construction of additional joint venture refineries in Yunnan, Qingdao, and Sichuan provinces.[46] While Saudi Arabia's expanding share of China's downstream petroleum market does not necessarily preclude Iranian infrastructure projects, Sino-Saudi refining ventures shrink the market for Iranian exports.

The Power of Siberia

In May 2014, Gazprom and CNPC signed a 30-year sales agreement to supply China with eastern Russian gas via the Power of Siberia pipeline.[47] The 3000km project, which began construction in September 2014, will provide China with 38bcm (1.3tcf) per year after its 2019 completion.[48] If the Power of Siberia and other currently approved pipelines and purchase contracts (none include Iran) go ahead, these agreements alone would cover 75% of Chinese gas imports up to 2030, leaving Iran and other (LNG-capable) suppliers to squabble over the last 25%.[49] While not a death sentence for Sino-Iranian gas pipeline projects, the Power of Siberia substantially crowds Iran's potential share of the Chinese gas market.

The China-Central Asia Pipeline

Finally, the current state of OBOR's China-Central Asia gas pipeline network militates against Iranian gas exports to China through OBOR pipeline infrastructure. This seems counterintuitive – Iran is already connected to Turkmenistan, the primary exporter in the pipeline network, via the Dauletabad-Sarakhs-Khangiran pipeline, so it would appear simple for Iran to use the DSK route as an entrée to China's Central Asian gas import network. However, due to Iran's sanctions-crippled production infrastructure and domestic opposition to gas exports, Iran currently

imports gas from Turkmenistan through the DSK pipeline.[50] Because Turkmenistan profits greatly from its exports to Iran, has massive (256tcf)[51] reserves, a history of price disputes with Iran, and most importantly, a desire to increase its Chinese market share,[52] it is unlikely that Turkmenistan (and therefore the greater China-Central Asia pipeline network) will ever become an Iranian gas export outlet.[53]

Other Noteworthy Projects

A host of additional infrastructure projects threaten OBOR and the CPEC and IP pipelines. Washington, opposed to the IP pipeline, backs the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI), which, if completed, would disincentivize Pakistan's completion of the IP pipeline.[54] The respective 2013 and 2014 completion of majority Chinese-owned gas and oil pipelines from Myanmar's Andaman coast to Yunnan province enable China to import up to 12bcm(.42tcf)/year of gas and 240,000bbl/day of oil around Malacca, eroding Iran's strategic significance while increasing Indonesia, Malaysia, and Brunei's Chinese oil and gas market shares at Iran's expense.[55] Finally, the proliferation of privately-owned "teapot" refineries equipped for Russian crude oil in Qingdao has contributed to a boom in Sino-Russian crude trade.[56]

Feasibility Issues

While OBOR is a relatively secure project, both the CPEC and IP pipelines face a key security issue threatening their feasibility: transiting Baluchistan. Baluchistan, Pakistan's southwestern province, remains underdeveloped and home to ethnic militants who demand autonomy over the region.[57] Gwadar, the southern terminus of the CPEC pipeline, is located in Baluchistan, and the IP pipeline would transit the whole of the province from west to east. Any attempt to build a pipeline through Baluchistan would face challenges posed by Baluch insurgents.[58]

The CPEC pipeline faces even graver feasibility concerns due to its proposed path through the Karakoram mountain range. Though a road currently exists from Pakistan to China through the Khunjerab pass, building a pipeline through mountainous terrain at over 4500m elevation poses unique challenges that will likely prevent short-term construction of the CPEC pipeline.

Malacca's Waning Salience

As China has embraced global markets, Beijing has come to accept China's economic reliance on international trade. In the Chinese oil industry, this acceptance of dependence on global markets is manifested by the slowly decreasing prominence of the "Malacca Dilemma" in China's oil import strategy. Beijing now understands that the United States also depends on the international oil market, and that a Malacca blockade (or series of interdictions) would deeply harm American interests, as well as those of Washington's allies.[59] The recent proliferation of bilateral Sino-American fora like the Strategic Economic Dialogue, Environmental Cooperation Framework, and Strategic Security Dialogue further reassure Beijing that an established framework exists to diplomatically resolve Sino-American disputes, making a Malacca blockade even more unlikely.[60] Though the Malacca dilemma remains an important consideration in Chinese energy security strategy, as it decreases in salience, Beijing will become less willing to pay a premium for hydrocarbon exports that circumvent the Strait, thus dis-incentivizing Beijing's pursuit of expensive infrastructure projects to tap into "strategically located" Iranian resources.

More broadly, since the late 1990s, China's energy security strategy has evolved from one of attempted autarky to diversification. In 1997, then-Premier Li Peng called for "Any and all means…to achieve the broader goal of diversifying the sources of China's energy supply."[61] Subsequently, Chinese NOCs have expanded exploration and production activities to more than 20 countries with the aim of mitigating the potential impact a supply disruption from any single supplier

state.[62] By constructing OBOR and the CPEC and IP pipelines, and bundling Iranian oil and gas imports, Beijing would create a massive path dependent import relationship with a single state (Iran), thus controverting the diversity of supply imperative at the core of modern Chinese energy security strategy, and granting Tehran substantial political leverage over Beijing. If Chinese plans for Sino-Iranian energy cooperation are genuine, their execution would constitute a massive tactical blunder by Chinese energy security standards.

Conclusion: Beijing's Feint to Tehran Prods Moscow and Riyadh

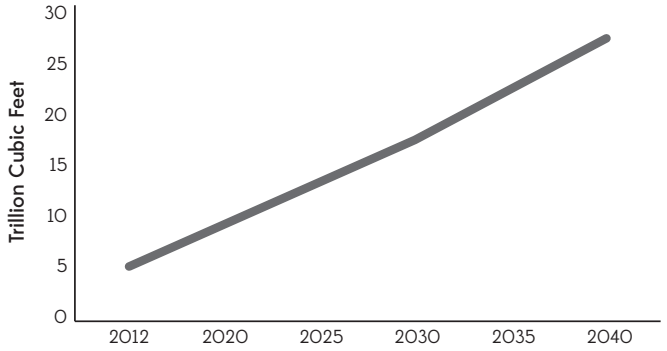
Chinese state-owned firms have a history of feigning interest in attractive export agreements with international suppliers to strengthen their bargaining position vis-à-vis other exporters. CNPC's recent failure to follow through with the Power of Siberia-2 pipeline and Line D of the China-Central Asia pipeline exemplify this strategy. In 2015, CNPC indefinitely delayed construction on Power of Siberia-2, a pipeline planned to transport Russian gas to China via the so-called "western route."[63] Similarly, in 2017, after more than a year of delays, CNPC finally suspended line D of the China-Central Asia pipeline, effectively cutting Uzbekistan, Tajikistan, and Kyrgyzstan out of China's Central Asian gas import scheme.[64,65] The negotiation of these abortive gas infrastructure projects took place in the midst of a softening of East Asian energy markets, as China sought to tap into the emerging Australian LNG export market and poach Middle-Eastern LNG imports no longer required by Japan as Tokyo restarts the country's nuclear generation program.[66] By negotiating contracts with many exporters at the same time, China successfully pressured all potential suppliers to keep prices low. In 2015, Qatargas, a longtime LNG supplier of Japan, made concessions to PetroChina on an existing gas contract by skewing deliveries towards the high demand winter months.[67] China benefited again from its strong bargaining position in 2016, when it agreed to a 10-year, 650,000 metric ton per-annum LNG deal with Chevron, expected to be fulfilled by Australia's Gorgon, Wheatstone, and North West Shelf fields.[68]

In the case of feigned Sino-Iranian energy cooperation, Beijing's aim was likely to strengthen its bargaining position with respect to its Russian and Saudi export partners. By threatening to import Iranian oil and gas, China threatened to decrease its demand for Russian and Saudi hydrocarbons. Rather than call Beijing's bluff, Moscow and Riyadh appear to have gone all in – in order to enhance their respective attractiveness to Chinese buyers, and thus secure greater shares of skyrocketing Chinese energy demand, Russia and Saudi Arabia are in the midst of a well-publicized crude oil price war.[69] Gazprom responded to China's apparent interest in Iranian gas exports by cancelling its proposed LNG terminal at Vladivostok (which would have served primarily Japan and South Korea) in favor of the Power of Siberia pipeline, which will benefit China immensely.

Thus, it appears that China's apparent interest in Iranian energy resources following the JCPOA constitutes little more than leverage for China's negotiations with other global energy producers. Even if Beijing were genuinely interested in Iranian oil and gas, the completion of the OBOR, CPEC, and IP pipeline infrastructure linkages would remain questionable due to feasibility issues, competing infrastructure projects, and the diversity-oriented nature of Chinese energy-security strategy. As Chinese oil consumption increases towards 2040, Iran's China-bound oil exports will remain steady, but overall Iranian oil market share will likely decrease as the likes of Saudi Arabia and Russia expand their respective shares of the Chinese oil market. It is unlikely that Iran will become a substantial supplier of gas to China until it develops LNG infrastructure, which will be difficult given domestic opposition to gas exports,[70] and continuing American sanctions against financial entities doing business in Iran. Even if Iran develops substantial LNG export capacity in the next two years, (as NIGEC has promised), Iranian LNG exports would constitute a diversification of Chinese gas import strategy rather than its centerpiece, a location occupied by the Power of Siberia and China-Central Asia pipelines.[71]

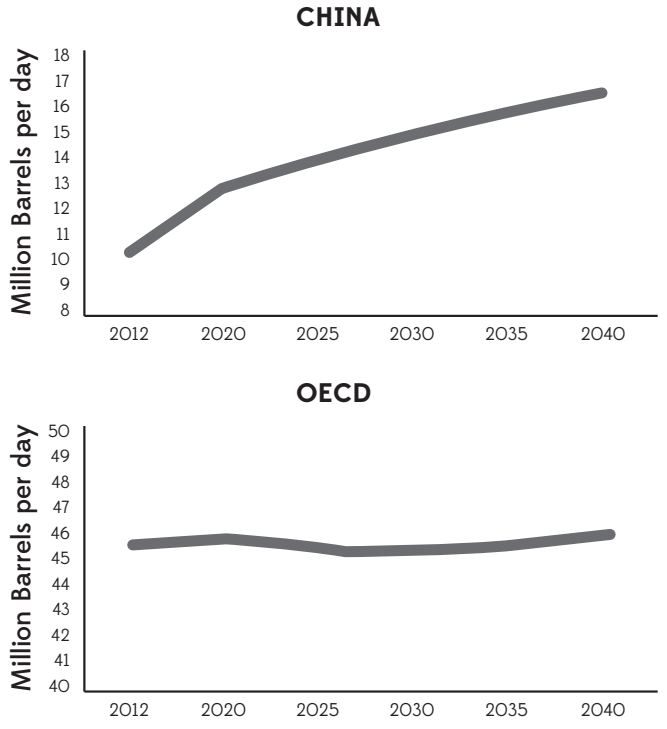
APPENDIX

Figure 1. Chinese National Gas Demand through 2040 (EIA Projection)



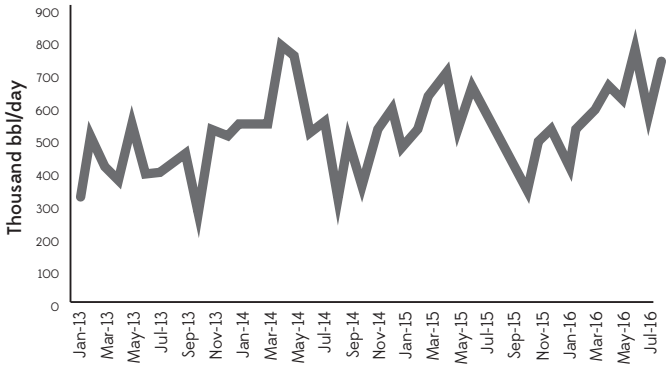
Source: "Chapter 3. Natural Gas," in International Energy Outlook 2016. U.S. Energy Information Administration Independent Statistics and Analysis, May 11, 2016. (Reference Case)

Figure 2. Chinese Liquid Fuels Consumption through 2040 vs. OECD Liquid Fuels Consumption through 2040



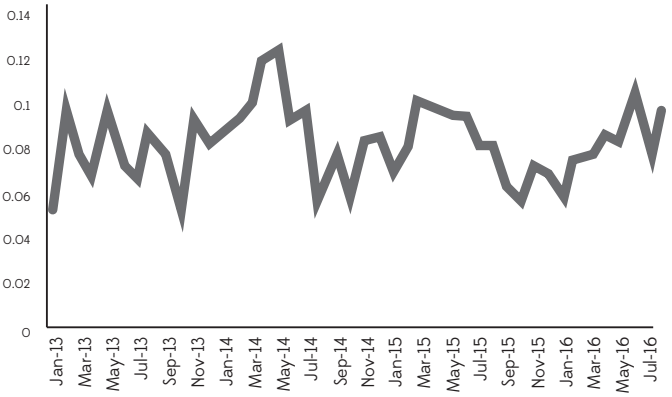
Source: "Chapter 2. Petroleum and other liquid fuels," in International Energy Outlook 2016. U.S. Energy Information Administration Statistics and Analysis, May 11, 2016. (Reference Case)

Figure 3. Chinese Crude Imports from Iran



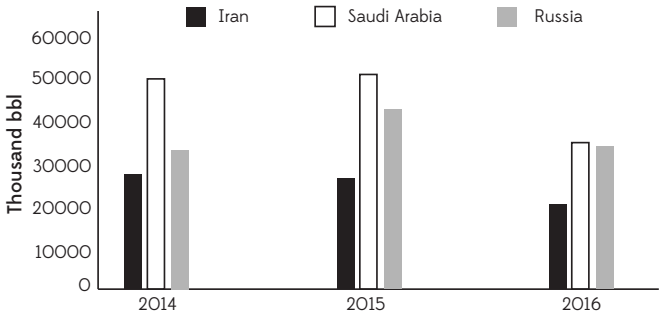
Source: "Asia's Iranian Crude Oil Imports." Reuters Graphics. October 2016.

Figure 4. Iranian-Origin Crude Exports as a Proportion of Total Chinese Crude Imports



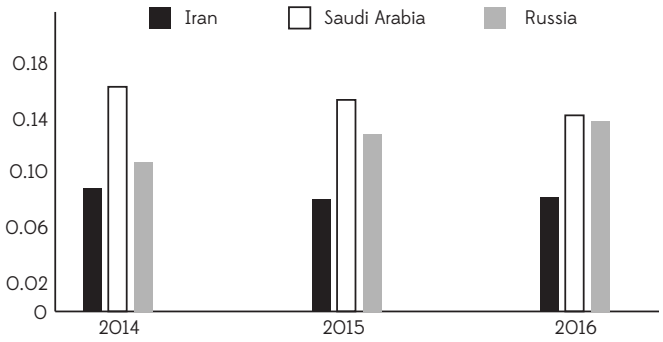
Source: Iranian export data to China from "Asia's Iranian Crude Oil Imports." Reuters Graphics. October 2016; Total Chinese import data from "JODI-Oil World Database," JodiOil, November 20, 2016.

Figure 5. Iranian, Saudi, and Russian Crude Exports to China: 2014-2016



Source: Import data by country from "Monthly Customs Reports," China Customs Statistics, 2016; Total Chinese import data from "JODI-Oil World Database," JodiOil, November 20, 2016. 2016 data through August.

Figure 6. Crude Imports from Iran, Saudi Arabia, Russia as a Proportion of total PRC Crude Imports



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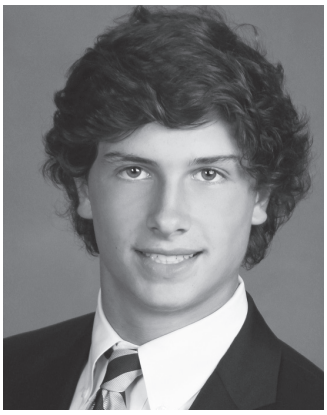
ABOUT THE AUTHOR



Jackson Neagli

JUNIOR, BROWN COLLEGE
ASIAN STUDIES & POLICY STUDIES

Jackson wrote this manuscript in Fall 2016 for POLI 401: Energy Policy. He has been conducting research on China and Chinese energy strategy since his freshman year at Rice. Given Beijing's fervent support for the JCPOA, and the pre-existing oil trade between China and Iran, he wanted to explore how the re-opening of Iran to world markets might affect Sino-Iranian energy trade. To his surprise, he found that China's interest in increased oil and gas imports from Iran made little sense from a cost-benefit perspective. It was only when he connected the Russia/Saudi Arabia price war to China's apparent interest in Iranian resources that he realized Beijing's overtures to Tehran had ulterior motives. He would like to extend sincere thanks to Dr. Steven W. Lewis and Dr. Jim Krane for reviewing this manuscript and offering their extremely insightful expert feedback.