

China can move price of oil by not buying

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After the war in Iran cut off a fifth of the world's oil supply, oil prices jumped, at one point reaching nearly \$120 a barrel. But they didn't spike higher, even though some analysts warned ominously of \$200 oil, and prices have since come down.

At more than \$80 a barrel, oil is expensive. But it could be a lot higher.

One major reason was China.

The biggest oil buyer in the world, China has kept a lid on prices by rapidly reducing the amount of oil it imports. Before the war began, China imported an average of 11.6 million barrels per day. By May, its purchases of overseas oil had plunged to below 8 million barrels a day, its lowest point in over eight years, according to customs data released by Beijing.

While oil prices hit a three-month low Monday as the United States and Iran said they reached a framework agreement for ending the war, analysts said China will still hold considerable sway over the global market.

"The reduction in Chinese oil imports is one of the most important reasons oil prices are not going through the roof right now," said Jason Bordoff, the founding director of the Center on Global Energy Policy at Columbia University.

The world has lost more than 14 million barrels per day since the United States and Israel began a joint military campaign against Iran on Feb. 28, prompting Iran to shut the Strait of Hormuz and create the worst oil supply shock in modern history.

The economics of energy were upended around the world. Drivers cut back on gasoline purchases. Governments forced blackouts to reduce power demand. Airlines reduced flights to save on jet fuel.

China, too, took steps to reduce its demand for imports. It tapped its huge oil reserves, which dwarf those of other countries, while reducing production in refineries and using more coal, according to Michal Meidan, head of China energy research at the Oxford Institute for Energy Studies.

"The fact that China, to date, has not needed to tap the market significantly for alternative supplies has limited price increases," she added.

The country's transformation in recent years into the world's first clean energy superpower has also helped.

Another factor putting downward pressure on oil prices over the past three months has been an increase in production by the United States to record levels. Some oil has also still exited the Persian Gulf, in part through land pipelines. tankers willing to pay tolls to Iran and fleets running dark with their transponders turned off to evade detection.

But China's plummeting oil imports have played an outsize role in capping global prices.

Much as it did after Russia invaded Ukraine in 2022, China has restricted exports of diesel and gasoline, holding on to more for its own use. Just days after the war began, the government ordered its major state-owned energy companies to temporarily suspend exports, turned to domestic inventories and leaned on a mix of energy for its needs.

China's oil stockpile has allowed Beijing to wait for oil prices to come back down before starting to buy in the global market. Muyu Xu, a senior oil analyst at the data firm Kpler, said she expected China to draw down around 1 million barrels a day over the next two months from its commercial stockpile.

At that rate, China could keep tapping reserves until this time next year without starting to draw on its official strategic stockpile, which stands at around 1.23 billion barrels, according to Xu's analysis. Beijing would take such a step only reluctantly because it could threaten years of work to establish energy security.

At the same time, China has reduced its demand for combustion fuels like gasoline and diesel with its staggering growth in electric vehicles and renewable energy.

China leads the world in clean energy, operating roughly twice as much wind and solar capacity as the rest of the world combined. It also produces and sells more electric vehicles than the rest of the world combined.

That growth was critical to the plateauing of China's greenhouse gas emissions last year. Scientists say it is crucial for China, the world's largest annual emitter, to peak and begin to draw down its planet-warming pollution quickly if the world hopes to keep global warming to relatively safe levels.

But that has hardly been the point of Beijing's exponential expansion of wind, solar and electric vehicles.

"The key reason China has developed renewable energy is not for the sake of the climate, it's for energy security," said Mathias Larsen, a senior policy fellow at the London School of Economics' Grantham Research Institute.

"That bet, and the fact that renewables are now cheaper than fossil fuels, especially imported gas and oil, means China hasn't been nearly as exposed to the fossil fuel price spike after the Iran war as it would have been," Larsen said.

According to the International Energy Agency, electric vehicles alone have cut China's oil demand significantly, displacing tens of millions of tons of gasoline. Meanwhile, Beijing also has expanded its high-speed rail network. According to China's Ministry of Railways, 421.7 million people used the railways in April, up 11% from a year earlier, a seasonal record.

"This has been a yearslong effort that is now providing the basis for China to systematically reduce its oil consumption," said Li Shuo, director of the China Climate Hub at the Asia Society Policy Institute.

And yet stockpiles, even China's, cannot be used indefinitely.

If the Strait of Hormuz remains closed, "no one knows" how long China can maintain its reduced levels of oil imports, said Logan Wright, who leads the China markets research at the Rhodium Group, a consulting firm.

"It's not a year, and it's probably not six months, even. There will be a return," he said. When that happens, he added, it will be "a signal that prices are likely headed back up."