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30 May 2007

China Rim Insights

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## China: Economic Analysis

### China's Crude Oil Imports Surge in April

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“China, at the hub of the China Rim, is home to 20.4% of the world’s population, but accounts for only 1.8% of the world’s proven crude oil reserves... Sharp economic expansion has already created an annual crude oil production deficit of more than 0.7 billion barrels in China, despite the fact that China’s annual per capita crude oil consumption is still only 1.6 barrels, 93.7% less than the US’s 25.4 barrels.”

*Crisis on the China Rim:  
An Economic, Crude Oil, and Military Analysis*  
14 April 2005  
Laguna Research Partners LLC

***The General Administration of Customs<sup>1</sup> of the People’s Republic of China announced last week that China’s imports of crude oil skyrocketed during the month of April.***

...during April 2007, China’s crude oil imports totaled 14.8 million metric tons (110.7 million barrels) ...this equates to roughly 493,333 million metric tons (3.69 million barrels) on a daily basis ...these figures represent a powerful 23.2% year-on-year (YoY) increase ...also, China’s crude oil imports in April represented a new monthly record for the country

...China’s crude oil exports during April totaled 594,598 million metric tons (4.4 million barrels) ...on a daily basis, exports were an estimated 19,899 million metric tons (148,840 million barrels) ...on a YoY basis, these figures represent a decline of 16.0%

***During early 2007, China’s crude oil production was negatively impacted by severe snowfall in the northeast provinces that temporarily shuttered a significant, though indeterminate, number of producing wells.*** The country’s crude oil production now appears to be recovering from that weather-related slip.

...crude oil production in China during April was 15.4 million metric tons (115.2 million barrels) ...daily production was 513,333 metric tons (3.84 million barrels) ...on a YoY basis, these figures are up roughly 2.0%

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<sup>1</sup> Source: PRC General Administration of Customs (www.customs.gov.cn)

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***China’s “implied demand” for crude oil—this is calculated as net imports plus domestic production—was up moderately in April. However, we view this commonly cited statistic as highly suspect.***

...based on the import and export figures discussed above, China’s net imports of crude oil in April were 14.2 million metric tons (106.3 million barrels) ...adding the country’s reported April production of 15.4 million metric tons (115.2 million barrels) yields an implied demand value of 29.6 million tons (221.4 million barrels) ...this figure represents an increase of roughly 4.0% YoY in implied demand in the month of April

...importantly, the implied demand calculation above does not account for changes in China’s crude oil inventories ...further, China does not release crude oil stock figures ...calculations of implied demand are further complicated by the fact that China is in the early stages of establishing a strategic petroleum reserve (SPR) ...in our view, this reserve will serve several purposes ...first, as is widely accepted, China’s SPR will give the Chinese economy a buffer against supply disruptions ...this is critical given that a substantial portion of China’s crude oil imports are derived from the volatile Middle East and must travel highly vulnerable transit choke points such as the Strait of Hormuz and the Straits of Malacca ...second, the SPR will further enable China to obscure real crude oil demand trends by raising and lowering SPR inventory levels ...there are notable limits to China’s data transparency in two sectors critical to national security, defense and energy ...and, third, we expect that China will attempt to use its SPR to “time the market” by building SPR stocks when crude oil prices are perceived to be low and drawing SPR stocks down when prices are perceived to be high

***Industry sources indicate that China drew its SPR levels down during early 2007. This would imply that the country’s April surge in crude oil imports was not only driven by the need to simultaneously satisfy trendline domestic energy demand and add to the new SPR, but also by a need to re-fill early SPR inventories already drawn down.***

...China’s first SPR location, Zhenhai, is believed by industry sources to be nearly filled ...the crude oil capacity of that location is estimated to be 32 million barrels<sup>2</sup> ...our sources indicate that Zhenhai took delivery of 37 million barrels in total, implying that approximately 5.0 million barrels have since been released to market

...during late May, China is scheduled to begin filling tanks at its second SPR location, Aoshan, an island off of the eastern province of Zhejiang ...the first shipment of roughly 2.0 million barrels is

<sup>2</sup> Source: US Energy Information Administration ([www.eia.gov](http://www.eia.gov))

arriving at Aoshan via VLCC (Very Large Crude Carrier) from the Middle East ...in total, China is aiming to pump more than 100 million barrels of crude oil into its various SPR locations by year-end 2008 ...the process of filling China's SPR tanks is expected to add an average of 100,000 to 150,000 barrels per day—36.5 million to 54.8 million barrels annually—to China's oil imports<sup>3</sup>

As always, clients of Laguna Research Partners are welcome to contact our firm for additional details.

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<sup>3</sup> Source: Facts Global Energy ([www.fgenenergy.com](http://www.fgenenergy.com))



In April 2005, Laguna Research Partners issued *Crisis on the China Rim: An Economic, Crude Oil, and Military Analysis*. In that study, we detailed a radically new context for analyzing the emergence of the Chinese economy, the impact of that emergence on global energy markets, and the implications of China's economic rise for the People's Liberation Army, the ultimate guarantor of China's energy security. Our *China Rim Insights* series provides our business intelligence and investment research clients with on-going updates to our original China Rim thesis.

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