

China Rushes to Complete \$100B Deal With Iran

By Peter S. Goodman
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SHANGHAI, Feb. 17 -- China is hastening to complete a deal worth as much as \$100 billion that would allow a Chinese state-owned energy firm to take a leading role in developing a vast oil field in Iran, complicating the Bush administration's efforts to isolate the Middle Eastern nation and roll back its nuclear development plans, according to published reports.

The completion of the agreement would advance China's global quest for new stocks of energy. It could also undermine U.S. and European initiatives to halt Tehran's nuclear plans, possibly generating friction in Beijing's relations with outside powers.

Caijing, a respected financial magazine based in Beijing, reported on its Web site on Thursday that a Chinese delegation comprised of officials from the National Development and Reform Commission -- a top economic policy body -- intends to visit Iran as early as next month to conclude an agreement. The deal would clear China Petrochemical Corp., also known as Sinopec, to develop the Yadavaran oil field in southern Iran.

Beijing and Tehran are attempting to swiftly conclude a deal in the next few weeks, ahead of the possible imposition of international sanctions against Iran, according to a report published in Friday's editions of The Wall Street Journal. The report relied upon unnamed Iranian government officials. Sanctions could hinder Chinese investments in Iran.

Chinese officials declined to comment, and calls to Sinopec's offices went unanswered. In a written statement, the Iranian Embassy in Beijing asserted that the two nations have been working together on energy development, "following the rule of mutual benefits and respect in all bilateral cooperation."

A deal would cement a memorandum of understanding signed by China and Iran in October 2004. The framework agreement pledges that Sinopec will develop the Yadavaran field in exchange for the purchase of 10 million tons of liquefied natural gas

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Analysts in China said the deal should primarily be seen as part of Beijing's global reach for new energy stocks to fuel its relentless development -- a drive that has in recent years led Chinese companies to invest in Indonesia, Australia, Venezuela, Sudan and Kazakhstan. China is now locked into a high-stakes competition with Japan for access to potentially enormous oil fields in Russia.

But the speed with which China and Iran are moving to conclude their agreement and begin development appears to signal Beijing's intent to limit the United States-led drive for sanctions against Iran to curb what the Washington describes as Tehran's rogue effort to develop nuclear weapons.

As one of the five permanent members of the U.N. Security Council, China can veto a sanctions proposal within the international body, or at least threaten to do so to restrict the bite and breadth of such an initiative.

"The timing is really interesting," said Shen Dingli, an international relations expert at Fudan University in Shanghai. "China and Iran appear to be collaborating not only for energy development but also to increase the stakes in case sanctions are imposed. This is a subtle message that even if sanctions are passed, you could have limited sanctions without touching upon oil. China is saying, 'This is my cheese. Don't touch.' "

China's voracious appetite for energy is increasingly guiding its foreign policy. China has used the threat of a Security Council veto to limit sanctions against Sudan, the African nation in which China's largest energy firm, China National Petroleum Corp., is the largest investor in a government-led oil consortium. China is the largest buyer of Sudan's oil, as well as the largest supplier of arms to its ruling regime. The Sudanese government has been accused of massacring villagers to clear land for further energy development and of committing genocide in its efforts to crush separatist rebels in the western region of Darfur.

China's pursuit of an energy deal with Iran comes as Tehran has announced the resumption of its uranium enrichment program. Tehran says this work is merely aimed at generating energy, while the Bush administration asserts it is a precursor to the development of nuclear weapons and has been lobbying its allies to take a hard line while threatening sanctions.

China has joined the international chorus in urging Tehran to halt its nuclear plans. But China's aggressive pursuit of an oil deal with Iran underscores how energy security has become a paramount concern for Beijing at a time of relentless industrial

growth. Government forecasts show China's demands for imported crude oil swelling from about one-third of its total needs to about 60 percent by 2020.

Analysts assume that the Iranian field could produce as much as 300,000 barrels of oil per day, making it one of the larger overseas operations for a Chinese company. Sinopec would hold a 51 percent stake in the Yadavaran project, according to the Caijing report, while India's Oil and Natural Gas Corp. would hold 29 percent. The rest of the venture would be divided among Iranian companies and perhaps other outside investors.

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