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## China's peak oil demand and the international oil market

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China is the world's largest importer of crude oil, and its import volume and demand significantly influence the crude oil prices. In recent years, factors such as the COVID-19 pandemic and the Ukraine War have caused crude prices to fluctuate substantially, but it appears that the market responds to China's economy as a price-lowering factor. In particular, in 2024, when the demand finally recovered from the pandemic and China's economic slowdown grew more severe, Chinese factors often lowered crude prices. This is not a short-term phenomenon. Since it is only a matter of time before China's oil demand peaks, and as such, the country's impact on the crude oil market will also continue over the medium- to long-term. In that sense, the oil outlook in December 2024 by CNPC Research Institute of Economics and Technology that China's oil demand will peak out around 2025 carried considerable impact. On the other hand, in "[China's crude oil imports peaked?](#)", a paper by my colleague, Akira Yanagisawa suggested that it may still be some time before China's crude oil imports enter a full-fledged contraction phase. Indeed, even if a peak in demand has been reached, it does not necessarily mean demand will begin falling immediately. Nevertheless, even combining India and ASEAN, the next growth center of oil demand, the demand growth over the coming 20-year period will not match the growth of China over the past 20-year period.<sup>1</sup> That being the case, even if China's demand was to track sideways in the medium- to long-term, that is likely to have an impact on the international oil market.

The short-term impact is already visible in the form of constraints on oil price rises. That is good news for importing countries but poses a major problem for exporting countries. According to the IMF, the fiscal breakeven oil prices needed for the main Middle East OPEC countries as of 2024 range from \$53.9/barrel for the UAE to \$121.8/barrel for Iran. In the case of Saudi Arabia, the largest producer, the price is \$98. However, the Brent price has not recovered to \$98 since 2022, and Saudi Arabia continues to run a budget deficit. Of even greater note is the risk that the OPEC+ production cut will fall apart. The production cut will likely continue as long as Saudi Arabia and Russia, two major

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<sup>1</sup> China's oil demand increased by 10.2 million barrels/day from 2004 to 2024, but in the Reference Scenario of the IEEJ Outlook 2025, India and ASEAN's total demand is forecast to increase by 6.6 million barrels/day from 2024 to 2044.

producer countries, remain committed, but if Saudi Arabia, which has been vacillating between emphasizing price (reducing production) and emphasizing market share (increasing production), sees more merits in expanding its market share than a price crash, the possibility of the OPEC+ falling apart will increase.

The medium- to long-term impact harbors the potential to become serious even for importer countries. If low oil prices continue, the high cost producers will be forced to decrease production, leading to more dependence on low cost Middle East OPEC producing countries. The U.S. boasts the world's largest production volume, but given that shale production costs are relatively high and that shale drillers emphasize financial soundness, the U.S. is more likely to reduce production amid low price than Middle East OPEC. Even if global demand for oil has begun declining in the medium- to long-term, if the production declines faster, the market will tighten, and prices will rise. Additionally, if the market share of Middle East producers increases, there is also a possibility the price of oil will react more sensitively to geopolitical risk in the Middle East. On the other hand, when it comes to petroleum products China is the biggest exporter east of Suez, but there is already a refinery capacity glut and refinery utilisation rates are estimated to have fallen below 80% in 2024. Nevertheless, according to the IEA, a further 921,000 b/d of refining capacity is expected to be added by 2030. If demand in China does not grow, this will likely spur a drive to export more products. If product prices fall, then it will be good news for importer countries, but for Asia's refining industries, including Japan's, a weak product market could become a serious matter. In the event that Japan's refinery closures will be faster than the demand decrease, Japan's import dependence on oil products will be higher. At that point, Japan may face a new type of oil supply risk, namely, a greater reliance on Chinese products.

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