Saudi Arabia May Tap Rising Demand for Oil in China, India

Jan. 23 (Bloomberg) -- Saudi Arabia, the world's biggest oil exporter, may direct increased output toward China and India as the world's fastest-growing markets compete for supplies.

Saudi Arabia's King Abdullah visits the two most populous nations this week as the global oil rally enters a fifth year. Prices have quadrupled since 2001, partly because of soaring demand from developing economies, prompting OPEC's biggest supplier to pledge higher output.

The kingdom isn't the only exporter focused on Asia. Last month, Kazakhstan started exports through a new pipeline to China. Russia plans to build its own link. Angola has become China's No. 2 supplier and Iran has allowed Indian and Chinese explorers to drill in its fields.

``Saudi Arabia used to be passive, but now it's being more active in its marketing and prices because they have to compete with other sellers,'' said Khan Zhahid, chief economist at Riyad Bank, the country's third-largest lender. ``Saudi Arabia is looking eastward to Asia; to China and India in particular.''

King Abdullah yesterday arrived in Beijing for the first visit by a Saudi monarch to China. He will fly to New Delhi two days later, where he'll be the chief guest at India's Republic Day celebrations on Jan. 26. The touring party, including Oil Minister Ali al-Naimi, will also stop off in Pakistan and Malaysia.

Asia takes 60 percent of Saudi oil exports.

Top Supplier

The Middle East nation produced 9.5 million barrels of crude oil in December, 12 percent more than two years ago, to meet record global demand. State-run Saudi Aramco plans to expand production capacity by 14 percent to 12.5 million barrels by 2009. The Organization of Petroleum Exporting Countries, of which Saudi Arabia is the leading member, is pumping oil at the fastest rate in almost 25 years.

Saudi Arabia is the top supplier to China and India, where the mix of booming economies and stagnant domestic output has boosted imports.

In both China and India, the agendas may be dominated by investment in oil refining to help cope with soaring gasoline and diesel sales.

Saudi Aramco declined India's offer last year of stakes in two refinery projects led by state-run companies including Hindustan Petroleum Corp., India's Oil Minister Mani Shankar Aiyar said in Riyadh on Nov. 19. Hindustan Petroleum and Indian Oil Corp. have been invited to bid for a stake in a new Saudi Aramco oil refinery at Yanbu on the Red Sea.

`Want to Participate'

``We want to participate in Saudi Arabia's refining business,'' said Talmiz Ahmad, additional secretary in India's Oil Ministry. ``We want their help in meeting our energy requirement -- there are crisscross interests involved.''

China has had more success with the Saudis.

In March 2004, China Petroleum & Chemical Corp., or Sinopec, signed an agreement with Saudi Arabia to search for gas deposits in an area south of the kingdom's Ghawar oil field, the world's largest. Sinopec was the only Asian company to win the right to explore for gas as Saudi Arabia opened up its reserves to foreign participation for the first time since nationalization in the 1970s.

The Chinese company, in partnership with Saudi Aramco, agreed to spend $300 million over 5 years exploring the area for gas.

Aramco, the world's largest oil company by production, agreed in 2001 to expand a refinery in China jointly owned with Sinopec and Exxon Mobil Corp. at a cost of $3.5 billion. Aramco may also build a second joint venture plant with Sinopec in the northern city of Qingdao, the company's head of refining Khalid al-Buainain said on Dec. 1.

\`Already Signed Deals'

\`\`Saudi Aramco has already signed some deals in China; India has to do more to attract Aramco's investment,'' said A.F. Alhajji, energy economist and associate professor at Ohio Northern University. \`\`Saudi investment in downstream operations in China and India ensures that Saudi Arabia will continue to supply these facilities.''

China's oil consumption, which has doubled since the start of the decade, may rise 6.1 percent to 7 million barrels a day this year, according to the International Energy Agency. Imports will average about 3 million barrels a day. India imported 1.9 million barrels a day in October 2005, 15 percent more than a year earlier, according to the country's information bureau.

India and China are Saudi Arabia's third- and fourth-largest customers in Asia after Japan and South Korea. Russia and Iran ranked three and four as oil suppliers to China in November, according to China's Customs Bureau.

Securing Supplies

India and China have sought to secure supplies by vying for assets in countries that allow foreign investment in oil production.

Cnooc Ltd., China's largest offshore oil producer, this month agreed to pay $2.27 billion dollars for 50 percent stake in a Nigerian oil field. India's government blocked state-run Oil & Natural Gas Corp. from bidding for the asset. The same companies may bid for Nations Energy Co., which produces oil in Kazakhstan.

\`\`With the blistering growth of China and India, the Saudis more than ever are looking east,'' said Gal Luft, executive director of the Institute for Analysis of Global Security in Washington. \`\`Asia is their primary growth market and they hope to maintain their position as primary supplier to the region.''

To contact the reporters on this story:
James Cordahi in Dubai on cherifcord@bloomberg.net;
Will Kennedy in Singapore at wkennedy3@bloomberg.net.

Last Updated: January 22, 2006 11:01 EST

Print