

Development Strategy of China National Offshore Oil Corporation

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Oil industry holds a very important position in national economy. Since the 80s, Chinese government has strengthened cooperation with foreign oil enterprises and given active support to offshore oil development in order to speed up China's oil industry. In 1982, the State Council issued *Regulations of the People's Republic of China on the Exploration of Offshore Petroleum Resources In Cooperation with Foreign Enterprises*, gave its approval to the founding of China's National Offshore Oil Corporation (CNOOC) and authorized it to take full responsibility for cooperation with foreign enterprises in exploring offshore oil and natural gas. For more than a decade, CNOOC has carried out the principle of opening door to the outside world conscientiously, held four rounds of international tenders invitation for cooperation in offshore oil exploration in 1982, 1984, 1988 and 1992 respectively, and continuous talks on bilateral cooperation in this field. By the end of 1997, we had signed totally 131 contracts and/or agreements with 67 foreign enterprises from 18 countries on oil exploration projects, with direct use of more than six billion US dollars of foreign capital, set up and put into operation 21 offshore oil/gas fields in China's whole offshore area, including 13 cooperatively run ones and 8 own-account run ones (35 offshore platforms, 8 oil storing ships and 5 undersea oil transferring pipelines), and got 13 offshore well drilling ships, 10 physical exploring ships, 40 three-purpose working ships and other kinds of ships and totally 254 pieces or sets of different kinds of specialized technical service equipment. Offshore crude oil output of CNOOC had jumped from originally less than 100,000 tons to 16.285 million tons by the end of 1997, and natural gas output reached 4.05 billion cubic meters, and plus 350,000 tons of oil from our overseas offshore oil output totally amounting to 11% of China's total oil/gas equivalent output. In 1997, CNOOC's sales income from offshore oil and gas reached 14.9 billion yuan, 970 million yuan of tax turn over to the state, 3200 million yuan of profit, and 10.26 billion yuan of total added value, 33.5 times that when CNOOC was founded. Total assets of CNOOC valued 31.83 billion yuan by the end of 1997.

One of the reasons for fast growing of CNOOC is implementation of correct development and operation strategy and timely strategic shift. In the early time after the founding of CNOOC, restricted by shortage of funds for and experiences in offshore oil exploration, a strategy of opening door wide for cooperation with foreign enterprises on every side was followed. With pushing forward of exploration development, CNOOC has formed 10 sets of fully serialized technologies and a specialized fully-equipped team, thus forming a strategic setup of simultaneously promoting foreign cooperation and own-account development. Coming into the 90s, with changes of both international and domestic macro-environment and strengthening of power and accumulation of experiences, CNOOC put forth a development strategy of integration of upstream with downstream and overseas exploitation. In its Ninth Five-year Plan, CNOOC put forth a complete development strategy of simultaneously developing oil and gas with favour to natural gas, exploiting downstream, promoting overseas development, creating new systems and intensifying management to build CNOOC into a international group corporation with full reinforced power and integrated upstream and downstream.

This year, international oil price has dropped by 40% compared with that in the same period last year, which forms a great pressure on our offshore oil industry, which has only upstream business. Further more, restructuring of the two domestic great groups, i.e., China Oil Group

Corporation and China Petrochemical Group Corporation, causes fiercer competition for offshore oil industry to face. Facing more serious challenge in both domestic and international markets, we see clearly, in deepened study of our transcency development strategy frame, that the only way out for CNOOC lies in deepening reform, accelerating changeover of business operation mechanism, changing methods of economic growth, greatly reducing cost of exploration and development, enhancing integral economic quality and strengthening our capability in market competition. CNOOC has always put emphasis on analysis of industries of the same trade and markets. Take this year for example, we analyzed some economic indexes for 1997 against those of some international oil companies. The analysis is as follows:

1. Comparison of Reserves Replaceability Ratio (recoverable reserves added through discovery in that year, recalculation and raising recovery ratio, divided by annual output) CNOOC's reserves replaceability ratio was 450% for 1997 while those of 18 selected oil companies were 91-188% for the same year. Reserves replaceability level of CNOOC is basically equal to those of companies in the same trade. This shows that added reserves, which was used in that year, were able to replace oil/gas output equivalent of the same year in the whole offshore area.
2. Comparison of Rate of Debts of Working Capital ([net income + income of minority stockholders of indirect investment + interest payment after tax] / average working capital) Rate of debts of working capital of CNOOC is 39.5% of that of unlisted companies, ranking 13th among totally 21 international listed companies, a higher rate, but much lower than those of domestic companies.
3. Comparison of Rate of Returns of Working Capital ([net income + income of minority stockholders of indirect investment + interest payment after tax] / average working capital) Rate of returns of working capital of CNOOC is 14.4% while the highest among the selected companies for comparison is 17.3% and lowest 5.25%. Without consideration of Effect of policies for current income tax in China, rate of returns of working capital of CNOOC is basically the same as that of international companies of the same trade.
4. Comparison of Rate of Returns of Stockholder Equity (net income / average owner" s equity) Rate of return of stockholder equity of CNOOC is 19.2%, ranking at a better position among those of international oil companies.

Analysis through comparisons of economic indexes of CNOOC with those of large international companies allows us to have an objective knowledge of operational management level of CNOOC. It further demonstrates that CNOOC, having grown up in the course of China's opening door to the outside world and cooperation with foreign enterprises, has full capability to overcome new challenges. What is more important is that offshore oil and gas resources and potential are firm and material basis for carrying out strategy of sustainable development in China.

China's effective offshore area for exploration is 728700kni², with 8.3 billion tons of oil economic resources, 20% of which is obtained reserves in place, and 6.6% utilized reserves in place; and with 2890 billion cubic meters of natural gas resources, 12% of which is obtained reserves in place, and 4% utilized reserves in place. There is still great potential for offshore exploration and development. We shall summarize experiences in cooperation with foreign countries, further expand opening to the outside world and welcome cooperation with international oil companies. On the basis of comprehensive geological evaluation of resources, CNOOC has put forth the following oil and gas reserves growth targets for the last five years of this century: proven oil reserves in place, 460 million tons; and natural gas, 3x10¹¹ m³. Based on earnest investigations, CNOOC has set forth its transcency development targets: by 2003,

annual crude oil output for South China sea area, 10 million tons, and for Bohai sea area, 10 million tons; natural gas, converted to 10 million tons of oil equivalent for all sea areas with western part of South China sea as the main body.

To realize targets set forth by CNOOC, it is a new economic growth point to exploit downstream and develop overseas offshore oil. For downstream, South China sea petrochemical project of CNOOC – US Shell joint venture has got started, Nanhai chemical fertilizer project is in progress, and study on importing and utilizing LNG in coastal areas is being deepened. Supported by policies of the country, in the sector of overseas development, new fields will be exploited and new steps forward taken.

Now, offshore oil resources amounts to 26% of the total resources of the country. We believe that, with readjustment of development strategy, offshore oil and gas equivalent will reach 30-50 million tons after five years of hard working, and that CNOOC will play a more important role in the development of national economy and have more important effect on international cooperation.