

Progress noted on China's strategic reserve

By Oil and Gas Journal editors

HOUSTON, July 12 -- China, the world's third largest oil importer after the US and Japan, is making progress in building a strategic petroleum reserve (SPR), said Energy Security Analysis Inc., Wakefield, Mass.

China's first storage base in Ningbo (Zhenhai), with a capacity of 29 million bbl of crude oil, is to be complete in August and hold crude oil before yearend.

"Last year, China imported 45% of its total crude oil, and this percentage is likely to go beyond 65% by 2020," said ESAI oil analyst Wenchao Su. In addition, China's import sources are highly concentrated, with 50% of imports coming from the Persian Gulf and 30% from Africa.

"With political instability in the Persian Gulf, potential conflicts with the US over Taiwan, strategic competition with Japan and India over energy, and the instability of Russian government policies, it is vital that China build the SPR in order to protect itself from any potential oil supply disruption," Su said.

At current crude prices, the Chinese government remains cautious about filling the Ningbo base storage. Chinese government officials expect other storage bases in Dalian, Zhoushan, and Qingdao to be completed by 2007.

But ESAI believes it could be several years before these tanks are filled. The four bases together will represent total storage capacity of 102 million bbl of crude, representing about 40 days of oil imports.

The government has said it plans to increase its strategic storage capacity to 55 days of imports by 2015 and 90 days by 2020.

"China's dramatic growing dependence on oil imports in recent years has certainly increased the sense of urgency within the central government in dealing with energy security issues," Su said.