

Sino-MENA: China energy mix spells change

Florence Eid-Oakden, Ph.D, Chief Economist

Chen-Che Hsu, Analyst

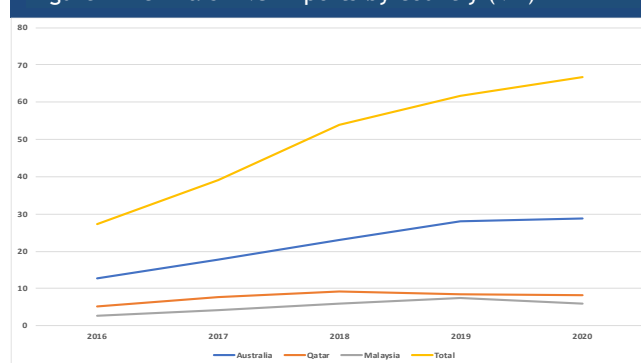
- To meet its target of a carbon emissions peak by 2030, China will begin to cap its oil imports; this could raise serious concerns for Beijing's key trading partners throughout the MENA region.
- Yet China's new energy paradigm is bringing new market opportunities for MENA investors to explore. We are already seeing interest, mainly driven by Saudi Arabia and the UAE, in supporting China's green pursuit.
- Beijing's energy transition is expected to benefit Liquefied Natural Gas (LNG) suppliers in the region, with Qatar in pole position. Natural gas is set to play a strategic role, bringing resilience, security and stability to China's energy mix during the green transition.

Energy relations go green

China, the world's largest contributor of carbon emissions, has pledged to reach peak emission levels by 2030 and carbon neutrality by 2060. Unveiled by President Xi Jinping in 2020, China's 'double carbon' goals have been established to transform not only the country's energy mix but also its relations with major energy suppliers across the MENA region.

- China is the world's largest oil importer and the main destination for various MENA countries' energy exports, making energy trade a significant focus of Sino-MENA bilateral relations.
 - In 2020, nearly 47% of China's oil imports, valued at almost USD 82B, were supplied by MENA oil exporters, including Saudi Arabia (16%), Iraq (11%), Oman (7%), the UAE (6%), Kuwait (5%), Qatar (1%) and Iran (1%).
 - Saudi Arabia, China's leading crude supplier, exported nearly 1.7M bpd of oil in 2020, marking a 3.6% YoY increase from 1.63M bpd in 2019.
 - Due to low oil prices, robust domestic demand and rapid economic recovery, China's total crude oil imports increased by 7.3% in 2020 despite the effects of the COVID-19 pandemic.
 - This increase comes mainly as a result of low oil prices throughout 2020, which encouraged stockpiling by refineries and storage operators.
- At the 75th Session of the UN General Assembly in 2020, President Xi Jinping revealed an ambitious plan to achieve a green transition.
 - Reiterated in China's 14th Five-Year Plan published in March 2021, the initiative aims to reduce the country's carbon intensity and emissions by restricting the consumption of hydrocarbon fuels.
 - Although details of plans for a green transition have not been disclosed, China's pledge for carbon neutrality presents a challenge to Sino-MENA economic relations mainly due to energy trade.
 - For example, oil trade between Saudi Arabia and China contributed to nearly 51% of bilateral trade in 2019.
 - Among all energy sources, coal (which accounted for nearly 80% of China's carbon emissions in 2018)

Figure 1 - China's LNG Imports by country (MT)¹



- is undoubtedly the main hydrocarbon fuel that needs to be reduced as part of its energy mix.
 - Oil has also been targeted; it contributed to 1375 Mt of carbon emissions in 2018, accounting for nearly 20% of China's carbon emissions.
- To achieve its net-zero targets, China is likely to increase the share of natural gas within its energy mix, while lowering that of oil. This would obviously have implications for the country's energy relations with its MENA suppliers.

Oil is China's second-largest energy source. It supplied 20% of the country's total energy consumption and accounted for nearly 20% of its carbon emissions in 2019. It is therefore expected that China will consider lowering the share of oil within its energy mix to meet its net-zero targets.

- Over the last 20 years, oil has retained its 16-20% share in China's primary energy consumption structure.
 - The upward trend in oil consumption over the last ten years has resulted in an increase from 16.8% to nearly 20%.
- The CNPC Economics & Technology Research Institute argues that oil serves as an indispensable energy source and raw material for China's low carbon transition. Going forward, oil is likely to transform from a primary energy source to an important raw material for petrochemicals, lubricants and other downstream products.
 - In the 2060 carbon-neutral scenario championed by the institute, China's oil demand is expected to reach a peak between 14.2 and 14.6M bpd by 2025.
 - Following this peak, oil demand is likely to drop at an average annual rate of 3.4% and reach 6M bpd in 2050.
- Sino-MENA energy relations could shift after China's pledge to pursue a green transition.
 - China has long been considered the most important market for most of the MENA oil exporters.
 - Saudi Arabia has been China's largest oil supplier for two consecutive years since 2019, supplying 16% of Beijing's oil demand, which was valued at around USD 28B in 2020.
 - Iraq is China's second largest MENA oil supplier. It exported nearly 25% of its supply to China in 2019 (valued at around USD 23B) and continues to see China as one of its largest clients along with India.
 - Oman considers China to be its most important market, supporting the country's robust oil demand with 78.4% of its oil exports (valued at around 16B USD) in 2019. The sultanate is currently China's third largest oil supplier, meeting 7% of the country's oil demand.

¹ Arabia Monitor; Sohu

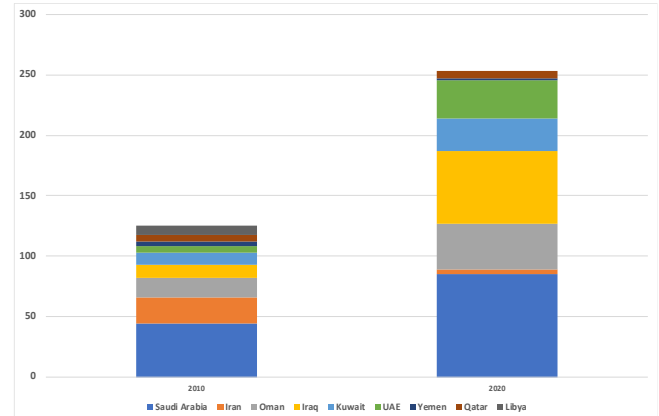
- Despite oil exports potentially slowing down, MENA exporters have laid out their plans to broaden their co-operation with China.
 - Partly in response to China's climate pledge, Saudi Aramco has stated that it aims to support 'every phase of China's development' and to prioritise the country's energy needs for the next five decades and beyond.
 - Aramco expects to broaden the scope of co-operation to include further investments in integrated downstream projects, including petrochemicals, lubricants and non-metallic materials.
 - The company also seeks to go green with China through joint research and investments on blue hydrogen, ammonia and synthetic fuels, as well as carbon capture and storage.
 - In 2019, the UAE's Abu Dhabi National Oil Company (ADNOC) signed a deal with China's Rongsheng Petrochemical to explore business opportunities in East Asia.
 - ADNOC wants to export its refined products, invest in downstream projects in both China and the UAE, and deliver LNG supply to Rongsheng.

LNG to stay in energy mix

As China seeks to achieve its net-zero targets, natural gas will play a significant role in accelerating the country's 'coal-to-gas' transition. Qatar, China's most important LNG supplier in the MENA region, is likely to be among the key beneficiaries from the green transition.

- In the past two decades, China has witnessed an increase in the share of natural gas within its primary energy consumption structure, rising from just 2% in 2001 to over 8% in 2019.
 - In 2019, China imported 96.5M tonnes of natural gas, valued at around USD 41B, marking a 13685% increase from 2006's 0.7M tonnes.
 - This is mainly due to an increase in the natural gas imported by ship (LNG) since 2006 and by pipeline (in gaseous form) since 2010.
- In 2020, over 60% of China's natural gas imports were LNG, while less than 40% were supported by pipeline gas.
 - Australia, Qatar and Malaysia are China's three largest LNG suppliers, providing the country with 43%, 12% and 9% of Beijing's demand in 2020, respectively.
 - China's 'coal-to-gas' transition, a strategy which aims to reduce coal consumption and air pollution by promoting the use of natural gas, is expected to boost Beijing's natural gas demand in the coming years.
- The CNPC Economics & Technology Research Institute considers natural gas to be an indispensable energy source for China's green transition due to its relatively lower carbon emissions during combustion.
 - In the 2060 carbon-neutral scenario, China's natural gas demand is predicted to grow at an average annual rate of 2.8%, peaking at 550B m³ per year by 2040.
 - After this peak, China's natural gas demand will plateau as its share of renewables rises gradually.
- Going forward, natural gas is set to play a strategic role that brings resilience, security and stability to China's energy mix during the green transition.
- Qatar, China's most strategic LNG supplier in the MENA region, could benefit from Beijing's green transition by increasing its LNG market share in China in the coming years.

Figure 2 - China's Oil imports (MT)²



- As China seeks to diversify its natural gas supply, Qatar has signed a number of LNG Sale and Purchase Agreements (SPA) with China to increase its market share.
- Under existing long-term deals, Qatar will export 12 MTPA of LNG to China by 2022, marking a 50% increase from 8 MTPA in 2019.
 - We expect to see a steady increase in Qatar's LNG market share in China and deeper co-operation on LNG exploration and production in the near future.
- As Sino-Australian relations continue to sour, the share of Australian LNG exports to China is expected to fall gradually.
 - Although Beijing has ordered a suspension in the number of Australian exports, including coal and copper concentrates, we have yet to see any restrictions on LNG trade. This is possibly due to China's overreliance on Australian LNG imports.
 - Nevertheless, the market share of Australian LNG in China dropped to 38% in Q1 2021 from 43% in 2019.
- Qatar is very likely to benefit from the deteriorating Sino-Australian relations and to expand its market share in China's LNG market. This will also help China to move away from Australian LNG.
- Qatar has also sought to broaden the scope of co-operation with China on its ambitious North Field expansion, the world's largest single LNG project.
 - Qatar Petroleum is in talks with Chinese SOEs, including PetroChina and Sinopec, to discuss equity stakes in Qatar's USD 28.7B North Field expansion.
 - This is considered to be a major shift from Qatar's dependence on the West for technology and co-operation on LNG exploration.
 - Most importantly, Qatar's interest aligns with that of China in terms of trade and energy security.
- While Qatar is China's second largest LNG supplier, China is Qatar's second largest trading partner, fourth largest destination of exports and second largest source of imports.
 - China has formalised a strategic partnership with Qatar and called for co-operation within a variety of fields, including energy co-operation, technology, trade and investments.
 - Qatar could challenge Australia's leading role in China's LNG market by increasing its market share and by deepening its strategic partnership with China in these various fields.

² Arabia Monitor.

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Arabia Monitor

Aston House | Cornwall Avenue | London N3 1LF

Tel +44 203 239 4518

info@arabiamonitor.com

www.arabiamonitor.com