

Is China to Blame for the Rise in Oil Prices?

Niu Li

Is China to Blame for the Rise in Oil Prices?

By Niu Li

largest oil and gas consumer; it is also the largest importer. And in contrast to many other nations, there is no sign of policy-driven efforts to control consumption. Japan Focus.

[Many news accounts of surging oil prices have pointed at China, and to a lesser extent India, as culprits given the rising thirst for oil to fuel their high growth economies. This survey of oil demand and consumption by Niu Li challenges these assessments by showing that China's oil imports are only one-fourth those of the U.S. Equally important, China is far less dependent on oil for its energy than is the U.S., and in 2005 its oil imports increased only slightly in line with Chinese efforts to conserve energy and favor non-oil energy sources. The problem of spiking, and long-term high oil and energy prices lie above all in two realms. One is the fact that we are fast approaching the tipping point at which world oil production begins to decline, or Hubbard's Peak in the theory of peak oil explained in several Japan Focus articles. If this is correct, we face long term high and rising oil prices. The other is the failure, above all by U.S. policymakers, to make even token moves toward conservation through the use of tax and other policies to curb the rampant increases in oil consumption that distinguish the U.S. from virtually all other economies. The U.S. is not only by far the world's

On October 13, the credit ratings agency Standard & Poor's released a dramatic report, claiming that China's overseas energy strategy is one of the factors destabilizing global oil markets and pushing up prices. Some domestic experts predict that China's dependence on foreign oil will by 2020 surpass that of the United States. This is incorrect and is contributing to the so-called "energy threat from China."

As a matter of fact, big energy consuming countries such as China, the United States, Japan, Germany, the Republic of Korea (ROK) and India are all contributing to rising oil prices. But in terms of total volume, the rate of increase or the energy sector per se, laying the blame at China's doorstep is not a compelling position.

First, let us look at total volume. According to BP's Statistical Review of World Energy 2005, China consumed 310 million tons of oil in 2004, accounting for 8 per cent of the world total,

whereas the United States guzzled 938 million tons - a quarter of the global total and three times China's consumption.

In the same year, China's net imports were less than 149 million tons, accounting for 6 per cent of the world total trade, while the United States took in 590 million tons - four times China's net imports. This shows, as far as volume is concerned, China was not the most crucial factor affecting global oil prices.

Next, a brief examination of the structure of the industry. China is the world's sixth largest oil producer, and 60 per cent of its oil consumption is domestically produced. Oil makes up only 23 per cent of the country's total energy consumption, far less than coal, which accounted for 68 per cent, and also less than the world average, which is 40 per cent.

By contrast, countries such as Japan and the ROK relied almost completely on the international market for their oil, and the United States, the world's largest oil importer, bought 60 per cent of its oil on the international market. This proves that China, in terms of demand-and-supply structure, was not the major force behind the rising prices.

However, those that blame China for stimulating international oil prices can always point to growth rates. Indeed, oil consumption for 2004

grew by 15 per cent and imports of crude oil shot up by 34.8 per cent.

But this year's figures tell a different story.

The International Energy Agency estimated the growth of China's oil consumption for 2005 has so far been a mere 3.2 per cent, and the growth of import of crude for the first nine months of the year was 4 per cent, while exports of the fuel increased by 27.1 per cent. For processed oil, imports dipped by 16.4 per cent and exports climbed 38.2 per cent.

It is obvious that pointing fingers at China is groundless.

Rises in oil prices have more complicated explanations. Fundamentally, supply and demand in the global oil market is rather fragile and a primary estimate suggests that, based on supply and demand alone, the price for crude oil should be around US\$40 per barrel.

Next is the "terror premium" - the fear of emergencies such as acts of terrorism that bump up oil prices. It is reckoned that this accounts for US\$10-15 of the current per barrel cost.

The "speculation premium," adds another US\$15-20.

As for the comparative dependence on oil in China and in the United States, some facts should

be clarified. BP's review states that US dependency in 2004 was 63 per cent, and the US Department of Energy has issued a report that predicts it will reach 72 per cent by 2020.

Let's not envision China's dependency for 2020, but even if it grows to be 60 per cent, it will still be below that of the United States today or in the future.

Of course, we should not deny that as China's economy maintains its growth and consumption escalates, the country's dependency on foreign oil will grow gradually and a problem of energy source guarantees may emerge.

It is, therefore, important to study the problem and raise alerts. But inaccurate statements only serve those who want to suppress China.

In the long run, China's energy supply has a lucid strategy, which is "reliance on domestic supply and conservation." After that comes "peaceful development," which means cooperation with international partners and utilization of foreign resources.

Niu Li is an economist at the Economic Forecasting Department of China's State Information Centre. This article appeared in China Daily October 27, 2005. Posted at Japan Focus October 29, 2005.