Oil

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China, India and the oil market

The global scramble by China and India for oil assets abroad started to worry western oil majors last year. Egged on by governments concerned about energy security, once-irrelevant Asian energy firms gobbled up oil and gas everywhere from Ecuador to Canada to Kazakhstan. China's CNOOC even made an audacious (although ultimately unsuccessful) $18.5 billion bid for America's Unocal. But the setback has not dented CNOOC's ambitions. The company has just announced a successful $2.25 billion deal for oil and gas assets in Nigeria. There are market rumours that the same Chinese firm is now looking to snap up Nations Energy, a Canadian firm with assets in Central Asia, for a further $2 billion. The new king of Saudi Arabia has just announced that his first trip abroad will be to China and India.

Western majors, which are already finding it hard to replace their oil reserves, see the emergence of new Asian rivals as a sign of trouble ahead. And the past few weeks have raised the spectre of a force even more threatening than China and India competing to buy assets: the insecure giants working hand in hand.

Given the historical animosities between the two countries, that may seem unlikely. But Mani Shankar Aiyar, India's petroleum minister, signed a series of energy co-operation agreements during a visit to China this month. Mr Aiyar proclaims that, from now on, the two countries will see each other less as strategic competitors than as strategic partners.

The Indians have an interest in working with Chinese oil firms because, in recent years, they have been consistently bested by their richer neighbour. Over the past couple of years, Chinese companies edged out Indian ones in Ecuador, Kazakhstan, Angola and Indonesia. But why would the Chinese bother to co-operate with the Indians? Geopolitical machinations offer one possible reason. America has recently cosied up to India, offering it nuclear technology and other carrots. It may suit China to offer the Indians some rival attractions, by jointly bidding for assets in Iran, Myanmar and other countries that are out of favour with America.

Co-operation would also make some financial sense. During last year's bidding for PetroKazakhstan, a Canadian outfit with lucrative oil assets in Central Asia, the Chinese paid a premium of perhaps $500m to see off a rival Indian bid. And there is evidence that co-operation is more than just talk. As if timed to silence critics before the ministerial love-in, India's ONGC Videsh and China's CNPC announced last month that a joint bid had secured a stake in an oil field in Syria—not exactly America's favourite ally.

But while the two countries will work together when it suits them, they will also continue to pursue their energy interests separately as well. The Chinese have their African and Central Asian deals. And India's ONGC has just agreed to work closely with Shell to develop and produce oil across the world. In the new oil world there will be no clear dividing line between rivals and partners.