China Signs $23 Billion Oil Deal With Nigeria

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China has signed a $23 billion deal with the new government of Goodluck Jonathan in Nigeria to build three oil refineries and a petrochemical plant. Goodluck Jonathan came to power on May 6 after the death of the former president, Umaru Yar'Adua.

The new government declared that it had signed a memorandum of understanding with China State Construction Engineering Corporation on May 13. The three refineries are to be built in Lagos, the commercial capital, in Kebbi state in the remote northeast, and Bayelsa, Jonathan's home state within the Niger Delta. The refineries would have a combined capacity of 900,000 barrels per day (bpd), double the expected domestic demand of 450,000 bpd by the time they are due to be completed in five years.

Nigeria currently imports around 85 percent of its refined fuel needs because of the disrepair of the four state-owned refineries. The cost of the state subsidy for this imported fuel is currently running at $4 billion a year, a large proportion of total domestic expenditure. This state of affairs is common to many poor countries with large oil reserves, and guarantees that they do not develop as competitors to the major transnational corporations.

China's growing presence in Nigeria had previously surfaced in February with the privatisation of the state-owned telecoms company NITEL, which was sold to the New Generation Telecoms Company, a consortium including Hong Kong-based China Unicom. Chinese groups won a small number of oil concessions between 2005 and 2007, and secured a stake in Nigerian production when the China National Petroleum Corporation (Sinopec) took over Addax Petroleum in June 2009 at a cost of $7.2 billion. Sinopec Group is the parent of the Hong Kong-listed China Petroleum and Chemical Corp, which has been pursuing oil assets overseas for several years.

Plans by the state-owned China National Offshore Oil Corporation (CNOOC) to buy up to six billion barrels of Nigerian reserves became public last year. Yar'Adua, the president at the time, received a letter from the Chinese state-owned oil company CNOOC expressing an interest in the 23 prime offshore fields where Shell, Total, Chevron and ExxonMobil currently operate. If this were to succeed, it would double China's oil reserves in sub-Saharan Africa and mark a significant change in policy for the Nigerian government. Yar'Adua rejected China's initial bid, but when the letter was leaked to the press, it confirmed that negotiations were ongoing. The price of the deal is reported to be between $30 billion and $50 billion.

China has already used a similar infrastructure-for-resources exchange to gain access to numerous African countries from which it had been previously excluded. These include

Angola and Sudan. In the Democratic Republic of Congo, China's attempts to get an oil deal were thwarted by the countermeasures of the United States and the International Monetary Fund.

The US has been doing its best to wield its influence in Nigeria, which is its third largest supplier of crude oil.

The failed attempt of Nigerian student Umar Farouk Abdulmutallab to blow up a plane over Detroit, and the US reaction to it, led to a marked deterioration of relations with Nigeria. The US was supported by Britain, the former colonial power. High Commissioner Bob Dewar called for "clarification on leadership" when Yar'Adua returned to Nigeria. Prior to Jonathan's rise to power, the US had been joined by France, Britain and the European Union in issuing a statement "commend[ing the] determination to address the current situation through appropriate democratic institutions. Nigeria's continued commitment and adherence to its democratic norms and values are key to addressing the many challenges it faces…".

Shortly after this statement was issued, the National Assembly, with the support of the state governors, declared Jonathan acting president. On the same day, Jonathan was visited by US Assistant Secretary of State for African Affairs Johnnie Carson. Even though the legality of Jonathan's elevation was questionable, the US immediately praised Nigeria's "democratic handover".

The lessening of tensions between the US and the new regime was also visible in Jonathan's choice of vice president. Namadi Sambo is a protégé of the former military dictator Ibrahim Babangida, who brutally enforced US/IMF interests when he was in power from August 1985 to August 1993. Johnnie Carson and US Ambassador to Nigeria Robin Sanders visited Babangida for discussions while Yar'Adua was receiving medical treatment in Saudi Arabia. A State Department official then clarified that the US does not view Babangida as a "former military dictator…[but] as a former head of state [and an] influential leader in the northern part of the country".

The Chinese deal may well lead to further tensions with the US, even though Jonathan seems to be working closely with Babangida. Jonathan has also taken steps to assert his control over the state oil company. He has sacked the boss of the Nigerian National Petroleum Corporation and called in a firm of auditors to go through the books. He plans to introduce a sweeping package of reforms that will result in the privatisation of this state-owned company. While this is in line with US demands, it will inevitably open up further opportunities for China.

Around 140 new platforms for deep-water exploration are expected to be set up this year. The exploration of these deep-water fields is partly motivated by the depletion of more accessible fields, partly by the local opposition to the oil companies' operations in the Niger Delta. Despite their move into deeper waters, the oil companies still require use of Lagos for onshore activities and are pushing for more government actions to quell the local opposition. The oil companies are also concerned that the long-delayed Petroleum Industries Bill will increase the cost of their operations in Nigeria.

Nigerian politics are made more complex by the upcoming presidential elections. It is looking unlikely that the ruling People's Democratic Party (PDP) will continue with its usual eight-year rotation of the presidency between northern and southern candidates. Yar'Adua was from the north of the country, and would normally be followed by another candidate from the north for another four-year term.

However, indications are that Jonathan will stand as the PDP candidate, even though he is from the south. It is yet to be seen how this will affect the unstable equilibrium between rival factions of the Nigerian elite. The degree of factional tensions can be gauged both by the difficulty with which the crisis over Yar'Adua's illness was resolved, and by the scale of communal violence in Plateau State, in which several hundred people were killed, and which was likely to be connected with attempts by the different factions to shore up support.

Western policy on Nigeria is driven by the super-profits generated from the extraction of oil and its processing. While publicly the US and its allies proclaim the need for democracy and openness, this is window dressing. Anything that impedes their drive for profits, whether from local opposition or from a rival nation, will be dealt with ruthlessly when required. The latest moves by China will have caused consternation in the boardrooms of the big oil companies, and countermeasures are all but inevitable.