

# ***CHINA'S OMNIPRESENCE IN THE GLOBAL OIL MARKET***

Mamdouh G Salameh, World Bank, Washington DC / Oil Market Consultancy Service, UK  
Phone: +44 1428 644137, E-mail: [mgsalameh@btconnect.com](mailto:mgsalameh@btconnect.com)

## **Overview**

The single most important driver of shifting dynamics in world oil markets is China. It alone will continue to account for most of the world demand growth throughout this decade and probably the next. In September 2013, China's net oil imports exceeded those of the United States for the first time, making it the largest importer of crude oil in the world.

The much-heralded advent of China as the other superpower is now a reality. Since 2007 China has been contributing more to global growth than the United States, the first time another country had done so since the 1930s. It has also become the world's largest consumer, eclipsing the United States in food, primary energy and industrial commodities.

China's economy stood at an estimated \$9.15 trillion in 2013 in market exchange rates. It is the second largest economy in the world after the United States'. However, based on a purchasing power parity (PPP) used by the World Bank and the International Monetary Fund (IMF) as a measuring stick, China's GDP is \$13.36 trillion. China's GDP is expected to overtake the United States' on PPP basis by 2015 and by 2020 using market exchange rates.

However, China's robust economic growth would falter without oil. That is why China has been aggressively using its considerable financial resources to offer billions in development credit, underwritten with oil, especially in Africa, Latin America, Asia, the Middle East and even Russia. China is now the biggest importer of Saudi oil, the second-biggest of Iranian oil, and the largest player in the Iraqi oil game. China's national oil company, CNPC, shares equally with BP the contract to develop Iraq's biggest oilfield, the 'Rumaila' in the south with estimated proven reserves of 17.8 billion barrels (bb). This is the biggest contract signed by the Iraqi government so far.

Since it became a net oil importer in 1993, China has greatly increased its oil imports from 20,000 barrels of oil a day (b/d) then to 6.06 million barrels a day (mbd) in 2012 accounting for 59% of consumption and this is projected to rise to 68% by 2020 and 73% by 2030. This rise in oil consumption and in oil imports is the result of several factors, including rapid GDP growth, urbanization, improving standard of living and a sharp increase in the number of vehicles on the country's roads. Another factor is the building of strategic petroleum reserves (SPR) with the intention of stockpiling 50 days' imports or 500 million barrels (mb) by 2015 and 90 days' imports or 1017 mb by 2020.

The global oil market is at a crossroads. Current global trends in oil supply and demand are patently unsustainable environmentally, economically and socially. Cumulative investment of more than \$13 trillion is needed between now and 2030 in oil exploration and expansion of production capacity worldwide. Some 64 mbd of additional capacity – the equivalent of almost seven times the current Saudi oil production – needs to be brought on stream between now and 2030. This figure makes allowance for the annual oil production depletion.

From energy security point of view, one of the biggest threats to maintaining a stable oil price in the long run will be satisfying growth in Chinese demand. That is what is putting pressure on prices.

Global spare capacity this decade will thus remain strained even while the oil industry runs at full steam. Even with huge additions in the Middle East, Canada and Brazil, it will remain tight. The fact that most of the global output growth for the remainder of the decade is expected to come from Canadian oil sands, Brazilian and Angolan deepwater offshore oil, American shale/tight oil, and Venezuelan heavy oil, all of which are unconventional or cost significantly more to produce, augurs a more bullish future for oil prices.

So we remain in the horns of a dilemma. The global economy needs a price of oil of less than \$100/barrel. However, it seems that the only way we can restrain demand is by prices far above \$100/barrel.

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## Methods

The paper will analyse the global oil market fundamentals to find out how China's steep-rising oil demand, its search for new sources of oil and also its acquiring of oil production assets around the world would impact on the oil price, the global oil market and the world economy at large.

## Results

The paper will argue that one of the biggest threats to maintaining a stable oil price in the long run will be satisfying growth in Chinese oil demand and that is what putting pressure on prices. It will also argue that an optimistic oil price could range from \$100 to \$130 a barrel but in a supply-constrained world and with OPEC's spare capacity continuing to shrink, oil is unlikely to remain around that price range. The paper will, therefore, suggest that prices will continue to spike over the next five years occasionally reaching \$200/barrel in order to keep oil demand in check.

## Conclusions

The paper will conclude that China is emerging as the most important player in the global oil market. It alone will continue to account for most of the world demand growth throughout this decade and probably the next and will also be responsible directly or indirectly for driving global production gains.

It will also conclude that China's steep-rising oil demand, its search for new sources of oil and also its acquiring of oil production assets around the world will ultimately give it the final say on crude oil price globally.

The paper will project that the global economy can at most sustain oil prices that represent just about 6% of GDP translating into \$137 a barrel of Brent crude by 2015, \$156 by 2020, and \$241 by 2035.

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\* Dr Mamdouh G. Salameh is an international oil economist, a consultant to the World Bank in Washington DC on oil and energy and a technical expert of the United Nations Industrial Development Organization (UNIDO) in Vienna. Dr Salameh is Director of the Oil Market Consultancy Service in the UK and a member of both the International Institute for Strategic Studies (IISS) in London and the Royal Institute of International Affairs. He is also a member of the Energy Institute in London.

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