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## China Barrels Ahead in Oil Market



Sun Nov 14, 7:55 AM ET



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By Don Lee Times Staff Writer

SHANGHAI — About a three-hour drive south of Shanghai, along the East China Sea, workers are building 52 gigantic tanks, each capable of holding more than 25 million gallons of oil — enough to supply every driver in China with gasoline for a month.



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The storage tanks will help accommodate China's thirst for oil as it looks to fuel its booming economy. And it has plans to stockpile much, much more.

China, the world's second-largest consumer of oil after the United States, has plenty of cash to secure sources of petroleum and natural gas. But as aggressively as any nation, it is also cutting deals and forging alliances to get the energy it needs.

In South America and Africa, the Chinese government is helping build roads and ports in exchange for oil supply contracts. Beijing pledged to support oil-rich Russia in its bid to join the World Trade Organization ([news](#) - [web sites](#)) as the two countries agreed that Russia would boost its exports of crude by rail to China.

And after a Chinese company's deal to develop an oil field in Iran, Beijing tacitly offered political support for Tehran's budding nuclear program. That put China in direct cross hairs of the Bush administration. The hunt for energy in the former Soviet Union and political hotspots such as Sudan is making China few friends in Washington.

China is "throwing around its economic muscle like crazy," said David Lampton, head of China studies at Johns Hopkins University's School of Advanced International Studies. "The Chinese are throwing incredible amounts of money to lock up long-term [energy] contracts. ... It's going to be a real topic of U.S.-China relations."

Some Chinese officials dismiss the threat of increased friction over

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energy.

"Although oil trade plays an important role in every field, it has a limited influence in Sino-American relations," said Han Wenke, vice director of the energy institute affiliated with the National Development and Reform Commission, an important regulatory agency of the Chinese central government.

Beijing's pursuit of energy is all about maintaining the nation's strong economic growth, which Communist Party leaders believe is the linchpin to social stability and ultimately their legitimacy. Oil and natural gas, and lots of both, are needed to keep factories running and to power all the new cars hitting freshly paved streets.

Only a decade ago, China shipped out more crude than it imported. This year it has sharply reduced exports to meet domestic needs — and it is now the world's second-largest importer of oil after the U.S.

### Rising Demand

Surging Chinese demand, which has helped drive up oil prices to record levels in the last year, is expected to rise by double-digit growth rates annually for the next 15 years.

Although crude prices have settled back in recent days to less than \$50 a barrel, China's rapid economic expansion is almost certain to add pricing pressure over the long haul. The country accounts for about 6% of world consumption; that's projected to rise to more than 9% in 2020, as Chinese oil fields dry up. (One-fifth of global oil demand comes from the United States.)

Wary of its increasing reliance on a few foreign oil suppliers, China has formulated a "go-out" strategy to diversify and expand its energy capabilities. The plan involves cooperating with 27 countries for oil exploration.

Beijing also is pouring money into developing its own pipelines and liquid natural gas terminals and launching an array of energy conservation programs at home, including imposing fuel economy standards on new cars.

One of China's biggest and latest energy ventures involves Iran, which the United States has sought to isolate for its alleged development of a covert nuclear arms program.

Late last month, Chinese and Iranian officials signed a preliminary deal in which China's **Sinopec Group** would develop Iran's Yadavarn oil field in exchange for Sinopec agreeing to buy millions of tons of Iranian liquefied natural gas. The Chinese government media valued the deal at \$70 billion.

A few days later, Chinese Foreign Minister Li Zhaoxing gave Iran important political support in the standoff over the Islamic republic's nuclear program. Li said Beijing opposed efforts to have the matter referred to the United Nations ([news](#) - [web sites](#)) Security Council, although he stopped short of saying China would use its veto power if the case were sent there.

U.S. diplomatic sources have been reluctant to comment on the deal. Some analysts said it was unlikely that Beijing would jeopardize U.S. relations over an energy pact with Iran.

- [Gaspricewatch.com](#)
- [Organization of the Petroleum Exporting Countries \(OPEC\)](#)

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But others aren't so sure.

"There is a rationale from Beijing that is very dominant: If you can supply oil and do business, we would like to sign a deal," said Wenran Jiang, a political scientist at the University of Alberta in Canada. "China is very non-ideological in that sense. They will think about it, but they're not driven by the strategic interest in Washington."

Sudan is another example. Among China's African energy partners, which together provide about 20% of the country's oil and natural gas, the single largest is Sudan. Since the late '90s, Chinese oil companies have poured hundreds of millions of dollars into developing oil fields, a pipeline and a refinery.

### No Apologies

Despite long-running criticisms by the United States and international groups about human rights abuses in Sudan, Beijing makes no apologies. When pressed on the issue, Chinese foreign officials have been quoted as saying simply that business is business.

In Africa, China has also signed deals to buy oil from Nigeria, Gabon, Cameroon and Angola. Last year China extended a \$2-billion loan to Angola in exchange for 10,000 barrels of crude oil a day.

He Jun, a senior analyst at Beijing-based Anbound Strategic Consulting Co., doesn't think China will let itself become involved too heavily in sensitive African nations such as Sudan.

"China's main purpose is still to develop its economy under a peaceful circumstance," he said. Others note that the U.S. and other big consumers of oil also have bought energy supplies from unsavory governments.

For China, more promising are its efforts closer to home. In September, construction crews began work on a 770-mile pipeline running from the oil-abundant Caspian Sea coast in Kazakhstan to China's western border, connecting with another trunk line all the way to China's east coast. The pipeline's initial capacity would be about 10 million tons of crude a year, said Matthew Cairns of Economy.com in Sydney, Australia.

Earlier, during a visit to Russia by Chinese Premier Wen Jiabao, the two countries reached the agreement about Russia exporting more crude to China. Cairns said it was no coincidence then that Wen promised to give Russia support for its WTO bid.

"It's a very cunning political maneuver," Cairns said.

In Russia, China also has sought a crude oil pipeline from eastern Siberia to Daqing in northeast China, to have ready access to supplies. But Japan appears to have won its bid to have the pipeline routed to the Russian port city of Nakhodka on the Sea of Japan.

Japanese and Chinese companies have clashed more openly over the exploration of natural gas in the East China Sea. Tokyo is worried that China would siphon gas from the Japanese side of the ocean bed, and has insisted that China provide details about the natural gas field.

Some political analysts say the competition for energy will severely test

the relations of China and Japan in particular. But energy diplomacy also raises new challenges for the West, as the economic and political center in Asia shifts from the United States and Japan to China.

Heightened geopolitical tensions over China's oil imports comes as little surprise to Jeffrey Logan, China program manager at the Paris-based International Energy Agency.

"It's only natural," he said. "The world is struggling to learn more about China. As China enters the world more and more, it's going to depend on the world's resources more and more."

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