



## Tech Talk - Conclusions on the Chinese Energy Situation

Posted by [Heading Out](#) on September 23, 2012 - 12:56am

Although energy policy has not been a significant issue in the current political debate over who should be the next president of the United States, this has not been a particularly good month for that future. In August, the Alaskan pipeline pumped an average of [399 kbd from the North Slope](#). As winter approaches, that number needs to be above 350 kbd to ensure that there are [no solids built-up](#) within the pipe, and each year the numbers fall a little closer to that limit.

Just this past week, Shell announced that they will not complete any wells in the Chukchi Sea this year, but will only partially drill a number of wells, and [leave completion until next year](#). This despite the fact that the Arctic ice acreage fell to the [lowest level in 33 years](#), the time over which these measurements have been made. Further, over in Russia, the promised development of the Shtokman field, postponed several times in the past, has again been [put back on the shelf](#). The arrival of increasing quantities of shale gas, and the loss of the market to China have reduced the need for these supplies in the short term. At the same time, the Russian government is again seeking support from Western companies for developments in [East Siberia and offshore](#). They are apparently still [courting BP](#).

Overall, US crude production has stabilized, following the impacts of Hurricane Isaac, but is not following [the steadily upward production path](#) that folks such as Wood Mackenzie anticipated. That would require that the curve continue upward at a gain of around 0.5 mbd/year, which would be around the overall average for the gain this past year, but as a continuing slope, passing through the current apparent plateau.

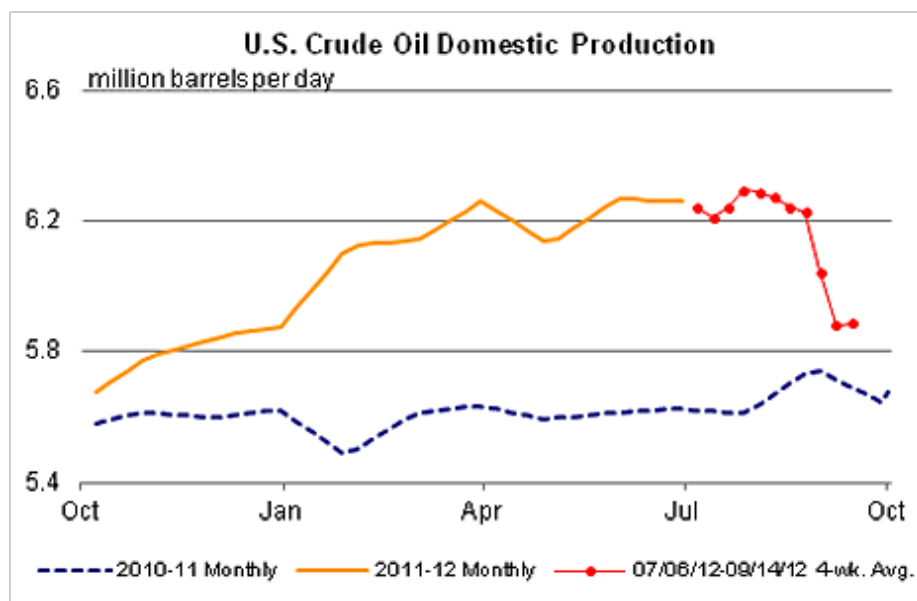


Figure 1. US Crude Statistics for the week of Sept 20th 2012, ([EIA TWIP](#))

It is this halt in the increase in oil production that is perhaps of the most concern to China (as well

as the rest of us). While it can be shown that China has been able to provide for its future intermediate-term demand for [natural gas](#) and [coal](#), they must have less confidence in their ability to sustain their growing demand for oil. The presumptive reason for that lack of confidence should come from a realistic assessment of their growth in demand relative to the supply and demand scenarios for the rest of the world, Figure 1 playing some part in that realistic analysis.

The disagreements between China and Japan over island ownership in the China Sea is continuing to [roil the waters](#). While the issue is nominally over who owns the [Diaoyu/Senkaku Islands](#), the aggressive position that China is taking not only here, but [also with other nations](#) that border on the South China Sea show no signs of diminishing. Following a meeting between Secretary of Defense Panetta and the Japanese Foreign Minister Koichiro Gemba, the Japanese have stated that the US recognizes that the disputed islands fall [within the purview of the U.S.-Japan security treaty](#). China, in response, is sending hundreds of fishing boats into the region, as well as official government ships that will monitor events.

“We will send monitoring ships in waves, and have them remain around the Diaoyu Islands at all times to display our will to defend our sovereignty,” the Chinese official said.

The official added that the Fisheries Bureau will also work closely with the State Oceanic Administration.

According to the Fisheries Bureau, as of Sept. 19 more than 700 Chinese fishing boats were operating within 127 nautical miles, or 235 kilometers, of the Senkakus. Of these, 23 were within 60 nautical miles, or 111 km.

The official said commercial fishing boats will enter waters close to the islands at a time to be decided “based on the situation,” indicating that it will depend on Japan’s response.



*Figure 2. Chinese fishing boats off the Senaku/Diaoyu Islands ([Asahi Shimbun](#))*

We are coming to the end of the period where increases in global demand for oil could be met by developing new reserves, or by expanding the production from older fields. Yet, while driving across America this past week, the amount of investment being made in repairing the interstate highway system, and expanding the number of lanes bringing cars into the cities shows that there is continuing commitment to automobile and truck transport in the USA. (And as an aside, there appeared to be more trucks on the road than I remember seeing in the past 3 or 4 years).

With a slow but significant re-growth in the American economy, certainly helped by the low price

of natural gas, there remains a serious lack of viable alternative fuels to replace oil for use in transportation. Thus the demand for oil in America and Europe will continue to be sustained. It will continue to rise in those countries such as Brazil, Russia, China and India where automobile use has yet to fill the potential market. For the next few years, Brazil and Russia can probably meet demand from their increased use of internal supplies, albeit by reducing exports. India and China, and their ilk, cannot.

Conflict over resources is, of course, not by any means new. [Maschner and Reedy-Maschner](#) have documented such conflicts in the Pacific Northwest during early arrivals of native peoples from Siberia, and conflict and warfare (as evidenced from skeletal remains) is [pervasive throughout human history](#), from some of the earliest of times. (Stone weapon points found in mastodon skeletal remains are also found associated with some early human skeletal remains, showing that the tools were likely causes of the death of both).

The problem, however, that comes in the future is not just that the more powerful nations of the planet will need more crude oil resources than they can provide for their peoples on their own. It will become more difficult to identify places where it is practical to carry out an invasion that will then provide the needed volumes for a given country. Evidence of recent conflicts (Iraq is a prime example) show that conflict makes resource recovery more difficult and delays levels of production that might be achieved if the conflict did not occur.

Perhaps the Chinese use of fishing fleets is an attempt to achieve its goals without going to physical war. If so, it is unfortunate that the locations in which it can be deployed are likely to be few. Yet, at a time when most of the rest of the world appears unwilling to face the coming limitation on a vital resource, or to recognize that a problem might even exist, the Chinese awareness of the situation and their pro-active positioning of themselves to assure reserves ahead of other nations is beginning to be a greater concern.



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