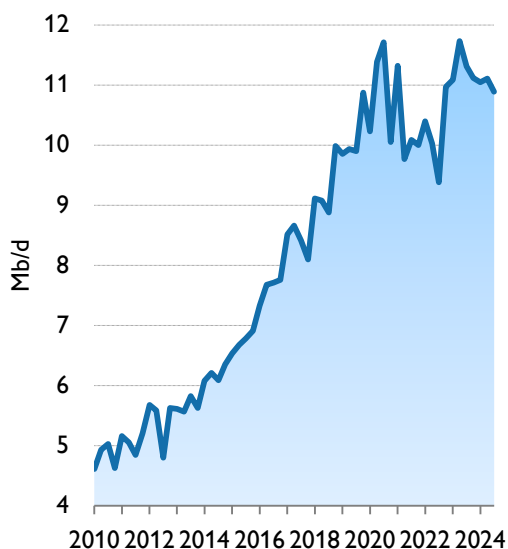


China's crude oil imports peaked?

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Oil price (WTI futures, front month) are in the box range of \$70/bbl. On 15 January 2025, it hit the \$80/bbl level for the first time in five months due to supply concerns caused by new US and UK sanctions against Russia. However, it returned to the \$70/bbl level as early as the next day. One reason is the bearish catalyst on the demand side, i.e. slower growth in China. China's crude oil imports have not increased as much as they had until 2020, after the reactionary increase due to the abandonment of the zero-Covid-19 policy in December 2022 had run its course (Figure 1). Not only that, but they have declined after peaking in the third quarter of 2023.

Figure 1 | China's crude oil imports



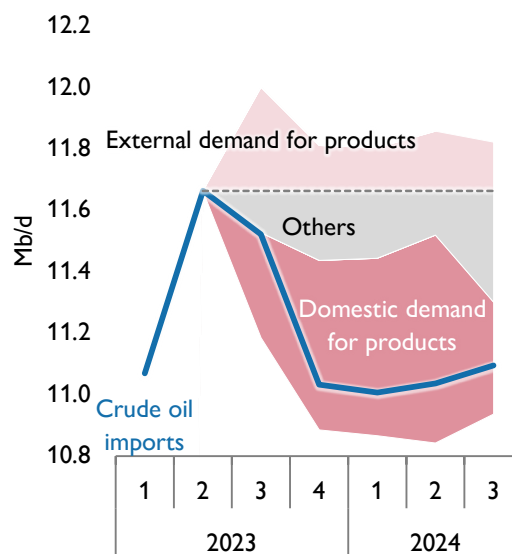
Note: Quarterly values
Source: JODI-Oil

Given crude oil imports from China, the world's largest importer of crude oil, are faltering, then the market may be concerned about whether the imports have entered a downward trend. The Reference Scenario in the IEEJ Outlook 2025 projects the imports will increase until around 2030. However, some believe that the peak will occur earlier than that. There is some talk that the time has already come.

In the short term, the volume of crude oil imports is largely determined by trends in economic and industrial activity and temperature. The medium- to long-term direction is defined by changes in economic, social and energy systems. Precisely these are through the demand for petroleum products that are refined from crude oil

and actually used by consumers. When the current change in crude oil imports is decomposed into domestic demand for petroleum products, external demand for petroleum products and other contributions, the fall in domestic demand for products has in fact a major effect (Figure 2).

Figure 2 | China's crude oil imports and contribution to changes [vs. 2Q2023]

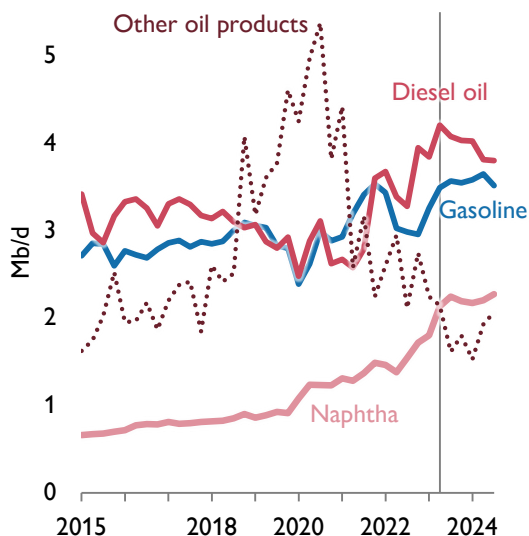


Notes: Quarterly values. Seasonally adjusted.
Source: Compiled from JODI-Oil .

Electric vehicles are cited as a rationale for the peak in crude oil imports—i.e. petroleum products demand. Sales of electric vehicles and plug-in hybrid vehicles are expanding more rapidly in China than in any other large automotive market. These 'new energy vehicles' accounted for 49% of passenger new car sales in 2024 (China Association of Automobile Manufacturers, CAAM). The trend is likely to exert downward pressure on crude oil imports through downward pressure on demand for gasoline and diesel oil. It should also be noted, however, that new car sales are related to the number of cars owned, which is closely related to energy consumption, but on a different scale. In addition, the road sector accounts for only about one-third of petroleum product demand. It should not be taken in the sense of the United States, in which the road sector accounts for three-quarters, and advanced European countries, in which the sector accounts for half. As a matter of fact, Gasoline demand has not slowed down much (Figure 3). It was only in August 2024 that it

started to fall below the same month of the previous year this time.

Figure 3 | China’s demand for selected petroleum products



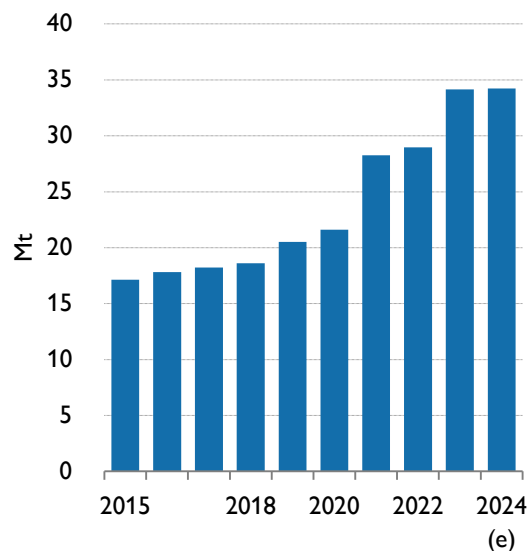
Notes: Quarterly values. Seasonally adjusted. 'Other oil products' is 'Other oil products' in JODI-Oil, does not include kerosene, heavy fuel oil, etc.
Source: Compiled from JODI-Oil.

Demand for gasoline is steady, whereas diesel oil appears to have reached a plateau. It, however, may be premature to attribute this to the impact of new energy vehicles. Diesel-oil-fuelled vehicles are dominated by trucks and other heavy vehicles. The share of new energy vehicles in commercial new car sales in 2024 was 18% (CAAM), meaning that new energy vehicles are not as widespread as in passenger cars. In addition, diesel oil is most commonly used in the road sector but is also widely used elsewhere. It seems straightforward to see that the economic slump triggered by the real estate recession is contributing to the suppression of growth in diesel oil consumption through a slowdown in transportation and production activity.

The reasons for the stagnant increase in demand for petroleum products can be sought in naphtha and other oil products, etc. Naphtha is exclusively used as a

petrochemical feedstock. Petrochemical plants are being built on a large scale in China, but overproduction is a business performance issue. Production of ethylene, a representative basic petrochemical product, in 2024 is likely to have remained at the previous year's level despite capacity expansion (and catch-up production in December?) (Figure 4). This makes the significant increase in past years in naphtha demand disappear.

Figure 4 | China's ethylene production



Note: 2024 is an estimate.
Source: National Bureau of Statistics, China [–2023]

For other oil products, the detailed items are not available from the JODI-Oil, but the volumes of products such as petroleum coke and bitumen appear to be relatively much. The same applies to heavy fuel oil, the slowdown in production activity is likely to have had an impact.

The recent decline in China's crude oil imports can be attributed to the current slump in economic and production activity. It seems natural to assume that there is still time for China's crude oil imports to enter a full-scale downward trend once the government's economic measures are successful and the consumption slump is resolved—although the timing of that is also a matter of debate.

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