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China's Ever-Growing Oil Needs May Result In A Global Shortage

By Doug Tsuruoka

It's nice to have a red-hot economy like China's that's hitting on all cylinders. But where will it keep getting the gas to fill its tank? And will there be enough to go around?

On Tuesday, China said its GDP rose a faster-than-expected 9.5% in 2004 to a record $1.65 trillion.

China's demand for crude has grown even faster. Its oil imports hit a record 12.1 million tons in December. For 2004, they soared nearly 35% to 122.7 million tons.

China will consume 8 million barrels of oil daily by the end of 2006, the U.S. Energy Information Administration estimates. vChinese demand has been a big factor, pushing oil prices to record levels last year.

As China guzzles crude to feed its breakneck economy, it could trigger a global shortage. China is striking deals with oil exporters around the world to secure its supply. vThat could leave other nations dry. The U.S., which is the world's largest consumer of oil, would be the most affected.

"The Chinese are on an aggressive quest to increase their supply of oil all around the world; whether Iran, Sudan or Venezuela, you name it, they are after it," said James Lilley, an ambassador to China under President George H. W. Bush.

Saudi Arabia, Oman, Sudan and Yemen already supply over 39% of China's crude, according to China's Customs General Administration.

The Institute for Analysis of Global Security, a Washington think tank, predicts in 20 years China will import as much oil as the U.S., or about 10 million barrels a day.

The U.S. uses about 20 million bpd. China could top that in 2030 when it has more cars on the road.

"It's a hard issue to ignore if one contemplates a billion Chinese driving gas-hogging SUVs," said John Pike, who heads GlobalSecurity.org, a Washington-based policy research group.

The hard fact is that there's only so much oil in the world, said Anne Korin, the IAGS director of policy and strategic planning.

"Demand for oil in China is growing at a blistering rate, about 30% to 40% a year," Korin said. "Demand is coming not just from China, but also from India and the rest of the developing world. To meet that demand, there's going to have to be four to five Saudi Arabias out there. If not, there's going to be a huge crunch."

Not Enough Oil?

There aren't four more Saudi Arabia's out there, Korin said. That's why, she said, industrial nations like the U.S. will end up competing with China for shrinking supplies.

Recent reports say Chinese firms are striking long-term deals in Canada to tap North America's biggest oil reserves. Until now, Canada sent almost all its exports here.

Lilley stresses it's unclear if China will seriously challenge the U.S. for future sources of oil. "The (oil) picture is complex, and you can't make a prediction at this point."

Large oil reserves are being developed in the Caspian Sea, Siberia and South China Sea, but Korin said current data show there aren't enough to meet everyone's demand for oil later this century. New reserves could be found, but the oil might not be easy to extract.

There's also concern about how China's thirst for oil might merge with larger Chinese political aims.

China, which already sells arms to Sudan and Iran, could use these sales to push producer nations to divert more output its way.

Tension with the West also might spur Muslim oil-exporting nations to divert more oil to China. The Arab oil embargoes of the 1970s showed how politics can roil oil markets.

But the oil business has historically been ruled by a world market in which all nations participate, despite periodic political hiccups.

Pike said the issue is if China would break with this precedent if oil becomes scarce.

"The question is whether China would take the oil coming out of their concessions in Canada or elsewhere and withdraw it from the world market for their own use. Would they do that? I don't know," Pike said.

Analysts say there's hope China won't engage in an "oil race" with the U.S. Chinese energy officials said at an Asian oil conference last year that if world oil prices get too high, they'll step up efforts to generate power from nuclear plants or from agricultural waste and coal.

Bryant Tong, a managing director of Nth Power, a San Francisco-based energy-tech venture capital firm, said China is serious. Tong is part of a nonprofit, the China/U.S. Energy Efficiency Alliance, which advises Chinese officials.

"We bring in U.S. experts and advise Chinese politicians," he said. "With (U.S.) help, China can leapfrog into the 21st century and use energy efficiencies that help them lessen dependence on foreign oil."
