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Iran sanctions open door wider for China

By Antoaneta Becker

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LONDON - The European Union's new sanctions against Iran over the Middle East country's nuclear development [program](#) appear to open a new space for Chinese companies to expand their [investments](#) in a country viewed as a rogue player by much of the western world.

With China now Iran's largest trade partner, some Chinese analysts predict a wealth of new geopolitical and [business opportunities](#) with Iran. But officialdom may still hesitate at the idea of Beijing being seen as a "free-rider".

China has signed agreements with Iran worth tens of billions of dollars to allow it privileged access to Iran's oil and gas sector. Courting the partnership of Iran, which possesses the world's fourth-largest reserves of oil and second-largest of gas, has been a long and arduous process, and Beijing would loathe to jeopardize it.

In recently published memoirs, China's long-time ambassador to Tehran, Hua Liming, admitted that his diplomacy in Iran after China became an oil importer in the early 1990s had been entirely dictated by energy politics. Last year, Iran accounted for 11% of China's oil imports, ranking third among China's main oil suppliers after Angola and Saudi Arabia.

Spurred by its energy needs, China has undertaken a range of investment projects in Iran, gradually filling the void left by Western firms forced out by international sanctions. With more than 100 Chinese companies present in Iran, they have helped to build Tehran's subway, power stations, ferrous metals smelting factories and petrochemical plants.

As bilateral trade reached US\$21.2 billion in 2009, China became Iran's most important trade partner. On paper the European Union still ranks as Iran's largest [trading](#) partner, but if Chinese goods imported in Iran via the United Arab Emirates are considered, China has already overtaken the EU.

This has led some to believe that Iran's defiant attitude towards the west derives somewhat from a newfound confidence that China is now supplanting Tehran's traditional trade partners. "Who can blame Iran for being so ferocious with China behind its back?" says an opinion piece on one of China's largest Internet portals, China.com.

With international pressure on Iran to abandon its nuclear [program](#) mounting in the past few years, western companies began reducing their dealings with Tehran further, and Iran turned more to China for investment in its oil and gas sectors, says Harsh V Pant, professor in the Department of Defence Studies at King's College, London.

The new round of sanctions agreed by the European Union means that "China will remain Iran's most significant major power supporter, and there will be little incentive for Tehran to negotiate in good faith," Pant told Inter Press Service.

The sanctions target the oil and gas industries - the backbone of Iran's economy - as well as foreign trade and [financial services](#). They ban new EU investments in the energy sector and the export to Iran of key equipment and [technology](#) for refining and for the exploration and production of natural gas.

The EU foreign ministers announced the new restrictions a month after the US imposed its own strengthened sanctions on Iran. Last month, the UN Security Council passed a fourth round of international sanctions over Iran's clandestine nuclear program. China, a UN Security Council member, inconspicuously lent its support.

"Even though China does not want to be seen as ganging up with the West and hopes to maintain a strategic partnership with Tehran, it does not want to complicate relations with Washington either," said Jonathan Holslag, research fellow with the Brussels Institute of Contemporary China studies.

Holslag believes Beijing has given "subtle but clear signals that it wants Iran to cooperate with the UN". He points to Beijing's decision to slow down [investment](#) in the Yadavaran oil field and delay the disbursement of [loans](#). When Iranian President Mahmud Ahmadinejad visited the Shanghai Expo, Chinese leaders reportedly refused to meet him.

With China called upon to become a "responsible stakeholder" in the international system, Beijing has walked a fine line, trying to work in concert with the international community to force Tehran to abandon its nuclear weapons program, while preserving its vital interests in Iran. Beijing supports non-proliferation efforts as part of its broader campaign to gain a higher international profile.

Attempting to water down previous UN sanctions has not only been for the purpose of protecting China's energy supplies, said Holslag. He believes the Chinese elite finds the sanctions counterproductive as they are "the grist for the mill of Iranian hardliners" and fuel "nuclear nationalism".

On Sunday, China's top diplomat called for fresh nuclear talks and more diplomatic effort to resolve the standoff over Iran's nuclear program. "China continues on the path of negotiations" regarding Tehran's nuclear energy program, Foreign Minister Yang Jiechi said in Vienna.

A recent piece in the Chinese Global Times newspaper claimed that Beijing had secured tacit agreement from western powers that in any follow-on sanctions adopted by the US and the European Union, China's interests in Iranian energy and trade would be protected.

But "the new EU sanctions mean that the Iranian energy sector will continue to face major constraints in reaching its full potential," said Pant. "And therefore China will find it difficult to exploit the sector fully."

In his memoirs, ex-ambassador Hua Liming recounts the difficulties China and Iran faced with securing the flow of Iranian high sulfur crude oil to China in mid-1990s. Although Iran now exports around 27 million tonnes of crude to China every year, the lack of know-how and technology still impede the progress of several Chinese oil exploration and development [projects](#) in Iran.