PAPER BARRELS: OPEC+ IN A US–CHINA WAR OF ATTRITION

Thematic Report | 30 September 2026

Topic: OPEC+, US–China
Timeline: Oct 2025 – Dec 2026

−9.6 mb/d
fall in OPEC+ crude output, Feb to Apr–May 2026

>10 mb/d
of Gulf output still shut in

23%
Russian share of China's seaborne crude imports, Aug (9% in 2025)

Takeaway. Energy has become the most tangible front of the US–China rivalry: US policy has steadily narrowed China's access to discounted crude, and the war has turned OPEC+ quotas into paper barrels. We argue OPEC+ risks irrelevance unless it invests collectively in infrastructure security and moves to tradable production credits.

Summary

The 24 September 2026 Trump–Xi summit in Washington was the second leader-level "check-up" since the US–Israel war on Iran began, following the Beijing summit of 13–15 May. We argue that the unusually frequent meetings reflect a new phase of strategic rivalry in which energy has become a central front. Whether or not by design, the cumulative effect of US policy since late 2025 has been to erode the channels of discounted, sanctioned crude on which China's independent "teapot" refiners depend. Venezuelan flows were disrupted by the US blockade and January intervention, Iranian supply has been set back by the war, Russian barrels face new secondary-tariff risk under the Sanctioning Russia and Iran Act (i.e., Graham Sanctioning Russia Act), and Gulf exports remain constrained by disruption in the Strait of Hormuz. In parallel, Washington has pressed Beijing toward purchases of US oil and LNG. Read this way, these meetings function as information-gathering in some sort of war of attrition, where the US gauges China's tolerance for supply insecurity, and China gauges how far the US will go in fiscal cost and geopolitical polarization.

This setting exposes OPEC+. Its largest members now face physical rather than quota-based limits on output. Group production fell from 42.77 mb/d in February to roughly 33.13 mb/d by April–May, while monthly quota increases continued largely on paper. The UAE's exit on 1 May confirmed that internal tensions over quotas were already acute. We argue that OPEC+ risks irrelevance unless it (i) pursues collective infrastructure security, investing in bypass routes and shared storage outside chokepoints in partnership with transit countries, and (ii) reforms its quota system, moving toward tradable production credits that use the ongoing capacity review as the basis for initial allocations and require transparent, verifiable production data.

1 Summit and attrition pattern context

The Trump–Xi summit in Washington on 24 September confirmed a shift from resolving the US–China rivalry to managing it, with both sides negotiating to contain tensions while preserving leverage. Economic interdependence remains strong enough to sustain the trade truce, critical minerals have become a bargaining chip, and Taiwan and AI extend the competition into the military and technological domains. Energy, however, is where we think the rivalry has become most tangible, and Iran is where it converges.

1.1 US constraining China's discounted O&G supply

China is the principal buyer of Iranian crude, taking roughly 90% of Iran's exports. For years, US sanctions on this channel raised its costs without stopping the flow, even as they targeted Chinese "teapot" refiners, terminals, shipping networks and vessels. The naval blockade reinstated on 14 July changed that. Since then, no Iranian crude cargo has transited the Strait of Hormuz to China, something that did not happen even at the height of maximum pressure in 2019–20. Iranian loadings fell from about 2 mb/d in March to roughly 740 kb/d in July and 220–255 kb/d in August, leaving Chinese buyers

to draw down floating storage in Asia that cannot be replenished. The move from financial to physical instruments ties US policy toward Iran directly to China's crude access and the security of Gulf shipping, giving Beijing a stake in regional stability and Washington an additional bargaining point at the summit (see Figure 1).

The same pressure extends to China's other discounted suppliers (see Table 1). US action has curtailed Venezuelan flows, which averaged roughly 0.4 mb/d to China in 2025. Russia has so far been the exception. As Middle Eastern supply fell, Chinese refiners turned to Russian barrels, lifting Russia's share of China's seaborne crude imports to 23% in August from 9% a year earlier, alongside roughly 1 mb/d delivered by pipeline. By authorizing secondary tariffs on the largest buyers of Russian oil, the new Sanctioning Russia and Iran Act targets China's main remaining substitute, consistent with a strategy of progressively narrowing Beijing's access to discounted crude.

Table 1. China's exposure to crude suppliers under US or war-related pressure

Supplier	Supply to China (2025)	Pressure: type and instruments	Status, September 2026	Trend
Iran	1.6 mb/d seaborne; ∼90% of Iran's crude exports	**Targeted: financial, then physical.** Sanctions on teapot refiners, terminals, vessels; US naval blockade of Iranian ports (13 Apr; suspended 18 Jun; reimposed 14 Jul).	Loadings ∼2 mb/d (Mar) → ∼740 kb/d (Jul) → 220–255 kb/d (Aug). No Hormuz transits to China since mid-July; buyers drawing down floating storage in Asia.	↓ **Fresh supply cut off**
Venezuela	∼389 kb/d avg; ∼778 kb/d peak in Nov 2025	**Targeted: military.** Tanker blockade (Dec 2025); US intervention and removal of Maduro (3 Jan 2026).	Offers to Chinese independent refiners suspended (avg 2026 flows ∼40 kb/d); flows redirected toward US refiners.	↓ **Largely lost**
Russia	1.4 mb/d seaborne + ∼1 mb/d pipeline; ∼20% of China's crude imports	**Targeted: financial.** Sanctions on Rosneft and Lukoil (Oct 2025); Sanctioning Russia and Iran Act authorizes tariffs up to 100% on largest buyers (18 Sep 2026).	Seaborne imports 1.68 mb/d in Aug, highest since March. Share of China's seaborne imports 23% (9% in Aug 2025) as refiners replace Gulf and Iranian barrels.	↑ **Relief valve, now the target**
Gulf producers (Saudi, Iraq, Kuwait; UAE)	∼41% of China's crude imports	**Collateral: war.** Iran's closure of Hormuz (re-closed 15 Jul); strikes on production and export infrastructure; Houthi disruption of Red Sea exports.	>10 mb/d of Gulf output shut in; exports near half pre-war levels, cushioned by bypass pipelines and US escorts.	↓ **Constrained**

Note: "Targeted" denotes pressure applied directly by US policy; "Collateral" denotes disruption arising from the war. *Sources:* Kpler, Vortexa, TankerTrackers.com, CREA, IEA, PDVSA data.

2 OPEC+: paper vs physical

The current geopolitical landscape leaves OPEC+ in a precarious position: without a policy response, the group risks losing what remains of its influence over global oil markets. Its members still hold roughly one third of global production and capacity, but the group's principal instrument, the production quota, no longer determines how much oil reaches the market.

2.1 Production quotas no longer bind by construction

The US–Iran war broke the link between quota increases and physical supply. Since April, the core members have raised required production every month, but key Gulf producers cannot deliver the extra barrels while Hormuz remains closed and their infrastructure damaged. By August, the IEA estimated that more than 10 mb/d of Gulf output remained shut in. Saudi Arabia highlights this gap as its June quota stood at 10.353 mb/d, against actual output of 7.1 mb/d reported.

Russia's constraint is different in kind. Western sanctions, rather than chokepoints, limit its ability to raise exports, while Ukrainian strikes on its refining sector have curtailed product exports. This has opened a visible gap between Riyadh and Moscow. Saudi Arabia pushed for quota increases to regain market share, while Russia, unable to benefit from higher targets, lobbied for the pause in increases

agreed for the first quarter of 2026. With the UAE's departure in May, the group's cohesion now rests on a bargain between two producers whose constraints and interests appear to be diverging.

2.2 The way forward for OPEC+

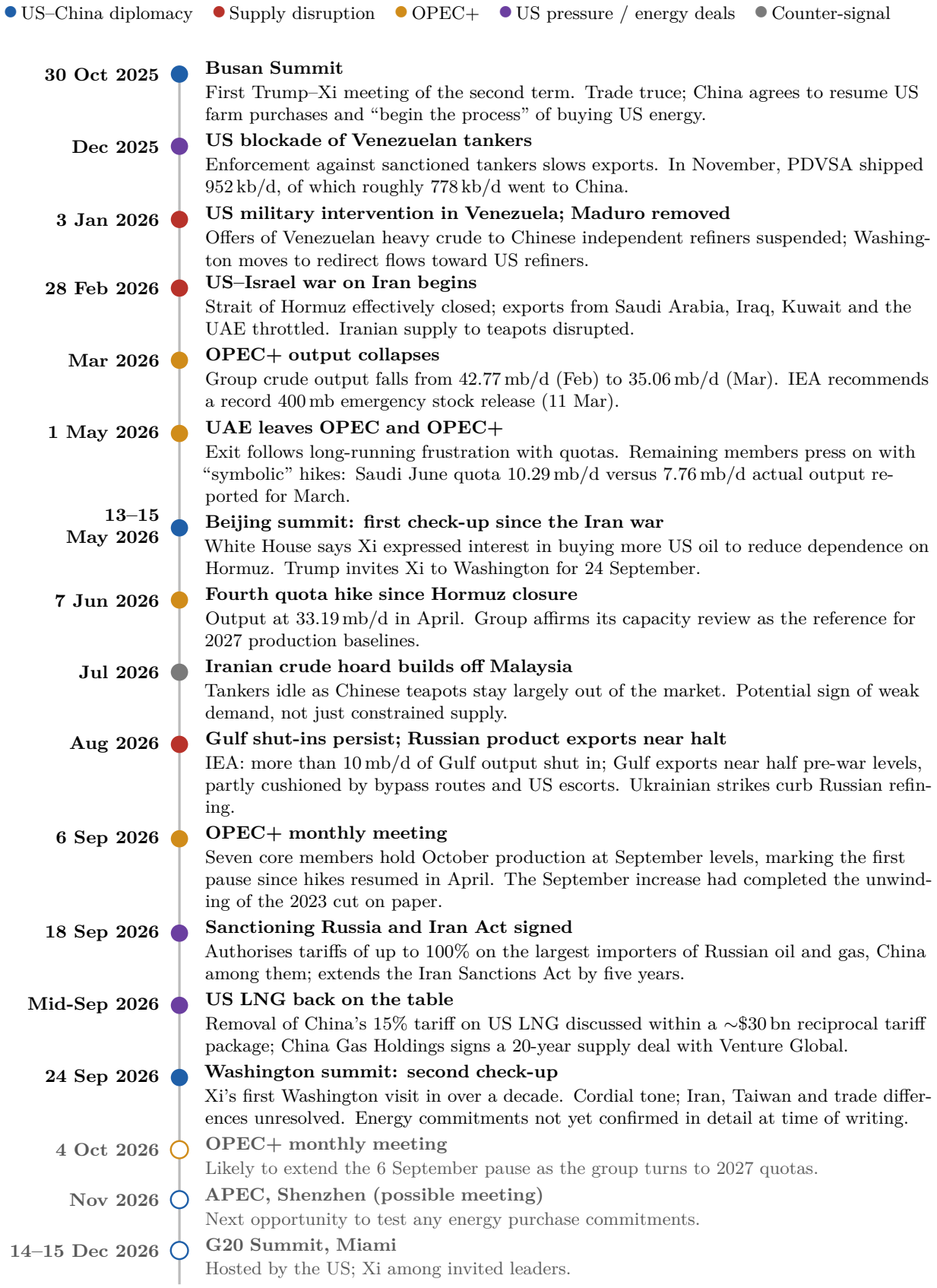
If OPEC+ is to remain relevant, it must adapt to a market in which the binding constraint is physical rather than political, while also effectively managing the constraints of its members. We believe there may be two reforms that should be considered as a potential way forward.

1. **Collective infrastructure security.** Military arrangements are impractical while Iran remains a member, thus OPEC+ should instead consider a collective arrangement to secure export infrastructure, built on three elements.
   - **Bypass capacity.** Coordinated, long-term investment to extend existing routes such as the East–West pipeline to Yanbu, and to support new Mediterranean corridors such as the proposed Basra–Haditha pipeline to Ceyhan or Baniyas.
   - **Shared storage and contingency protocols.** Storage outside chokepoints and agreed procedures for rerouting exports during disruptions.
   - **Partnerships with transit countries.** Because these corridors cross non-producing states, OPEC+ should develop structured partnerships with transit countries. Egypt's SUMED pipeline, jointly owned by producers and the transit state, offers a model that aligns incentives without diluting the group's cohesion.
2. **Tradable production credits.** As we have long argued, OPEC+ should reform its core policy instruments, namely production baselines and quotas. We propose exploring a system in which each member receives an allocation that it can either use or sell to other members. The group's aggregate output target would remain unchanged, preserving its signal to the market, while production would shift to the members best placed to deliver it. Members constrained by war, underinvestment or infrastructure damage would earn revenue from allocations they cannot use, and members with spare capacity would gain a legitimate channel to produce more. The capacity review under way for the 2027 baselines would remain relevant as the basis for the initial allocation, and the system would depend on credible, verifiable production data, making transparent reporting a precondition rather than an afterthought.
   A new instrument of this kind raises questions we have yet to resolve. In particular, further study is needed on how to prevent wealthier members from accumulating market share over time, and on how trades with sanctioned members would be treated. We believe, however, that tradable credits offer a more durable path to rebuilding cohesion within OPEC+ than incremental adjustments to the existing framework.

3 Wildcards

Several developments do not yet fit neatly within this narrative that we built and could alter it. First, US policy has not consistently pointed toward restricting supply. Military escorts through Hormuz and the one-month waiver on Iranian exports in March suggest that Washington also wants to contain oil prices, which could contradict a deliberate strategy of attrition. Second, weak demand may explain part of the disruption. Iranian tankers idling off Malaysia while Chinese independent refiners stayed out of the market suggest that lower Chinese purchases are not solely a supply-side story. Third, Russia has so far acted as a relief valve rather than a pressure point, and the impact of the Sanctioning Russia and Iran Act will depend on whether its tariff authority is actually enforced. Fourth, China's structural buffers (i.e. strategic and commercial stockpiles built up before the war, together with the continued spread of electric vehicles and renewables) may make it more resilient to a war of attrition than its import exposure suggests. Finally, a ceasefire or the reopening of Hormuz would rapidly return stranded barrels to the market. OPEC+ quotas would then become binding again, and the group's problem would shift abruptly from paper barrels to oversupply and renewed disputes over market share, which makes the reforms above more urgent, not less.

Figure 1. Timeline of key events, October 2025 – December 2026



Sources: IEA, OPEC, Reuters, PDVSA, S&P Global, CFR, CSIS. Hollow markers: upcoming events.