



Chinese demand growth continues (for oil and everything else too...)

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As we look at the world market for fuels, one of the major growth areas in demand continues to be China. And, given their considerable potential impact on which product goes where and from what resource, in the future, it is interesting to put a few news items together and see where the wind is blowing.

One could start by noting that China's economy has been growing at [10.7% this year](#) about 2.7% above the initial target of 8%, a number that has also been set as the official rate for next year, at this point. And while there are some [publicity stunts](#), such as trying to stop private cars driving for a day, that will both highlight the current reported consumption of 8.7 mbd by those cars, it will also highlight the benefits of public transportation, one can assume that the current trend of higher than official growth rates may well continue. However even though the power generation system is currently [hurting](#) due to a drought that has lowered water levels, newly built coal and natural gas plants should cover the shortage.

China's seasonal hydropower output has been falling since August as dry weather shrinks reservoirs, but two years of rapidly rising coal- and gas-fired power generation should prevent another surge in oil demand.

Power generation from hydropower plants -- which can produce up to a quarter of China's electricity -- fell 10.3 percent on year in October, raising the burden on other plants to meet China's 10-plus percent growth in electricity demand.

Output was down by 8 percent and 4 percent, respectively, in the preceding two months, as water reserves shrank and the southwest was crippled by a drought that state media said was the worst in over a century.

In their move to build a Strategic Petroleum Reserve, China has also been exceeding [anticipated purchases](#) this past month.

Of the total, 2.5 million barrels on two tankers were Oman crude, and one tanker of about 1.9 million barrels each came from Yemen, Russia and Kuwait, one source said. Crude traders had speculated that some of the additional barrels could be from Oman after top refiner Sinopec, the largest single buyer of Omani crude, was seen lifting around eight million barrels of the grade for November loading, more than its usual four

to six million.

It was unclear whether the move was part of Beijing's long-term energy strategy to provide an emergency buffer amid rising imports or a commercial move by Sinopec, which has leased 10 million barrels of capacity for its own use as the government debates policy.

Certainly if prices are lower, and the Chinese need to grow their SPR, this would be a good time to grab that opportunity. Though there are other opportunities they are also taking advantage of.

Rosneft, the Russian oil company is now apparently going to invest [heavily in China](#).

Russia's state-run oil giant Rosneft is to build hundreds of petrol stations in China as part of a plan to double its business in Asia.

The scheme is part of a joint venture between Rosneft and China National Petroleum Corporation (CNPC). Rosneft plans to build a joint refinery in China with CNPC. Also as part of the deal, CNPC will extract crude oil from Russia's Eastern oil fields, and Rosneft will increase its crude exports to China.

Speaking at the opening ceremony for the Rosneft Asia Pacific office in Beijing, chief executive Sergei Bogdanchikov said his company would increase the amount of oil it sells to China by around 7 million tonnes to 20 million in 2007. Russia is seeking to diversify its energy exports away from Europe and is already building two gas pipelines to China.

Supplies through the current pipeline from [Kazakhstan](#) will be raised by a million metric tons, and in addition the Chinese can expect more supplies from Sakhalin Island. In addition the Chinese have arranged to receive [natural gas from Iran](#)

"According to the agreement, 3m tonnes of LNG will be exported (annually) by Pars LNG project for a 25-year period to the Chinese market starting early 2011," NIGEC official Majid Zamani was quoted as saying.

The Pars LNG project, which teams up the National Iranian Oil Company, French Total and Malaysian Petronas, is one of three consortia in Iran producing LNG.

Phase 11 of Iran's offshore South Pars gas field, which is still to be finalised, is slated to feed the LNG production facilities of the project.

and is now [talking with OPEC](#) about more formal relations, particularly to remove Chinese dependence on oil from the "hot spots" of the world. Chinese demand for natural gas is [anticipated to grow](#) so that they will need to import an equivalent amount to the Iranian supply from Malaysia. One wonders, as they look at larger quantities of foreign imports, if they will also start looking at having it shipped [in solid form](#).

The Chinese are also making moves to open more of their markets to [foreign firms](#), although the restrictions that they are apparently putting on those interested may limit the opportunity more than a little.

Those seeking permits must have refining capacity, an import business or wholesale supplies, the ministry said in guidelines published on its Web site (www.mofcom.gov.cn).

They must also have at least 10,000 cubic meters of storage capacity, and access to pipelines, dedicated rail lines, docks or specially equipped vehicles for transport.

Total, however, plans on being one of [the players](#).

Looks as though there is a lot going on over there.



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