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Nexen Takeover Raises Sovereignty Fears

By Matthew Little

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Chairman of the U.S. China Economic and Security Review Commission Richard D'Amato (L-R), Vice President of Allen Booz Hamilton and former Central Intelligence Agency Director James Woolsey and former Director of Natural Resources Studies, CATO Institute Jerry Taylor testfiy during the House Armed Services Committee hearing on national security implications of the possible merger of the China National Offshore Oil Corporation with Unocal Corporation July 13, 2005 on Capitol Hill in Washington, DC. The board of China's state-controlled oil group CNOOC failed in its USD$18.5 billion bid but hopes to fare better in its recently announced plan to purchase Canadian oil producer Nexen. (Photo by Joe Raedle/Getty Images)

China's insatiable thirst for oil is a boon to Canada's capital-intensive oil sands, but the communist regime's control over investments in Alberta has some watchers spooked.

With its US$15 billion bid for Nexen Inc., the China National Offshore Oil Company (CNOOC) is turning heads, raising questions about long-term impacts if the authoritarian regime plays a significant role in Canada's national economy.

At least one security expert is concerned the deal will worsen a pattern of senior government officials who retire from their posts to work for the Chinese regime or business lobby.

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− David Harris, Director, Insignis Strategic Research

David Harris, former chief of strategic planning for CSIS and director of the international and terrorist intelligence program at Insignis Strategic Research in Ottawa, said Canada needs to remember that the Chinese Communist Party (CCP) maintains a tight grip on state-owned enterprises (SOEs) and has no qualms about using them to whatever end it deems necessary.

"We must, of course, regard these as arms of the Beijing government. This is simply a prudent and realistic way of viewing this, as we know any enterprise subject to the jurisdiction of China could—in a flash—be rendered a stalking horse or operating arm of the communist party of China," said Harris.

Harris said it's not enough to count the dollars. Canada must consider the "extremely complicated" issues of political influence and that the regime uses its asset purchases and foreign investments to project power and influence.

That means leveraging investments to gain concessions in other areas like human rights or international agreements.

Former Officials Find 'New Masters' in Beijing

Those concerns are exacerbated by the string of high-level officials, both elected and from the public service, who have left their posts to go on to careers advocating for the Chinese regime, said Harris.

"Canadians can find little solace in the rather sordid spectacle of former senior bureaucratic and political Canadian government officials haring off, as though their new masters, to Beijing, especially so shortly after leaving government service."

Among those are former Prime Minister Jean Chretien, former Foreign Affairs Minister David Emerson, and former Deputy Minister of Foreign Affairs Peter Harder.

Harris said the pattern challenges the integrity of certain facets of Canadian governance, a problem that could be exacerbated if Chinese SOEs become major players in Canada's oil and gas sector.

He also points to Chinese espionage activities that include hacking attacks targeting sensitive government departments in finance and defence as well as private companies like Nortel. Also concerning are the regime's efforts to spy on and suppress Chinese dissident groups in Canada like democracy activists, Tibetans, and Falun Gong adherents.

CNOOC'S History

CNOOC comes to Canada with a troubled history that includes human rights violations in other countries and a failed bid to take over a similarly sized U.S. oil company.

In 2004, CNOOC had a joint venture with Golden Aaron in Burma, a company under sanctions from the Office of Foreign Assets Control (a branch of the U.S. Treasury) for supporting Burma's junta and maintaining links to drug traffickers.

CNOOC worked hand in hand with the junta to forcefully evict farmers to get access to lands that were never fully paid for, notes a 2008 report from Arakan Oil Watch, an environmental and human rights NGO.

The report details how those actions sparked outrage among villagers who later ransacked CNOOC's drilling site before facing a crackdown by the junta. Over 70 of the villagers fled the country to avoid reprisals, notes the report.

CNOOC had to withdraw an uninvited takeover of U.S. producer Unocal in 2005 after the deal caused uproar among U.S. representatives.

Given China's military buildup and plans to contradict U.S. support for democratic Taiwan, a congressional report reviewing the bid after it was withdrawn questioned the wisdom of allowing the regime to acquire sensitive access to the U.S. coastline and technology with possible military uses.

"Should a Chinese company be allowed to acquire deep-water drilling equipment, technology (similar to that used in underground nuclear tests), underwater mapping capability, and platforms that could be used to observe underwater activities in the Gulf of Mexico or in assisting the Chinese navy," asked the report.

Risks to Canadian Sovereignty

Scott Simon, the University of Ottawa Research Chair in Taiwan Studies, said Canada should also be wary of CNOOC's presence in Canada.

"I think that, especially with a Canada-China investment protection deal on the horizon, there are risks to our sovereignty," said Simon.

The risk-benefit analysis should also consider the political, social, and environmental costs.

− Scott Simon, University of Ottawa Research Chair in Taiwan Studies

The investment deal, announced during Prime Minister Stephen Harper's trip to China in February, would grant Chinese companies investment protections similar to Chapter 11 provisions in NAFTA, according to some researchers. Those could be used by CNOOC and other Chinese firms to sue the Canadian government for regulatory changes that affect profit margins.

"In the energy sector, this places limits on any future environmental or labour legislation that a future government may wish to pass," said Scott.

Scott said having American companies gain leverage with provincial and federal governments was already a problem, but Chinese firms posed greater dangers.

"The problem is that the government, as well as the financial media pundits, seem to be thinking only in terms of short-term economic benefits. The risk-benefit analysis should also consider the political, social, and environmental costs," he said.

Scott said the regime would gain leverage over influential business leaders enmeshed in business and personal relationships with SOEs.

"This will limit our ability to act in ways contrary to Chinese interests on other issues as well," he said.

Deaths of Chinese Workers on Oil Sands

Around the same time CNOOC announced its purchase of Nexen, Sinopec Corp., China's top refiner, announced a $1.5-billion acquisition for a 49 percent stake in the North Sea operations of Canadian company Talisman.

They have a reputation around the world for being heartless employers. They have a reputation for being terribly corrupt.

− David Kilgour, former Secretary of State (Asia-Pacific)

Earlier this month, the Supreme Court rejected Sinopec's appeal on an Alberta court's ruling that ordered the SOE to face charges for the deaths of two temporary Chinese workers on the Alberta oil sands.

David Kilgour, former Secretary of State (Asia-Pacific), said those deaths are part of a broader pattern seen in the actions of Chinese SOEs.

"They have a reputation around the world for being heartless employers," he said. "They have a reputation for being terribly corrupt."

Sinopec's attempt to sidestep responsibility for the death of workers in Alberta shows their character, he said.

"It shows an attitude that employees don't matter, human beings don't matter to these people."

Requests for comment from Industry Canada and the Asia Pacific Foundation, a pro-Beijing think tank advocating trade with China, were not granted by press time.