

# China's Oil Reserve Policies

Pei Jianjun, Division Chief  
Energy Bureau,  
National Development and Reform Commission  
Jan 29. 2007

# I. The Oil Supply and Demand situation in China

- Since the reform and open policy applied, China's oil consumption has been increasing along with the sustained and rapid economic growth. Due to the restriction of resources, China's domestic crude production grows too slow to meet the increasing demand, and the quantity of oil imports saw increase year by year.
- In 2005, the quantity of China's oil consumption is 317million tons, the oil import-dependence rate reached 43%, with 181 million tons domestic crude production and 136 million tons net imports.



## II. Necessities for China to Build Oil Reserves

- Uncertainties that affect stable oil supply still exist. Regional instabilities and conflicts, natural disasters and severe fluctuations in international oil prices are likely to lead to a sudden disruption or decrease in the oil supply, which bring China's oil imports under great risk.
- China only has oil stocks using as enterprises' turnover storage for production and operation, which are small in scale, scattered in layout, and unreasonable in structure. There's no national oil reserve system and emergency response mechanism to cope with emergencies.
- To build our own national oil reserve system basing on the actual situation in China and through learning of international experience is necessary and urgent for China to prevent oil supply risks.

# III. The construction situation of China's Oil Reserves

Under the state council's deployment, the first phase of national oil reserve construction initiated on March 2004, which began to build 4 national oil reserve bases in Dalian, Huangdao, Zhenghai and Zhoushan, with total capacity of 16 million cubic meters. Currently the four bases are under construction and progress smoothly.



# The construction situation of China's Oil Reserves

- Building oil reserve need huge investment, so we will carry out the construction based on our country's financial capacity and practical needs. China's oil reserve construction will also take 10 to 20 years.
- IEA require its member countries to keep an oil reserve that equal to 90 days' net imports. We will refer to this standard and build national oil reserve bases phase by phase, gradually strengthen our oil reserve capacity.



# IV. China's Oil Reserve Policies

The guiding principles for China in building the oil reserves are:

Basing on our national conditions; learning from foreign experience and practice; plan as a whole, implement step by step, gradually build up a national oil reserve system which can secure domestic oil supply and stabilize oil market.

Bring a reasonable role division between government reserves and enterprises' reserves. Choose reserve oils according to market demands, set up an operational mechanism in which the oil production, processing, sales, import and reserves connect closely.

Gradually develop a guarantee system that is sound in legislations and regulations, effective in emergency responding, and stable in the source of reserve fund.



# China's Oil Reserve Policies

First, plan as a whole and layout in reason. China is not only a large oil consuming country but also a large oil producing country; we must build our oil reserve project based on our national conditions, to plan as a whole, and supported by current petrochemical layout and facilities.



# China's Oil Reserve Policies

**Second, Implement step by step and develop gradually. Since building oil reserve needs huge investment, Chinese government will take our financial capacities into consideration and build our oil reserves phase by phase.**



# China's Oil Reserve Policies

- Third , to combine government reserve and enterprise reserve. Currently China has a poor government reserve, so in the short term we will focus on the construction of government reserve. Since the current oil stocks kept by Chinese enterprises' are turnover stocks for production and operation, enterprises haven't bear any reserve obligation yet. While in the future, we plan to legislate law and regulations to require enterprise reserve.

# China's Oil Reserve Policies

- **Fourth, diversify reserve facilities. In the near term we concentrate on the construction of ground facilities. Given that underground facilities enjoy advantages of safe, reliable, hidden, environment friendly and lower in cost, it will become a priority in the future building of reserve facilities.**



# China's Oil Reserve Policies

- Fifth, based on government investment and raising fund from various sources. The fund needed for building oil reserves can be taken from central government's financial allocations, loans of policy banks or commercial lending. From a long term perspective, we need to establish a stable fund source for the government oil reserve project.



# China's Oil Reserve Policies

Sixth, improving management system for the oil reserves and establishes relevant law and regulations. Chinese government planned to set three layers in the management of oil reserves:

- first level is administrative layer, that's National Development and Reform Commission (NDRC), who's in charge of making layout, plan and policy etc. National Oil Reserve Office is the body to carry out management function of the oil reserves and only State Council has the power to utilize the reserves.
- The second is executive layer, i.e. National Oil Reserve Center, who plays the role as the state-owned asset investor and exerts right to organize construction of reserve bases, responsible for the procurement of reserve oil, and execute decision of reserve utilization and turnover.
- The third is operational layer constituted by base companies; they are in charge of facilities maintenance and reserves storage business.

# China's Oil Reserve Policies

- **Seventh, strengthen international cooperation and ensure oil security. The energy security is vital to national economy and people's livelihood. Today, as the economic globalization develops in depth, there's more and more cooperation and exchange between countries. No nation can secure energy security all alone, so energy security, especially the oil security has become an international issue. We hope that through this meeting , we can study and learn useful experience from your country.**

Thank you!