The Tiger and the Dragon: a comparison of Indian and Chinese investments in West Africa's oil industry

LSE's Raj Verma describes how India and China differ in their approaches to mobilising crude oil in West Africa. Read more articles in the "Why India-Africa relations matter" blog series.

India and China are surging ahead as world economic powers with impressive growth rates. But this growth has created a thirst for oil in both countries. Oil production in India and China has increased between 2001 and 2011 (up from 727 barrels per day in 2001 to 858 b/d in 2011 in India, and from 3,310 b/d to 4,090 b/d in China), but consumption has increased at a much faster pace. In India, consumption increased from 2,288 b/d to 3,473 b/d from 2001 to 2011, while it went up from 4,859 b/d to 9,758 b/d in China.

The shortfall in production had led to an increase in oil imports in both countries. India is the world's fifth-largest consumer of oil and imports approximately 70-75 per cent of its oil consumption. China, on the other hand, is the second-largest consumer of oil after the United States and imports approximately 50-60 per cent of its oil consumption. Moreover, the proven oil reserves of India and China have declined since 1991; the reserves to production ratio (R/P) shows that if India and China keep producing at the present rate, they will exhaust their oil reserves in approximately 18 and 10 years respectively. However, demand is forecast to keep growing in India and China until at least 2021.

At present, India and China rely heavily on oil from Middle Eastern countries. But the political instability in that region has necessitated that India and China look for alternative sources of oil in other parts of the world, especially West Africa (according to the United Nations, West Africa includes 17 countries; this article excludes Saint Helena and includes Angola, Equatorial Guinea and Cameroon under the banner of West Africa).

Despite having the same rationale for entering the oil industry in West Africa, India and China differ in five important aspects in mobilising crude oil in West Africa. First, China is represented by state owned enterprises (SOEs) whereas India is represented by SOEs and/or private enterprises, a reflection of the countries' divergent political economies. Three Chinese national oil companies (NOCs) operate in West Africa: the China National Petroleum Corporation (CNPC) and its subsidiary Petro China, China National Petrochemical Corporation (Sinopec) and its subsidiaries, and China National Offshore Oil Corporation (CNOOC). Meanwhile, India is represented by ONGC Videsh Limited (OVL), Indian Oil Corporation Limited (IOCL), Oil India Limited (OIL), and the private sector company Essar Oil.

Second, Chinese NOCs have greater outreach in West Africa compared to India, which has a limited presence in the region. Chinese NOCs operate in 11 countries, have bid for 52 oil blocks and have acquired 50 blocks (see Table 1). Indian oil companies have operations in only three countries: Nigeria, São Tomé & Principe, and Gabon, have bid for 12 oil blocks, and have acquired six (see Table 2).

Table 1 Oil blocks bid for and acquired by Chinese oil companies in 11 countries in West Africa

Country	Company	Number of Blocks	Name of Block	Type of Block
Angola	Sinopec	7	Block 15/06; Block 17/06; Block 18; Block 18/06; Block 31; Block 32; Block 3/80	Offshore; Offshore; Offshore; Offshore, Ultra deep water; Ultra deep water; Onshore
Cameroon	Sinopec*	12	Blocks in Rio Del Rey Basin	Offshore
Chad	CNPC	1	Block H	Onshore
Equatorial Guinea	CNPC	1	Block M	Offshore
Equatorial Guinea	CNOOC	1	Block S	Offshore
Ghana	CNOOC	-	Jubilee Oil Field	Offshore
Liberia	Petro China	1	Block LB-09	Offshore
Niger	CNPC	2	Block Bilma; Block Tenere	Onshore; Onshore
Mauritania	CNPC	4	Block Ta13; Block Ta21; Block 12; Block 20	Onshore; Onshore; Onshore; Onshore
Nigeria	CNPC	4	OPL298; OPL471; OPL721; OPL732	Onshore; Offshore; Onshore; Onshore
Nigeria	Sinopec	8	OML 123; OML 124; OML126; OML 137; OPL 227; OPL 291; Okwok; OML 138	Offshore; Onshore; Offshore; Offshore; Offshore; Onshore; Offshore; Offshore
Nigeria	CNOOC*	2	OML 130; OPL 229	Offshore; Offshore
Nigeria-São Tomé & Principe, JDZ	Sinopec	1	Block 1	Offshore
Gabon	Sinopec	5	Maghena; Panthere NZE; Awoun; Kiarsseny and Etame	Onshore; Onshore; Onshore; Offshore; Offshore
Gabon	CNOOC	2	BC9; BCD10	Offshore; Offshore
Total		**Bid 52; Acquired 50**		

Table 2: Oil blocks bid for and acquired by Indian oil companies in five countries in West Africa

Country	Company	Number of Blocks	Names of Blocks	Type of Blocks
Angola	OVL	6	Block 18; Block 31; Block 15(06); Block 17(06); Block18(06); Block 32	Offshore; Offshore; Offshore; Offshore; Offshore; ultra-deep water
Ghana	OVL	0	Jubilee oil block	Offshore
Nigeria	OVL	4	OPL 279; OPL 285; OPL 321; OPL 323	Deep water; Deep water; Deep water; Deep water
Nigeria	OIL and IOCL	1	OPL 205	Onshore
Nigeria	Essar Oil	1	OPL 226	Offshore
Nigeria-São Tomé & Principe, JDZ	OVL	1	Block 2	Offshore
Gabon	IOCL and OIL	1	Shakthi (FT-2000)	Onshore
Total		**Bid 12; Acquired 6**		

Third, Chinese NOCs are able to outbid Indian SOEs and private sector enterprises if and when they directly compete for the same oil blocks. For example, in 2006 in Angola, Sonangol Sinopec International (SSI) made a world-record offer of US$2.2 billion for non-operator stakes in Blocks 17(06) and 18(06). SSI also paid US$750 million for Block 15 (06). This trumped the offer of US$1 billion by India's OVL for the deep water blocks 15(06), 17(06) and 18(06). A joint venture between Sinopec and CNOOC also outbid OVL for a 20 per cent stake in ultra-deep water Block 32. Previously too, in 2004, SSI had outbid OVL for Angola's deep water Block 18. OVL had hoped to buy Shell's 50 per cent share in Block 18 and had cut a deal with the company in April of that year.

Ultimately, however, India's offer of US$310 million for infrastructure development could not compete with China's offer of US$725 million, and the concession was acquired by SSI.

Fourth, when it comes to acquiring oil blocks in West Africa, India is more risk averse than China. In Nigeria, for instance, OVL outbid CNOOC in 2005 to take control of Nigeria's Akpo Field (OPL-246) off South Atlantic Petroleum Ltd., a company controlled by former Nigerian defence minister General Theophilus Danjuma. However, the Indian Cabinet Committee on Economic Affairs prevented OVL's planned acquisition of the block, arguing that the political risk involved was too high. Consequently, CNOOC acquired OPL 246.

Fifth, international oil companies and African NOCs prefer Chinese NOCs as partners. In Ghana, for example, CNOOC entered a joint venture with the Ghana National Petroleum Corporation (GNPC) to make an unsuccessful joint bid of US$5 billion to Dallas-based Kosmos Energy LLC for a 23.5 per cent stake in Ghana's Jubilee field, and other nearby assets. India's OVL also expressed an interest in acquiring Kosmos Energy's stake in the Jubilee oil fields and proposed a joint venture with GNPC to bid for the stake. OVL was willing to match CNOOC's offer to tie up with GNPC, but GNPC opted for the Chinese NOC instead. This was because in September 2010, China EXIM Bank lent Ghana US$10.4 billion for infrastructure projects, and the China Development Bank provided a separate US$3 billion loan for the development of the country's oil and gas sector.

At the macro level, these differences can be explained by India and China's varying economic and political power. India lags behind China in every economic indicator; notably, China has foreign exchange reserves of more than US$3 trillion compared to India's modest US$250 billion. Scholars are also unanimous that China's permanent membership of the United Nations Security Council with a veto power alleviates its political status and leverage vis-à-vis India, making the former more politically powerful from an African perspective.

At the micro level, China provides more economic, political and diplomatic support to its NOCs than India. The Indian oil companies active in West Africa are smaller in size, market capitalisation and revenue compared to the three Chinese oil companies—the Chinese companies ranked higher in the Global Fortune 500 rankings than the Indian companies from 2005 to 2012. The Chinese NOCs also rank higher in the prestigious Platt rankings.

Chinese NOCs are larger than their Indian counterparts largely because of state support and subsidies. The Chinese Investment Corporation, a sovereign wealth fund, has US$300 billion at its disposal—US$100 billion each for NOCs, agriculture, and infrastructure, a larger total than India's foreign exchange reserves. Chinese NOCs also receive financial support from the State Council, the state-owned Assets Supervision and Administration Commission of the State Council, Chinese Development Bank, the Chinese EXIM Bank, and direct political and diplomatic support from the Chinese government under the aegis of the "go global policy" introduced in 2000.

Chinese NOCs also have greater access to cheap capital than Indian oil companies as they are able to borrow at zero to one per cent interest rate domestically (in comparison, the cost of capital in the domestic market for Indian SOEs and private sector enterprises is 10-11 per cent). Although finance is available at 3-4 per cent in the international market for very large sums, Indian companies are unable to tap into international finance owing to currency fluctuations and difficulties in providing collateral guarantees from banks, parent companies or sovereign guarantees.

Further, China is able to provide more aid and concessional loans than India to West African countries. Beijing also maintains embassies in all the West African countries except Gambia and Burkina Faso, which have diplomatic relations with Taiwan (New Delhi has embassies and consulates in only four countries). Moreover, Chinese leaders have visited West African countries more frequently than their Indian counterparts and more members of China's Foreign Ministry deal with Africa or related issues.

In this context, it is difficult for Indian oil companies to compete with Chinese NOCs; going forward, it seems unlikely that the tiger will be able to catch up with or surpass the dragon in the West African oil sector.

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