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Russia Boosts Oil Exports to China Despite Demand Slowdown

By The Moscow Times

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Clouds loom over an oil refinery in China's Shandong province. Growth in the country is slowing steadily.

SINGAPORE — Russia and Iraq are boosting crude shipments to a Chinese market where oil demand is growing at its slowest in more than 20 years, forcing rival suppliers to divert cargos elsewhere.

The redirected shipments from Latin America, Africa and some Middle Eastern producers that were originally expected to go to Chinese refineries will drag on benchmark prices this year, and state oil companies have already started cutting official selling prices in their search for buyers.

Russia's Rosneft, backed by its government to push East Siberian oil to Asia and Iraq, armed with big discounts and easy terms, have landed contracts that will raise their combined shipments nearly 50 percent more than China's import demand is forecast to grow in 2014.

With state refiner PetroChina and oil major BP also delaying or dropping refinery projects in China due to worries about demand growth, sellers will be scrambling for shares in a market smaller than they had anticipated.

"Lots of people all around the world want to sell crude to Asia, and there may not be enough demand for everyone," said Andrew Reed at Energy Security Analysis, Inc.

China's oil demand rose just 1.6 percent last year, its slowest pace since 1992. Its crude imports grew 4 percent, their slowest since at least 2007, according to Reuters data, and down from a rise of more than 17 percent in 2010.

Although top China oil company China National Petroleum Corp has said the nation's crude imports will rise 7.1 percent this year, or about 370,000 barrels per day, the bumps in Russian and Iraqi supplies would more than match that increase.

Russia's biggest oil producer Rosneft, which supplied more than 300,000 bpd to China in 2013, will ship an additional 180,000 bpd this year, with China-bound exports eventually to rise to more than 900,000 bpd.

"It is a logical move. Russia is simply trying to secure a long-term off-taker of its crude," Reed said.

Fight for share

China's increased imports from Russia and Iraq only intensifies the fight for Asian market share among other oil exporters.

Producers in Latin America and Africa are already offering steeper discounts to Asian buyers as import needs in their traditional U.S. and European markets drop.

This prospect of oversupply and ongoing slow growth in China prompted investment banks such as Goldman Sachs and Barclays in December to lower their oil price forecasts for 2014.

Dutch bank ABN AMRO in January cut its average Brent crude price for this year to $95 a barrel from $100. "Oil oversupply is here to stay, at least in the next few years, outpacing the rise in demand and thus keeping oil prices under pressure," it said in a research note.

This month, however, the International Energy Agency became the third major forecaster to say that global oil use would be higher than expected this year due to economic growth in the U.S. and Europe.

Oil inventories are also at their lowest since 2008 because of stronger-than-expected demand and supply problems in a number of OPEC countries, the IEA said.