China Invests Heavily In Sudan's Oil Industry

Beijing Supplies Arms Used on Villagers

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LEAL, Sudan -- On this parched and dusty African plain, China's largest energy company is pumping crude oil, sending it 1,000 miles upcountry through a Chinese-made pipeline to the Red Sea, where tankers wait to ferry it to China's industrial cities. Chinese laborers based in a camp of prefabricated sheds work the wells and lay highways across the flats to make way for heavy machinery.

Only seven miles south, the rebel army that controls much of southern Sudan marches troops through this sun-baked town of mud huts. For years, the rebels have attacked oil installations, seeking to deprive the Sudan government of the wherewithal to pursue a civil war that has killed more than 2 million people and displaced 4 million from their homes over the past two decades. But the Chinese laborers are protected: They work under the vigilant gaze of Sudanese government troops armed largely with Chinese-made weapons -- a partnership of the world's fastest-growing oil consumer with a pariah state accused of fostering genocide in its western Darfur region.

China's transformation from an insular, agrarian society into a key force in the global economy has spawned a voracious appetite for raw materials, sending its companies to distant points of the globe in pursuit -- sometimes to lands shunned by the rest of the world as rogue states. China's relationship with Sudan has become particularly deep, demonstrating that China's commercial relations are intensifying human rights concerns outside its borders while beginning to clash with U.S. policies and interests.

Sudan is China's largest overseas oil project. China is Sudan's largest supplier of arms, according to a former Sudan government minister. Chinese-made tanks, fighter planes, bombers, helicopters, machine guns and rocket-propelled grenades have intensified Sudan's two-decade-old north-south civil war. A cease-fire is in effect and a peace agreement is expected to be signed by year-end. But the fighting in Sudan's Darfur region rages on, as government-backed Arab militias push African tribes off their land.

China in October signed a $70 billion oil deal with Iran, and the evolving ties between those two countries could complicate U.S. efforts to isolate Iran diplomatically or pressure it to give up its ambitions for nuclear weapons. China is also pursuing oil in Angola.

In the case of Sudan, Africa's largest country, China is in a lucrative partnership that delivers billions of dollars in investment, oil revenue and weapons -- as well as diplomatic protection -- to a government accused by the United States of genocide in Darfur and cited by human rights groups for systematically massacring civilians and chasing them off ancestral lands to clear oil-producing areas. The country once gave safe haven to Osama bin Laden and is listed by Washington as a state supporter of terrorism. U.S. companies are prohibited from investing there.

Part of a broader push by China to expand trade and influence across the African continent, its relationship with Sudan also demonstrates the intensity of China's quest for energy security and its willingness to do business wherever it must to lock up oil.

From Kazakhstan to the Middle East, past pursuits have ended in failure as Chinese firms have been aced out by the multinational titans that dominate the energy business. Japan appears set to claim Siberian stocks that China once thought were in hand. The U.S.-led war in Iraq has thrown Chinese oil concessions in that country into doubt.

The pressure to find new sources of oil has grown as China has swelled into the world's second-largest consumer and as production at the largest of its domestic fields is declining. According to government statistics, China's imports have grown from about 6 percent of its oil needs a decade ago to roughly one-third today and are forecast to rise to rise to 60 percent by 2020.

"China confronts foreign competition," said Chen Fengying, an expert at the China Contemporary International Relations Institute, which is based in Beijing and affiliated with the state security system. "Chinese companies must go places for oil where American [and] European companies are not present. Sudan represents this strategy put into practice."

China National Petroleum Corp. owns 40 percent -- the largest single share -- of the Greater Nile Petroleum Operating Co., a consortium that dominates Sudan's oil fields in partnership with the national energy company and firms from Malaysia and India.

From its seat on the United Nations Security Council, China has been Sudan's chief diplomatic ally. In recent months, the council has neared votes on a series of resolutions aimed at pressuring Sudan's predominantly Arab government to protect the African tribes under attack in Darfur and stop support for militias by threatening to sanction its oil sales. China has threatened to veto such actions while watering down the threat of oil sanctions.

"China has a long tradition of friendly relations with Sudan," Wang Guangya, China's ambassador to the U.N., said in a recent interview in New York. He confirmed China's veto threats, though he dismissed as "categorically wrong" suggestions that oil interests were a factor, asserting that the resolutions would have eliminated the Sudan government's incentive to cooperate. China -- itself often criticized on human rights issues -- has a philosophical predisposition against outside pressure.

But Chinese diplomatic experts say oil interests clearly played a role in Beijing's actions at the United Nations.

"Oil from Sudan makes up one-tenth of all of China's imported oil," said Zhu Weilie, director of Middle East and North African Studies at Shanghai International Studies University, who has links with the Foreign Affairs Ministry. "If we lose this source, how can we find another market to replace it? China has to balance its interests."

Sudan is not a member of the Organization of Petroleum Exporting Countries, but it was granted observer status in August 2001, a sign it is being recognized as a significant oil producer. Its proven reserves are currently 563 million barrels, double what they were three years ago.

In an interview in Sudan's capital, Khartoum, Energy and Mining Minister Awad Ahmed Jaz praised his Chinese partners for sticking to trade issues.

"The Chinese are very nice," he said. "They don't have anything to do with any politics or problems. Things move smoothly, successfully. They are very hard workers looking for business, not politics."

Human rights advocates and opponents of the Sudanese government portray China's role in different terms: Just as colonial powers once supplied African chieftains the military means to maintain control as they extracted natural resources, China is propping up a rogue regime to get what it needs.

"The Chinese calculation is to consolidate and expand while Sudan is still a pariah state," said John Ryle, chairman of the Rift Valley Institute, a Nairobi-based research group that focuses on East Africa.

One of the poorest countries in the world, Sudan has long aimed to extract oil riches but lacked the necessary capital. It needed the help of deep-pocketed outsiders. In the 1960s and 1970s, Chevron Corp. took the lead. But as the civil war flared in the south in the 1980s, Chevron abandoned its concessions. During the early 1990s, the Canadian firm Arakis Energy Corp. took up the task, later selling out to a larger Canadian company, Talisman Energy Inc.

China National Petroleum Corp., still owned by the Communist Party government, bought into the Sudan consortium in 1996. It joined with Sudan's Energy Ministry to build the country's largest refinery, then last year invested in a $300 million expansion that nearly doubled production, according to a report in the Shenzhen Business Post.

The consortium's Heglig and Unity oil fields now produce 350,000 barrels per day, according to the U.S. Energy Department. Separately, CNPC owns most of a field in southern Darfur, which began trial production this year, and 41 percent of a field in the Melut Basin, which is expected to produce as much as 300,000 barrels per day by the end of 2006. Another Chinese firm, Sinopec Corp., is erecting a pipeline from that complex to Port Sudan on the Red Sea, where China's Petroleum Engineering Construction Group is building a tanker terminal.

Sudan's bloody north-south conflict began long before China arrived, but oil has dramatically increased the stakes as well as the government's ability to pursue the battle. The war is a struggle over the resources of the south, pitting the mostly Muslim, Arab elite that runs the government in Khartoum against the largely Christian and animist African tribes who live in the lower half of the country.

For years, the government lacked the arms to vanquish the Sudan People's Liberation Army, the rebel group that controls much of the south. With the dawn of oil production in 1999, Sudan's government began collecting $500 million a year in revenue. About 80 percent went to buy weapons, said Lam Akol, who was Sudan's transportation minister from 1998 to 2002 and is now a rebel commander. Over the same period, Sudan's military budget has doubled, according to the International Monetary Fund. A study by PFC Strategic Studies concluded that the Sudan government could collect as much as $30 billion in total oil revenue by 2012, with the potential for much more if exploration succeeds.

As the oil began to flow, Sudan relied on Chinese assistance to set up three weapons factories near Khartoum, Ryle said. Human rights groups say oil receipts have helped pay for a government-led scorched-earth campaign to remove mostly ethnic Nuer and Dinka tribes from around the oil installations. The goal is to deprive the rebels of a base of support in their bid to attack the industry and undermine the government's oil revenue.

A report by the U.S.-funded Civilian Protection Monitoring Team, which investigates attacks in southern Sudan, asserted that government troops have "sought to clear the way for oil exploration and to create a *cordon sanitaire* around the oil fields."

"This government has always waged war against civilians," said Jemera Rone, Sudan researcher for Human Rights Watch in Washington. Aided by an influx of newly purchased helicopters, a government attack in Ruweng county in October 2001 displaced 80,000 people, according to a Human Rights Watch report. The next year, government troops again used helicopters, killing 24 people during an attack on an emergency food distribution center.

The Nuer people who now live in Leal were at the center of this contested area. Their former town, Nhialdiu, was wiped off the map on Feb. 26, 2002, in an attack confirmed by survivors and rebel commanders.

Mortar shells landed at dawn. Then came helicopter gunships, directing fire at the huts. Antonov airplanes dropped heavy bombs. Roughly 7,000 government troops, mixed with pro-government militias, then swept through with rifles and more than 20 tanks.

"Any human being who could not get away was killed, even children," said the chief of Leal, Tunguar Kuiyguong, who lost three of his 10 children that day. About 3,000 of the town's 10,000 inhabitants died, he said, and every house was burned to the ground. The soldiers made off with 10,000 head of cattle, which are the fundamental currency of Nuer life -- the payment for brides and the source of meat, milk and pride.

"The Chinese want to drill for oil, that is why we were pushed out," said Rusthal Yackok, who was blinded, his wife and six children killed. "Now, I have no family, no cows," he said. "I have nothing. My life is totally destroyed."

Even as people fled, walking more than seven miles to settle on a treeless plain, the bombs continued to rain down and the helicopter gunships buzzed in pursuit. "We would see the helicopters and try to hide in the grasses," said David Majang. People stripped off their colorful robes to try to blend in with the scrub.

Today, people in Leal try to coax crops from unproductive soil. They line up at wells drilled by an aid organization and await the next shipment of food aid. "Oil has brought devastation to our lives," said Stephen Mayang, a father of three whose legs were badly hurt during the attack.

China National Petroleum Corp. refused repeated requests over the past 10 months for an in-person interview to discuss its operations in Sudan.

Last week, in a telephone call, a spokesman said the company bears no responsibility for the war. "We do our own business," he said. "Nothing else."

But field reports produced by human rights groups describe a connection between the people extracting the oil and those waging the war. Some of the helicopter gunships used in the attacks on civilians are Chinese-made, according to Akol, the former Khartoum transportation minister. The helicopters, he said, have frequently been based at airstrips maintained by the oil companies -- a statement consistent with the findings of Canada-based World Vision when it interviewed survivors of attacks and defecting government soldiers in 2001.

"The Chinese have every reason not to lose these oil fields, and that is why they are committed to fighting the war by supplying the Sudan government the wherewithal," Akol said.

A recent report in the state-controlled China Business News quotes a Chinese foreign affairs official as saying that Beijing has asked Khartoum to "send troops" to areas in which Chinese companies operate.

The exit of Canada's Talisman company from Sudan was largely a reaction to public pressure. China National Petroleum has felt similar pressures. In April 1999, the company announced plans to sell shares on the New York Stock Exchange -- the first Chinese state-owned firm to land on the Big Board. It was to be the largest initial public offering in the exchange's history, valued at $10 billion. But human rights groups said the deal would be the effective use of U.S. financing to aid the killing of innocents in Sudan. Eventually, CNPC restructured the transaction. It sold $2.9 billion in a newly created subsidiary, PetroChina, asserting that none of the money would be used in Sudan.

Ultimately, it may be peace that presents the Chinese firm with its greatest challenge. Under the terms of an agreement still being negotiated, oil contracts are supposed to remain secure. But three commanders of the southern Sudan rebel group said in interviews that the SPLA will seek to punish China once the rebels gain a formal decision-making role in the government.

The stakes could be considerable: Peace would allow the world's major energy companies to enter Sudan's oil patch. Moreover, roughly two-fifths of all known reserves -- oil worth more than $16 billion -- are now in rebel-controlled territory, according to the study by PFC, the strategic analysis group.

"The suffering of the people is on the hands of the Chinese," said commander Deng Awou. "The agreements for the Chinese company may be terminated."

Correspondents Emily Wax in Khartoum, Colum Lynch in New York and special correspondent Jason Cai in Shanghai contributed to this report.