

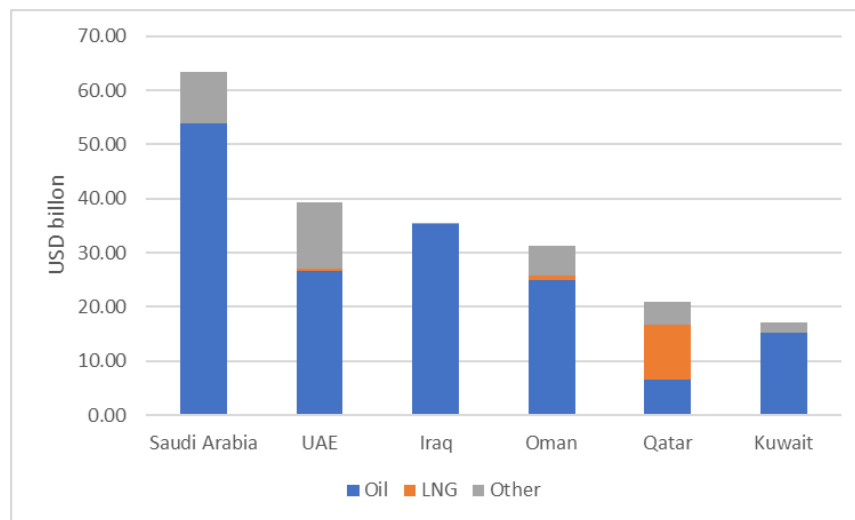
### China-Middle East Energy Relations

Members of the Commission, thank you for inviting me to testify about China-Middle East energy relations. In my remarks, I will address three issues: China’s energy trade with the Middle East, the security of China’s energy supplies from the region, and the use of China’s currency for energy trade settlement.

#### Energy Trade

Oil and LNG dominate China’s trade with energy exporters the Middle East. At the high end, crude oil accounted for 99 percent of the dollar value of China’s imports from Iraq in 2023. At the low end, crude oil and LNG accounted for 69 percent of the dollar value of China’s imports from the United Arab Emirates in 2023 (Figure 1).

**Figure 1: The Composition of China’s Imports from Selected Countries in the Middle East**

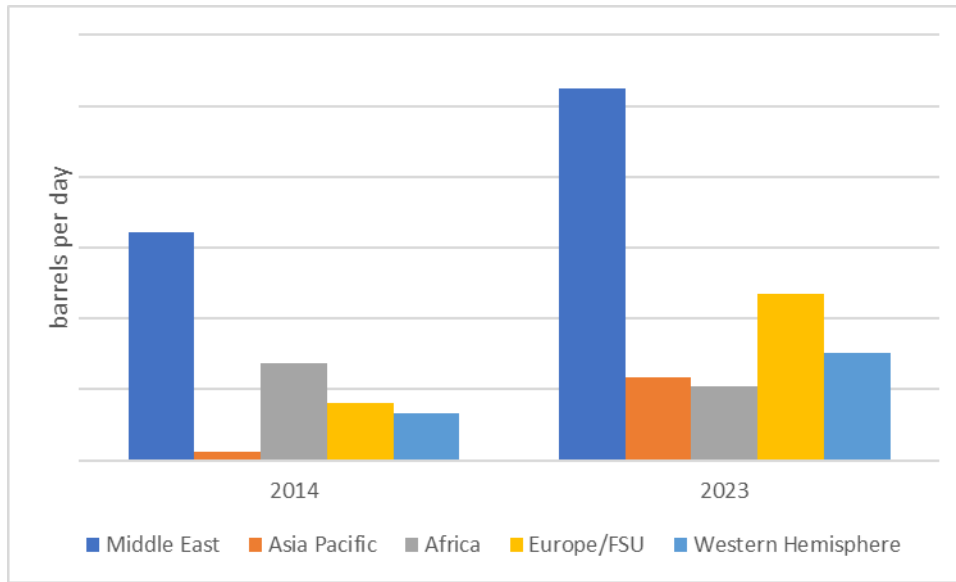


Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

The Middle East supplied about half of China’s crude oil imports on an annual basis over the past decade. According to Chinese customs data, China’s imports of crude oil from the Middle East increased from 3.2 million barrels per day (bpd) in 2014 to 5.2 million bpd in 2023 (Figure 2). These volumes correspond to a decrease in the Middle East’s share of China’s crude oil imports from 52 percent in 2014 to 46 percent in 2023.<sup>1</sup>

<sup>1</sup> Tian Chunrong, “Analysis of China’s Oil and Natural Gas Imports and Exports in 2014” (2014 年中国石油和天然气进出口状况分析), *International Petroleum Economics* (国际石油经济), No. 3 (2015), pp. 60-61, CNKI; and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

**Figure 2: China’s Crude Oil Imports by Region in 2014 and 2023**



Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

However, the volume of oil delivered to China from the Middle East – and the Middle East’s share of China’s crude oil imports – in 2023 are almost certainly higher when the barrels Iran exports to China via third countries are taken into consideration. Although Chinese customs does not report any crude oil imports from Iran in 2023, industry press states that China imported over one million bpd from Iran in 2023.<sup>2</sup> Iranian crudes destined for China are shipped via third countries, notably Malaysia, where they are relabeled as originating with the transit country.<sup>3</sup>

In 2023, all of the Iranian crude delivered to China was purchased by small independent refineries known as “teapots.” The teapots operate on thin margins and value the discounted prices at which they have been able to purchase Iranian crude.<sup>4</sup> They buy about 90 percent of Iran’s oil exports.<sup>5</sup> China’s national oil companies have stopped importing crude oil from Iran due to concerns about US sanctions.<sup>6</sup>

<sup>2</sup> Oceana Zhou and Daisy Xu, “China’s Small Independent Refineries to Continue Favoring Iranian Crudes in 2024,” S&P Global, January 19, 2024, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/011924-chinas-small-independent-refineries-to-continue-favoring-iranian-crudes-in-2024#:~:text=These%20small%20independent%20refineries%2C%20located,ago%2C%20S%26P%20Global%20data%20showed.>

<sup>3</sup> Muyu Xu, “Explainer: Iran’s Expanding Oil Trade with Top Buyer China,” Reuters, November 10, 2023, <https://www.reuters.com/markets/commodities/irans-expanding-oil-trade-with-top-buyer-china-2023-11-10/>

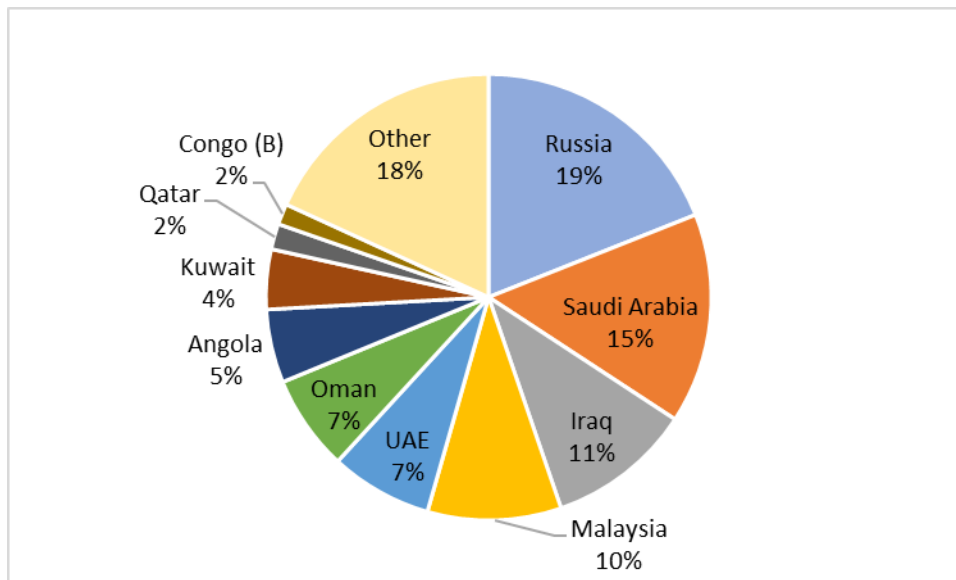
<sup>4</sup> Chen Aizhu and Muyu Xu, “China Saves Billions of Dollars from Record Sanctioned Oil Imports,” Reuters, October 11, 2023, <https://www.reuters.com/markets/commodities/china-saves-billions-dollars-record-sanctioned-oil-imports-2023-10-11/>.

<sup>5</sup> Chen Aizhu and Muyu Xu, “Exclusive: Iran’s Oil Trade with China Stalls as Tehran Demands Higher Prices,” Reuters, January 7, 2024, <https://www.reuters.com/business/energy/irans-oil-trade-with-china-stalls-tehran-demands-higher-prices-2024-01-05/>.

<sup>6</sup> Muyu Xu, “China’s ‘Teapot’ Refiners Mop Up Swelling Iranian Crude, Defying U.S. Sanctions,” Reuters, September 14, 2023, <https://www.reuters.com/business/energy/chinas-teapot-refiners-mop-up-swelling-iranian-crude-defying-us-curbs-2023-09-14/>.

According to China’s General Administration of Customs, all of China’s crude oil suppliers in the Middle East ranked among China’s ten largest suppliers in 2023 (Figure 3). Saudi Arabia (1.7 million bpd) and Iraq (1.2 million bpd) together accounted for 25 percent of China’s crude oil imports of 11.3 million bpd. Iran also ranks among China’s largest crude oil suppliers; industry press reports that Iran exported 1.1 million bpd to China in 2023.<sup>7</sup>

**Figure 3: China’s largest crude oil suppliers in 2023**



Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

In 2023, Russia replaced Saudi Arabia as China’s largest supplier of crude oil on an annual basis for the first time since 2018. Discounted prices on Russian oil and Saudi Arabia’s production cuts as part of OPEC+ efforts to support prices enabled Russia to increase its share of China’s crude oil imports from 17 percent to 19 percent. Saudi Arabia’s share decreased from 17 percent to 15 percent.<sup>8</sup>

That said, Saudi Arabia is poised to export more oil to China. In 2023, Saudi Aramco agreed to sell up to 690,000 bpd to two independent refineries in China. Specifically, Saudi Aramco agreed to supply up to 480,000 bpd for 20 years to Zhejiang Petroleum Corporation (ZPC) when it purchased a 10 percent stake in ZPC’s parent, Rongsheng Petrochemical Corporation.<sup>9</sup> Saudi Aramco also agreed to supply up to 210,000 bpd to a new petrochemical complex that is being developed by Huajin Aramco Petrochemical

<sup>7</sup> Zhou and Xu, “China’s Small Independent Refineries to Continue Favoring Iranian Crudes in 2024.”

<sup>8</sup> General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

<sup>9</sup> Alfred Cang and Matthew Martin, “Saudi Aramco Deepens China Push with \$3.6 billion Refinery Deal,” Bloomberg, March 27, 2023, <https://www.bloomberg.com/news/articles/2023-03-27/saudi-aramco-takes-3-6-billion-stake-in-china-oil-refinery>.

Company in Liaoning Province.<sup>10</sup> (Huajin Aramco is a joint venture between Saudi Aramco (30%), NORINCO Group (51%) and Panjin Xincheng Industrial Group (19%).<sup>11</sup>)

One country in the region, Qatar, is a top supplier of natural gas to China. In 2023, Qatar was China's second largest source of liquefied natural gas (LNG) after Australia. Qatar shipped 16.7 million tons of LNG to China, accounting for one-quarter of China's LNG imports.<sup>12</sup>

China's imports of LNG from Qatar are set to grow under new supply contracts. Sinopec and China National Petroleum Corporation (CNPC) and Sinopec Corp. each signed 27-year LNG contracts with QatarEnergy for the delivery of 4 million tons per year of LNG in November 2022 and June 2023, respectively.<sup>13</sup> Sinopec Corp. inked a second 27-year contract with QatarEnergy for the delivery of 3 million tons per year in November 2023.<sup>14</sup> The contracts are some of the longest ever signed in the LNG industry, excluding legacy contracts resigned over time, and likely will ensure LNG deliveries from Qatar to China through the early 2050s.<sup>15</sup>

### **The Security of China's Energy Supplies from the Middle East**

Sources of supply security for China include the importance of the Chinese market to Middle East energy exporters, China's naval presence in the region and China's strategic and commercial oil stocks.

The importance of China to Middle East energy exporters provides them with an incentive to demonstrate that they are a source of supply security for China. Saudi Arabia is a case in point. For many years, the company has affirmed its commitment to helping China meet its energy needs. In March 2021, the company's CEO told the China Development Forum that "Saudi Aramco will ensure China's energy security remains its highest priority for the next fifty years and beyond."<sup>16</sup> In March 2024, Aramco's CEO, speaking at the same event, said that "Aramco's commitment to China's long-term

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<sup>10</sup> Saudi Aramco, "Aramco JV HAPCO Breaks Ground on New Refinery and Petrochemical Complex," March 29, 2023, <https://www.aramco.com/en/news-media/news/2023/aramco-iv-hapco-breaks-ground-on-new-refinery-and-petrochemical-complex>.

<sup>11</sup> Nurluqman Suratman, "Saudi Aramco, China's Norinco Start Building Panjin Petrochemical Complex in Q2," ICIS, March 27, 2023, <https://www.icis.com/explore/resources/news/2023/03/27/10869615/saudi-aramco-china-s-norinco-start-building-panjin-petrochemical-complex-in-q2/>.

<sup>12</sup> General Administration of Customs of the People's Republic of China, <http://stats.customs.gov.cn/>.

<sup>13</sup> Andrew Mills and Maha El Dahan, "Qatar Sells 27-year LNG Deal with China as Competition Heats Up," Reuters, November 21, 2022, <https://www.reuters.com/business/energy/qatarenergy-signs-27-year-lng-deal-with-chinas-sinopec-2022-11-21/>; Andrew Mills and Maha El Dahan, "Qatar Strikes Second Big LNG Supply Deal with China," Reuters, June 20, 2023, <https://www.reuters.com/business/energy/qatar-set-strike-second-big-lng-supply-deal-with-china-ft-2023-06-20/>.

<sup>14</sup> Suyash Pande, Melody Li and Christel Goh, "QatarEnergy-Sinopec's Long-Term LNG Contract Likely Priced Around 12.7% Slope to Oil," S&P Global, November 9, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/110923-qatarenergy-sinopecs-long-term-lng-contract-likely-priced-around-127-slope-to-oil>.

<sup>15</sup> I thank Ira Joseph for the point about legacy contracts.

<sup>16</sup> Muyu Xu and Florence Tan, "Saudi Aramco to Prioritise Energy Security to China for 50 Years, Says CEO," Reuters, March 21, 2021, <https://www.reuters.com/article/us-china-forum-saudiaramco/saudi-aramco-to-prioritise-energy-supply-to-china-for-50-years-says-ceo-idUSKBN2BD0GK/>.

energy security... is set in stone.”<sup>17</sup> Saudi Aramco has supported its words with actions to include investment in Chinese petrochemical complexes mentioned above.

China’s navy can also help ensure the security of China’s energy supplies from the Middle East. It has maintained a nearly continuous three-ship presence in the Gulf of Aden since 2008 to protect its trade from pirates.<sup>18</sup> These ships can move around the region to where they are needed for missions including tanker protection.<sup>19</sup> China’s navy has a history of escorting oil tankers in the region.<sup>20</sup>

China’s strategic petroleum reserve (SPR) and commercial stocks provide it with the capacity to address disruptions of the flow of oil from the Middle East to the world market. The combined volume of strategic and commercial stocks provides China with at least 89 days of net crude oil import coverage at the 2023 level. China’s SPR holds about 312 million barrels in above-ground storage and probably more in below-ground storage. The volume of above-ground storage provides China with 27.5 days of net crude oil import coverage at the 2023 level of net crude oil imports of 11.3 million bpd.<sup>21</sup> China also holds nearly 700 million barrels of crude oil in commercial stocks which provides China with about 62 days of net crude oil import coverage at the 2023 level.<sup>22</sup>

### **RMB for Energy Trade Settlement**

The renminbi (RMB) is unlikely to replace the US dollar as the primary currency for energy trade settlement between China and the Middle East anytime soon.<sup>23</sup> To be sure, China’s leader, Xi Jinping, called for the use of China’s currency for oil and gas trade settlement during the China-Gulf Cooperation Council Summit in December 2022.<sup>24</sup> However, there are several reasons why oil and natural gas exporters in the Middle East probably prefer to settle energy trade in the dollar for now. First, China’s tightly regulated capital account likely disincentivizes energy exporters from holding large amounts of renminbi because it prevents them from freely moving money in and out of China.<sup>25</sup> Second, oil

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<sup>17</sup> “China Development Forum 2024, Remarks by Amin H. Nasser, Aramco President & CEO, March 25, 2024, <https://www.aramco.com/en/news-media/speeches/2024/remarks-by-amin-h-nasser-at-cdf-2024>.

<sup>18</sup> Jeffrey Becker and Erica Downs, “China’s Presence in the Middle East and Indian Ocean: Beyond One Belt, One Road,” CNA, [https://www.cna.org/archive/CNA\\_Files/pdf/obor\\_chinastudies\\_final.pdf](https://www.cna.org/archive/CNA_Files/pdf/obor_chinastudies_final.pdf).

<sup>19</sup> I thank Bud Cole for this point.

<sup>20</sup> See, for example, “42nd Chinese Naval Escort Taskforce Completes First Escort Mission,” China Military Online, October 28, 2022, [http://eng.mod.gov.cn/xb/News\\_213114/OverseasOperations/4924553.html](http://eng.mod.gov.cn/xb/News_213114/OverseasOperations/4924553.html); and “China’s 39th Naval Escort Taskforce Completes Escort Mission,” China Military Online, December 15, 2024, [http://eng.chinamil.com.cn/CHINA\\_209163/TopStories\\_209189/10115196.html](http://eng.chinamil.com.cn/CHINA_209163/TopStories_209189/10115196.html).

<sup>21</sup> Data from Kayrros SAS and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

<sup>22</sup> Data from Kayrros SAS and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

<sup>23</sup> This paragraph is based on Erica Downs, “China-Russia Energy Relations in the Wake of the War in Ukraine in “The Revenge of Energy Security: Reconciling Asia’s Economic Security with Climate Ambitions,” National Bureau of Asian Research, November 2023, pp. 19-20, <https://www.nbr.org/publication/the-revenge-of-energy-security-reconciling-asias-economic-security-with-climate-ambitions/>.

<sup>24</sup> Ministry of Foreign Affairs of the People’s Republic of China, “President Xi Jinping Attends First China-GCC Summit and Delivers Keynote Speech,” December 10, 2022, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202212/t20221210\\_10988406.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202212/t20221210_10988406.html).

<sup>25</sup> John Wu, “Chinese Yuan on Slow Path to Globalization Due to Capital Controls,” S&P Global, July 11, 2023, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/chinese-yuan-on-slow-path-to-globalization-due-to-capital-account-controls-76484922>.

exporters in the region, including Oman, Qatar, Saudi Arabia and the United Arab Emirates, peg their currencies to the U.S. dollar, making oil trade settlement in dollars preferable to other currencies.<sup>26</sup> Third, the fact that the more a currency is used for trade settlement, the more others will want to use it, supports the dollar's continued dominance.<sup>27</sup>

That said, China is a key market for energy exporters in the Middle East and, as a result, China probably has a certain amount of leverage it can use to push for use of the RMB in trade settlement. Energy exporters in the Middle East are more likely to consider experimenting with RMB usage outside of oil and LNG trade. For example, Iraq's decision in 2023 to use renminbi to pay for private sector imports will not extend to the country's oil trade.<sup>28</sup> Similarly, the UAE trade minister said last year that his trade was only prepared to discuss trade settlement in different currencies for non-oil deals.<sup>29</sup>

One country that currently is accepting payment for most – if not all – of its energy exports to China in Chinese currency is Russia. In September 2022, Russian president Vladimir Putin announced that China would pay Gazprom for its natural gas based on a fifty-fifty split between the rouble and the yuan.<sup>30</sup> In May 2023, Reuters reported that China was using its currency instead of dollars to pay for virtually all of its purchases of Russian coal and oil.<sup>31</sup>

The Commission should recommend to the committees of jurisdiction that they should require the executive branch to issue an annual report on use of RMB for energy trade settlement. Such a report would provide context for anecdotes about energy purchased with RMB.<sup>32</sup> It should also help the US government assess whether and to what extent the renminbi poses a challenge to the US dollar's status as the world's primary reserve currency.

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<sup>26</sup> Javier Blas, "The Myth of the Inevitable Rise of a Petroyuan," Bloomberg, February 27, 2023, <https://www.bloomberg.com/opinion/articles/2023-02-27/pricing-petroleum-in-china-s-yuan-sounds-inevitable-not-for-saudi-arabia>.

<sup>27</sup> Gerard DiPippo and Andrea Leonard Palazzi, "It's All about Networking: The Limits of Renminbi Internationalization," Center for Strategic and International Studies, April 18, 2023, <https://www.csis.org/analysis/its-all-about-networking-limits-renminbi-internationalization>.

<sup>28</sup> "Iraq Pivots to Yuan for Chinese Imports in Defense of Own Currency," Bloomberg, February 22, 2023, <https://www.bloomberg.com/news/articles/2023-02-22/iraq-pivots-to-yuan-for-china-imports-in-defense-of-own-currency>.

<sup>29</sup> "The Myth of the Inevitable Rise of a Petroyuan," Bloomberg, February 27, 2023, <https://www.bloomberg.com/opinion/articles/2023-02-27/pricing-petroleum-in-china-s-yuan-sounds-inevitable-not-for-saudi-arabia>.

<sup>30</sup> Muyu Xu, "Russia's Gazprom, CNPC Agree to Use Rouble, Yuan for Gas Payments," Reuters, September 7, 2022, <https://www.reuters.com/business/energy/petrochina-signs-gas-agreement-with-russias-gazprom-2022-09-07/>.

<sup>31</sup> Chen Aizhu, "Vast China-Russia Resources Trade Shifts to Yuan from Dollars in Ukraine Fallout," Reuters, May 10, 2023, <https://www.reuters.com/markets/currencies/vast-china-russia-resources-trade-shifts-yuan-dollars-ukraine-fallout-2023-05-11/>.

<sup>32</sup> See, for example, "Exclusive: Pakistan Paid in Chinese Currency for Discounted Russian Oil," Reuters, June 13, 2023, [http://eng.chinamil.com.cn/CHINA\\_209163/TopStories\\_209189/10115196.html](http://eng.chinamil.com.cn/CHINA_209163/TopStories_209189/10115196.html).