

International Cooperation at the New Stage of Economic
Globalization
China Development Forum 2011

Beijing, China, March 21, 2011 -- Ladies and gentlemen, *zao shang hao* and good morning. Let me begin by expressing my admiration for the amazing development of the Chinese economy and the increasing prosperity of the Chinese people. Today, the air in China's major cities is cleaner than it was a decade ago, and there is a rising sense of environmental stewardship and civic responsibility among its people. Wherever one looks one sees world-class infrastructure and facilities. This country is now the engine pulling the global economic train, and China is engaging in a diverse range of international economic relationships marked by new investment and trade flows and greater integration. Since I come to you from Saudi Arabia, an island of calm amid the turmoil sweeping the Middle East and North Africa, I can tell you that much of that turbulence is grounded in economic factors and a lack of opportunity, especially among young people. Therefore, I also feel compelled to commend the foresight and wisdom of the Chinese leadership's vision of a "harmonious society," where progress is measured not just by headline GDP growth or increasing national revenue, but also the rising prosperity of the people, the creation of economic opportunities across the nation, and greater societal balance and social harmony. This is also what the Middle East needs, and I believe our friends in China, as well as other partners around the world, can be part of that necessary transformation through greater economic integration and investment, as I will explain in a moment. Certainly as China sees the increased prosperity of its own "harmonious society," there will be an increasing emphasis on the adequacy of energy supplies. At Saudi Aramco, we strongly believe China—like other major global economies—can best pursue energy security, promote sustainable and balanced economic development, and protect its precious natural environment by drawing upon a diversified energy portfolio centered on proven fossil fuels suitably complemented by renewables and alternatives. Allow me to elaborate. Coal is a plentiful indigenous resource which accounts for about seventy percent of all Chinese energy consumption, and it will remain important for many decades to come, even as China switches to less carbon-intensive energy sources. China has worked diligently to improve the environmental performance of coal use, through its cleaner, more efficient coal-based power plants. Looking to the future, I also see considerable potential for carbon capture and sequestration to play its part in mitigating

greenhouse gas emissions from energy use.

Meanwhile, I am pleased to see China's increasing interest in cleaner natural gas—especially given recent technical breakthroughs related to shale gas and its potential exploitation in this market. China has significant shale gas resources, which is heartening as its gas consumption is set to increase this year by more than 20 percent, according to CNPC research.

At the same time, contributions from renewable energy sources will certainly expand, though we need to be realistic about their gradual pace of growth. Furthermore, these sources start from a very small baseline, given that non-hydro renewables currently meet less than one percent of China's energy needs.

Therefore, I believe fossil fuels—including clean coal, natural gas and oil—will remain pivotal for the foreseeable future. Oil alone now satisfies nearly a fifth of China's energy needs, and accounts for virtually all the energy used in transportation and petrochemicals. Therefore, oil will remain a significant part of China's energy mix, even with the emergence of alternative propulsion systems.

In fact, the NDRC estimates China's oil demand will approach 12 million barrels per day by the end of the decade, up from about nine million bpd at present, as China's people enjoy the benefits of more affluent and more mobile lifestyles.

But just as China continues to rely on oil to meet its growing energy needs, the oil industry itself looks to China as the largest source of incremental demand growth, so there is a *mutually* beneficial and strategically important relationship between China and the world's petroleum producers.

As we all know, some analysts like to single out the impact of China's demand on world oil markets. To the contrary, I believe increased Chinese demand offsets declining consumption in the OECD nations, and is essential to encouraging necessary investment in exploration as well as oil production, refining and transportation capacity, which ultimately benefits *all* petroleum consumers.

Certainly the development of global partnerships is a significant factor in achieving an optimal energy portfolio, and here I would like to congratulate China's energy sector—in particular its leading petroleum enterprises—on the steps already taken.

In addition to making sustained investments in resource-rich regions and in sectors ranging from energy and natural resources to construction and large-scale infrastructure, China has also brought us closer together by opening its domestic market to strategic foreign investors like Saudi Aramco.

These policies reinforce the mutually beneficial interdependence that characterizes our bilateral relationship—an “energy superhighway,” you could say—and we look forward to the

increased deregulation that will improve the profitability of major investments by energy companies in China, and to encourage more such ventures.

Ladies and gentlemen, much of China's vast surplus has been invested in overseas financial instruments, and I believe some portion of that capital could profitably generate even greater benefits if it were directed to opportunities like industrial development initiatives, including overseas investments in manufacturing and services projects.

I strongly believe China can be *the* global investor, because in addition to capital, this nation also has world-class capabilities in engineering, technology development, industrial services and project management. Rather than being a net recipient of FDI, technology and expertise, you have opportunities to extend your capital and industrial know-how to countries where China is already investing in natural resources and extractive industries.

This would not only help these nations industrialize, add value, create jobs and diversify their own economies, but also secure those markets for Chinese goods and services, cement bilateral and multilateral partnerships, enhance global economic integration and promote economic stability—all serving to foster a kind of “harmonious global community.”

There are also attractive opportunities for mutually beneficial cross-investments—including in Saudi Arabia, which is in the midst of a five-year development program worth some 450 billion dollars and encompassing world-scale projects in many sectors.

However, such investments would simply be an extension of the existing close bonds between the People's Republic and the Kingdom, including Saudi Aramco's own linkages with China's petroleum sector.

Our relationship is founded on the provision of steadily growing volumes of crude oil—currently about a million barrels per day, making Saudi Aramco China's largest and most reliable supplier.

In this regard, the Kingdom has been and will continue to be a calming influence in global oil markets—particularly in times of market turbulence, when it can tap its substantial spare capacity to make up supply shortfalls elsewhere.

But our collaborative ties with China also include our existing joint-venture partnerships with Sinopec in both Fujian Province and Saudi Arabia—a perfect example of cross-investment—as well as our acquisition of a widening range of quality goods, high-tech equipment and specialized industrial services from China.

Along with our friends at the NDRC, Sinopec and CNPC, we continue to pursue prospects for other future investments in China. The model of integrated investments which extend across the value chain has proven to be a success in our Fujian joint

venture, and Saudi Aramco is looking to replicate the right ingredients for similar profitable JV opportunities in China. In fact, just this week, these efforts bore fruit as we signed two agreements with the leading Chinese petroleum enterprises: an MOU with Sinopec for investment in our Red Sea Export Refinery at Yanbu, and another MOU with CNPC for us to invest in a refining project in Yunnan Province. We look forward to working closely with our partners on these ventures, and to realizing the mutual benefits of these world-scale projects.

Ladies and gentlemen, perhaps most important for the future are our people-to-people contacts, which continue to grow and deepen. Every year we send some of our most promising young people to Chinese universities both to master a technical discipline and to learn about your nation and its culture, society and people. I would also note that young Chinese men and women make up the largest group in the newest intake of students at the King Abdullah University of Science & Technology, Saudi Arabia's groundbreaking graduate-level research university, which was built by Saudi Aramco.

Ladies and gentlemen, let me close by recapping my five key messages. First, China is best served by a diverse and robust energy portfolio which relies primarily on fossil fuels while developing alternatives at a realistic pace.

Second, far from undermining security of supply, rising Chinese oil demand promotes essential investments by the petroleum sector.

Third, more expansive and diverse strategic foreign direct investments by China will deepen relations between this nation and its international partners.

Fourth, people-to-people contacts will remain the essential foundation for a deepening relationship.

And finally, Saudi Aramco's relationship with China is very much a two-way street, and as we work with our partners to establish more joint ventures here, I look forward to even more traffic and trade—including additional Chinese investments in Saudi Arabia—along the “energy superhighway” connecting our company with this great nation. *Xie xie.*
