

CHINA'S STRATEGIC PETROLEUM RESERVES: AN UPDATE

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Executive Summary

1. China is setting up a Strategic Petroleum Reserve (SPR) to provide a short-term solution to insulate the economy and safeguard the country's security interests from sudden disruptions in oil supply.
2. China's SPR programme is still at its preliminary stage. The government has yet to define the operational functions of the SPR, including policies pertaining to the drawdown of the reserve.
3. However, the government has drawn out a framework for the development and expansion of the SPR's capacity. It will be carried out in three phases, spanning from 2004 to 2020.
4. Besides the SPR, the government is developing its commercial-level oil reserve. Made mandatory by the Energy Law in 2007, state-owned and medium-sized oil companies have to maintain their own oil reserve to provide the nation with fresh oil supplies in emergency situations.
5. By the end of 2008, China's SPR will have a capacity of about 100 million barrels, or equivalent to about one month of its net import of crude oil. Beijing hopes to raise the SPR capacity gradually to 480 million barrels or an equivalent of three months of net import of crude oil by 2020.
6. However, China's SPR is still small compared to the U.S., and Japan, which have a current oil stockpile equivalent to about 150 and 160 days respectively.
7. China's efforts to maintain an oil reserve have aroused international concerns that it would increase China's demand for global oil and exert an upward pressure on the already high oil prices. They are also suspicious that China intends to use its stockpile to manipulate the market to its own advantage.

8. To allay the concerns, Beijing noted that it would fill its reserves gradually when using imported oil. This strategy will prevent a sudden hike in global oil demand, thus helping to stabilise global oil prices.
9. In addition, Beijing also announced its intention to fill the reserves with mostly domestic supplies as they are more accessible.
10. Besides, China's SPR can be used in collaboration with other IEA members' oil stockpile as a buffer stock to moderate any sharp fluctuation in global oil prices.