Overview

Oil

China is predicted to surpass the United States to become the world’s largest oil consumer and importer in 2016, according to China International United Petroleum & Chemicals Co., Ltd. (Unipec) – a subsidiary of China Petroleum & Chemical (Sinopec) and China’s largest international trade company. This largely owes to the decline in China’s domestic crude oil production and, simultaneously, the country’s rising oil demand. Though still the world’s fourth-largest oil producer, China’s domestic crude oil production fell 4.6 percent during the first half of 2016 – its lowest level since 2010. Net oil-product exports fell by almost one-third from April to 810,000 tons.

China’s Oil Binge

Asian nation seen becoming top crude importer as U.S. relies more on domestic output

Source: U.S. Energy Information Administration, China Customs General Administration
Note: China data through Feb. 2016, U.S. through Dec. 2015
Meanwhile, the International Energy Agency (IEA) expects China’s oil demand to grow at 1.2 percent annually over the next 25 years. Unipec also predicted China’s crude oil imports to reach 7.5 million barrels in 2016. China will therefore have to rely heavily on imports to bridge the gap between domestic demand and domestic production.

Gas Industry

Natural gas is China’s fastest growing major fuel. In 2015, China’s consumption of natural gas grew by 3.7 percent, reaching 191 billion cubic meters – the smallest growth in the past decade. Out of this, 62.4 billion cubic meters were imported from foreign countries, accounting for 32.7 percent of total consumption. During the first half of this year, China’s natural gas output reached 69 billion cubic meters – a 4.1 percent growth rate increase from the previous year. It is predicted that Chinese domestic demand for natural gas will exceed 200 billion cubic meters by the end of 2016, accounting for 6.4 percent of the country’s total energy consumption. The Chinese government expects natural gas to provide 10 percent of the country’s energy by the end of the 13th Five-year Plan (2016-2020).

China’s oil and gas markets are dominated by four major oil companies: PetroChina, Sinopec, China National Offshore Oil Corporation (CNOOC), and Yanchang Petroleum (a Shaanxi Provincial-level state-owned company). In 2014, PetroChina controlled 54 percent of China’s total crude refining capacity and 73 percent of the country’s natural gas production market, while Sinopec accounted for 20 percent of the crude refining market and 16 percent of the natural gas market. However, these large state-owned oil companies are now struggling with low oil prices and are facing fierce competition from smaller private refineries.

Trade Opportunities

Oil: Loosened Import Regulations on Independent Refineries

In February 2015, the Chinese government relaxed import restrictions on its independent oil refineries and processors (known as “teapots”), allowing them to import their supplies from overseas rather than from state-owned oil and gas companies. Since then, China’s crude imports have been largely driven by these small refining companies, who only obtained their import licenses from the government last year. This policy was implemented as part of the Chinese government’s plan to overhaul its domestic energy industry, presenting huge trade opportunities for U.S. crude exporters. In 2015, China imported US $20.6 million of oil from bituminous minerals and crude (HS Code 2709) from the United States.
Increased purchases by these teapot refineries caused a backup of tankers at the port of Qingdao, one of the largest cities in eastern Shandong Province and home to many independent processors. Imports through Qingdao climbed to a record high in March of this year, accounting for approximately 30 percent of China’s total imports. Consequently, the production output of these teapots has been continuously increasing, potentially ending the era of China’s oil and gas market being 100 percent state-owned.

**Natural Gas and Petroleum Gas**

China’s need for imported gas is rising. According to a report released by PetroChina, China’s imports of natural gas are forecast to grow 10.6 percent in 2016 to 69 billion cubic meters. In 2015, the United States exported US $20 million of liquefied natural gas.

### 2013-2015 China’s Import of Petroleum Gases (HS Code 2711)

*Unit: USD millions*

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<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Total Imports</td>
<td>24,726.9</td>
<td>30,182</td>
<td>24,980</td>
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<tr>
<td>Imports from the U.S.</td>
<td>91</td>
<td>688.7</td>
<td>1,597.3</td>
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<tr>
<td>U.S. Share of the Total Imports</td>
<td>0.4%</td>
<td>2.3%</td>
<td>6.4%</td>
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*Source: UN Comtrade*
gas (HS Code 271111) and US $13,012 of natural gas in gaseous states (HS Code 271121) to China.

Oil and Gas Equipment

China’s oil and gas equipment manufacturing market is monopolized by Chinese domestic companies, in particular the lower end market. China’s state-owned enterprises control approximately 66 percent of the market for well-drilling equipment. However, China’s oil and shale gas producers face challenges presented by China’s complex topography and a lack of advanced technology in exploitation equipment. Thus, U.S. companies that specialize in drilling, extraction equipment, pipeline monitoring systems, and oil and gas separators may find lucrative opportunities. U.S. firms are also encouraged to provide operational services to Chinese shale gas developers. Notably, the U.S. is China’s biggest supplier of casing and high-tech oil and gas drilling equipment.

2013-2015 China’s Import of Oil & Gas Drilling Casing > 406mm (HS Code 730520)

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<th>Unit: USD millions</th>
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<tr>
<td>Total Imports</td>
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<td>Imports from the U.S.</td>
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<tr>
<td>U.S. Share of the Total Imports</td>
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</tbody>
</table>

Source: UN Comtrade

Additionally, demand for petroleum products, materials derived from crude oil (including transportation fuels), fuel oils for heating and electricity generation, as well as other feedstocks used to make chemicals and synthetic materials are on the rise in China, offering new sales opportunities to U.S. oil refineries.