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The Chinese Puzzle

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One often forgets that while we have hurricanes at this time of year (though it looks as though Irene is heading back out to sea, and the 10th depression this year is now dissipating), similar problems occur in Asia with typhoons, their name for the same thing (and they have seen their 10th severe storm already).

For example Typhoon Haitang hit Taiwan last month, disrupting tanker flow and this is now leading to severe fuel shortages in southern China. Further the rising prices are leading truckers to anticipate a fuel surcharge.

> Lok Ma Chau China-Hong Kong Freight Association chairman Stanley Chiang said the union has suggested the levy because many self-employed truckers have lost income as a result of the fuel increases over the past year.

The continuing shortage has resulted in rationing of fuel in the region.

> China's most prosperous city of Guangzhou has begun rationing gasoline and diesel to cope with a fuel shortage. Guangzhou experienced a monthly shortfall of approximately 12,200 barrels per day of oil products, Xie Zhaowei, secretary of Guangzhou's Petroleum Industry Association, said.
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> China National Petroleum officials said soaring oil prices and a refinery-imposed supply crunch led to a shortage in the consumer market. China's growing energy consumption is also a factor.
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> "Asia's largest oil refiner Sinopec relies on imports for much of its crude for refining, so the surging crude prices on the world market have greatly hurt the oil giant's refining business, when the central government still controls the price of domestic refined oil to stabilize the market," a CNPC official was quoted by the China Daily.

And there are the pictures of lines at gas stations, which are becoming endemic across Asia.

There is a lot of concern about the true nature of demand from China this year, since the level that it reaches may well control the overall balance between available supply, the demand at that price, and where it goes. In this regard there is a very thoughtful piece at Petroleumworld, citing the most recent IEA report (only the summary of which is available here).

> "The IEA estimates that at the beginning of July suppliers to the Chinese domestic market were losing 20 dollars per barrel or more on every barrel of gasoil supplied. The

> average price of a barrel of gasoil on the Singapore market in July was 70 dollars.
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> The interpretation implied by the IEA data is that, insofar as suppliers are under state control, consumption of oil and of many derivatives -- the essential fuel of the growth of the Chinese economy -- is being subsidised and therefore stimulated at considerable cost by the government itself.
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> However, many other forces, driven by intrinsic growth of the economy -- an increase of car ownership for example -- have been the main power behind the rise of demand for energy and with it oil.
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> But IEA data also indicates that those Chinese traders or refiners that are not state-controlled -- and therefore are not subsidised and cannot afford to supply the domestic market -- and which also have freedom to export, are turning China as a whole into a net exporter of some products. These are gasoil, gasoline (petrol), and naphtha which is used as a petrochemical feedstock or to make gasoline.
>
> It is thought that these products are being drawn into Asian markets by strong growth throughout the region, itself partly driven by growth in China, and also by a shortage of world refining capacity."

This, more nuanced review, is in contrast to the Newsweek opinion, which concludes that demand from China has fallen because the economy has slowed down.

I suspect that some of the slowdown in demand has been because of the limited capacity that China has had in its refineries, but with new ones coming on line, demand may now increase. Certainly, however, the situation is complicated by the prices charged and the role of subsidies. That seems to be an issue across Asia.

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