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China helps global demand

Translate



President Donald Trump, left, participates in a welcome ceremony with China's President Xi Jinping at the Great Hall of the People in Beijing on May 14. MARK SCHIEFELBEIN — ASSOCIATED PRESS FILE

By Aamer Madhani
The Associated Press

WASHINGTON>> It could be much worse.

When President Donald Trump launched his war against Iran in late February, energy analysts issued dire warnings that oil prices could more than double during a protracted conflict and urged investors and motorists to buckle up for a bumpy ride. The war grinds on, and oil prices certainly remain volatile. But the most dire projections have not yet come to pass six months into a conflict that has no end in sight.

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Chinese President Xi Jinping, who is making a much-anticipated state visit to Washington next week, could make a credible argument that the world has his country's energy strategy to thank for that.

It's unclear how much the two leaders will discuss Iran during the visit, which comes as Trump's Republican Party faces pressure from voters over high gasoline prices, and as China's buffer is being further tested as the conflict in the Middle East spreads. Trump, who has sought to keep a fragile trade truce with Beijing intact, has been careful in public comments about differences with Xi over the country's relationship with Iran.

"We've been free-riding off Beijing in a weird way," said Rosemary Kelanic, director of the Middle East program at Defense Priorities, a Washington think tank. "China's doing it because they understand that they're on the train that Trump is driving off a cliff. If oil prices go way up, that hurts the global economy. If it hurts the global economy, it hurts them."

Beijing spent years and billions of dollars amassing the world's largest oil stockpile, building its strategic reserve to about 1.4 billion barrels by the end of last year, according to the U.S. Energy Information Administration's estimates. To protect China from foreign supply risks, Xi made energy self-reliance a part of the country's latest five-year plan.

Drawing from the massive stockpile allowed China, the world's second-biggest oil consumer and Iran's top buyer, to dramatically cut crude imports once the U.S. and Israel began their bombardment and Tehran effectively closed the Strait of Hormuz. The country also was helped by its shift toward electric vehicles in recent years and increasingly tapping into other energy alternatives.

China's oil import diet in turn helped ease global demand, softening the upward price effects for the United States, Europe and beyond.

"The Chinese deserve credit," said retired U.S. Navy Rear Adm. Mark Montgomery, an analyst at the Foundation for Defense of Democracies, a hawkish Washington think tank. "They did in 10 years what took us 25 years after the 1973 oil crisis to do: really build a kind of strategic petroleum reserve that could allow you to weather this."

But that resilience faces new challenges. Attacks by Iranian-backed militias this month led Saudi Arabia temporarily to shut a vital pipeline that transports crude across the kingdom to ports on the Red Sea.

The Yemen-based Houthis also have seized two strategic islands in the southern Red Sea, bolstering the rebels' ability to disrupt a key maritime shipping route. Planned talks among Gulf nations focused on reopening the Strait of Hormuz, which were supposed to take place last week, also have been put on hold.

Before he meets Xi, Trump is set to meet Tuesday with leaders of the Gulf Cooperation Council in New York, on the sidelines of the annual United Nations General Assembly. The group includes Saudi Arabia, the United Arab Emirates, Qatar, Oman, Kuwait and Bahrain. Analysts at Bank of America last week forecast oil at \$83 a barrel for the second half of the year "in light of more persistent disruptions to Hormuz" but said they still expect shipping through the strait to pick up gradually.

But if violence escalates and keeps a chokehold on traffic, prices could reach \$95 to \$120 a barrel, while damage to major energy infrastructure could produce spikes of up to \$150 a barrel, the analysts wrote.

Brent crude averaged about \$69 per barrel last year and currently is hovering around \$100. Brent crude briefly peaked in late April, touching \$126.

How China has weathered the volatile oil market caused by Trump's war is ultimately seen by Beijing as "a vindication of Xi's last five-year plan and his focus on self-reliance," said Jonathan Czin, a former senior CIA analyst who is now at the Brookings Institution.

The war in Iran — and its impact on the global economy — is expected to be on the agenda for the Trump-Xi talks. But the prospects of the world's two biggest powers coming up with a breakthrough appear dim.

Over the course of the conflict, the Trump administration has faced resistance when urging Beijing to use its considerable economic leverage to press the Islamic Republic to end the war and reopen the Strait of Hormuz.

Chinese officials, who have expressed strong opposition to the U.S. war, also have bristled at more recent administration threats to ratchet up economic pressure on nations and entities still doing business with Iran.

To be certain, analysts say there's little altruism in how China came to sit on its massive stockpile of oil.

Experts believe Beijing was driven by contingency planning for potential military action to take over the self-ruled island of Taiwan, which China considers its own territory. Tapping the reserves now has been far from ideal for Beijing — but seeing global oil prices skyrocket was not ideal, either.

The leaders last met in Beijing just four months ago and could meet twice more this year.

After the talks in May, Trump claimed Xi agreed with him that a nuclear-armed Iran is a bad idea and that the Strait of Hormuz must be reopened. Chinese officials have neither affirmed nor denied Trump's telling of the private conversation.

The U.S. administration also has warned China not to aid Iran's military effort. But last week, Trump downplayed a Wall Street Journal report that Chinese entities had supplied Tehran with satellite images of a Jordanian military base before an Iranian strike in July that killed three U.S. soldiers working there.

"You know, when they say that China spies on us, I say you're right, and we spy on them too," Trump told reporters.

Trump at the outset of the war called the conflict a "little excursion" that would last a matter of weeks.

He repeatedly has predicted that oil prices will quickly plummet once the conflict ends. Less than three months into the conflict, he even declared "everybody was wrong" because the most dire projections for oil prices didn't come to pass.

The White House did not respond to queries on whether Trump credits China's actions with helping keep oil prices from hitting the worst-case levels.

But energy analysts credit Beijing's slashing imports as having the single greatest impact on moderating prices since the start of the war. China's crude imports averaged just 8.1 million barrels per day in the second quarter. That's almost 4 million barrels per day, or 32% lower than in the first three months of the year, according to U.S. data.

"It's remarkable how China managed the market," said Michael Lynch, president of Strategic Energy and Economic Research, a firm providing consulting services and analysis in the oil and gas industry. "They didn't panic, and by turning to their inventories they kept the price down for everybody."

