

## Canada's Careful China Balancing Act

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## ~~Canada's Careful China Balancing Act~~

**By Hugh L. Stephens**

January 31, 2013

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It has been more than a month since the [December announcement](#) of Ottawa's controversial decision to permit two Asian state owned enterprises (SOE), China's CNOOC (Chinese National Overseas Oil Corporation) and Malaysia's Petronas, to acquire Canadian oil and gas companies Nexen Inc. and Progress Energy respectively. While both the SOEs involved and the Alberta oil patch generally welcomed the announcement, it came with a significant caveat, namely a policy

announcement that any future acquisitions of Canadian enterprises by SOEs, especially those in the oil and gas sector, would be not be approved, barring unspecified “exceptional circumstances.” For [Prime Minister Stephen Harper’s government](#), this was a delicate balancing act and a gamble—but one that seems to have paid off.

The Harper government was caught between a rock and a hard place in terms of having to decide on the SOE investments, [in particular on CNOOC’s acquisition](#). Harper has been assiduously building bridges with China after having snubbed the Peoples’ Republic during his first years in power, culminating in his being unavailable to attend the 2008 Beijing Olympics. Since then, [he has been actively seeking to mend ties](#), relaying the message that Canada is open for business and welcomes Chinese and other foreign investment.

Canada needs massive amounts of investment to exploit and develop the oil sands and adjacent gas deposits, and to get that product to markets other than to the U.S., where political maneuvering and environmental concerns [have limited expansion](#) of pipeline access for Canadian oil, leading to depressed prices. While a rejection of CNOOC’s bid would have been a setback for Sino-Canadian relations and for Chinese ambitions generally with regard to gaining more access to the oil sands and its key technologies, [public opinion was not in favor](#) of the deal and Canadians continue to be deeply suspicious of China’s long-term motives and strategy. The Alberta provincial government and many in the oil industry were supportive, provided that both SOEs made commitments to ensure “net benefit” to Canada, but many in the business community [pointed to a lack of reciprocity](#) in terms of Canada’s access to Chinese markets. Thus the decision to approve the Nexen takeover on a “one time basis” while drawing a line in the sand with respect to future takeovers by state owned corporations was a pragmatic and, it seems, politically acceptable solution.

“When we say that Canada is open for business, we do not mean that Canada is for sale to foreign governments,” Harper told a news conference on the day of the announcement. He emphasized strongly that Canada had taken a number of years to unwind its own government’s ownership in the oil industry and was not about to reverse that policy by allowing the key players to fall under the control of foreign governments. The new rules will bar state controlled investors from new takeovers in the oil sands unless there are (undefined) “exceptional circumstances,” thus affording the government the discretion it needs to adapt to future circumstances. While there was initial concern that the slamming of the door after these two approvals would cast a pall over future oil sands investment or even antagonize the Chinese, this does not seem to have happened. Certainly the approval of the Petronas deal has strengthened the business case for building an LNG facility on the west coast at Prince Rupert, British Columbia, [with a pipeline to transport gas](#) from northeastern BC and Alberta to the plant for processing prior to shipping to Asia. Although Petronas had announced prior to the approval that it intended to proceed with this project, this will open new possibilities to unlock markets for Canadian gas, and [timing is important](#) as competitors such as Australia and Gulf suppliers are also expanding facilities.

CNOOC’s [reaction was careful and measured](#), noting that it would continue to be a good corporate player and meet its undertakings including establishing Calgary as the location of its headquarters for North and Central America, investing significant capital into oil sands development, listing its shares on the TSX, continuing to support oil sands research in Alberta and maintaining its commitments to corporate social responsibility. Official Chinese [reaction was positive](#), calling the decision a win-win situation for both countries. CNOOC needs to tread carefully as it moves forward; although its acquisition of Nexen has been approved in Canada, it still faces reviews in the U.S. and UK owing to Nexen’s holdings in the Gulf of Mexico and the North Sea.

China's major state owned oil companies still have plenty of scope to invest in Canada, although not to take majority positions. There are already a number of investments in various parts of the industry as China continues its strategy of diversification of technology and supply. Canada will continue to encourage inward investment, preferring private sector funds but being realistic enough to recognize that the Chinese have deep pockets and both the need and desire to broaden their asset base. [Walking the tightrope](#) of keeping those funds flowing into the oil sands, while not allowing the "crown jewels" to fall under control of a foreign government, is going to be an ongoing domestic political challenge for Mr. Harper and an economic policy challenge for Canada.

*Hugh L. Stephens is Executive-in-Residence at the Asia Pacific Foundation of Canada Home / [Asia-Pacific Foundation of Canada](#) and Principal of TransPacific Connections (TFC Consulting) - [tfcconnections.com](#). He is based in Victoria, BC, Canada.*

[Canada](#), [CNOOC](#), [Nexen](#), [Nexen Inc.](#), [Petronas](#), [Stephen Harper](#)  
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## COMMENTS

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### 1. **Kim's Uncle**

January 31, 2013 at 5:11 am

I wonder why Canada would not seek an alliance with a rising china to counter balance US power since Canada is right next door to the colossal of the north, US??? Shouldn't Canada feel threatened by such a militaristic, hegemonistic power such as the US?? LOL

Now in contrast, all neighboring countries of the Chinese motherland have alliances or seeking an alliance with the US for the simple fact that they feel threatened by sino nazi regime! It makes me wonder Asian countries know to we'll the rapacious nature of the sino nazi regime who seeks to dominate smaller countries!

Without US power in the pacific the sino nazi regime would surely be more of a bully towards her neighbor!

[Reply](#)

### ◊ **John Chan**

January 31, 2013 at 1:18 pm

@Kim,

It is not easy to live next door to the predatory imperialist colossal of the south; not only Canada feels the ever overbearing presence of the militaristic hegemon of the south, Mexico, nations in the central and south Americas, EU nations as well as the Asian nations feel the same intimidation from the trigger happy colossal of the north, USA.

We have Canadians on this site kissing American's behind enthusiastically; but your wrought on Canada because of an inconsequential commercial deal between Canada and China really makes Canadians disheartening. No wonder people said "American has no allies but only tools."

[Reply](#)

▪ **JohnX**

January 31, 2013 at 1:52 pm

@John Chan.

Actually, the question is why does the rest of the world need to treat China with kid gloves.

Then, you just need to read the posts made by thier supporters and its all clear.

They are two seconds away from being imbecilic morons who are screaming in your face, "You wanna fight, you wanna fight".

Seriously, lets just go back to the days when we wanted China as a trade partner instead of wondering if it intends to trade with us or go to war with us.

[Reply](#)

▪ **John Chan**

January 31, 2013 at 10:55 pm

@JohnX,

Insisting the West's words must be taken as truth and the West's view is the only view of the world again? You are wrong, your view is your view only and a bigotry view too, and your view is harmful to the world peace and prosperity.

Kim's question is how Canada survives with a world most hated colossal of the south, USA, in the next door. Please do not put words in Kim's mouth, putting words in other's mouth as excuse to dish out destructive punishment is really a moron behaviour, you should not copy such bad behaviour.

2. **Bankotsu**

January 31, 2013 at 7:56 pm

Canada is trying to use China to balance against the U.S.

[Reply](#)

3. **tocharian**

February 1, 2013 at 9:39 am

Canadians, or rather CANOOCKs, will soon be enjoying Peking Duck in Tailings-Ponds-Sauce.

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