

China's Petroleum Industry after Reshuffle: The Advent of A New Era

Chen Yongwu

State Administration of Petroleum and Chemical Industries, China

Respected Mr./Ms. Chairperson,
Ladies and Gentlemen,

As Sino-American Petroleum Conference opens here today, personages from the petroleum industry gather here to discuss the development of the petroleum sector and international cooperation. It is my belief that the discussions will promote mutual understanding, extensive cooperation and exchanges between China's petroleum sector and its foreign counterparts. Now please allow me to brief you on the present situation of China's petroleum industry and its policies on future development.

China's petroleum industry has been restructured in accordance with the government's institutional reform plan approved by the National People's Congress in March 1998. The restructuring constitutes a substantial change in the management system of China's petroleum industry since the country began the reform and opening process, and also a strategic reorganization of the industry's assets. The restructuring features the following:

First, the functions of government were separated from those of enterprises. The former China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (Sinopec) were deprived of their functions of government, and these functions, together with those of the former Ministry of Chemical Industry, went to the newly established State Administration of Petroleum and Chemical Industries (SAPCI). As an administrative organ under the State Economic and Trade Commission, SAPCI is responsible for planning for and administration over the petroleum and Chemical industries. Its duties include: formulating industrial plans, organizing the preparation of industrial decrees, rules, regulations and standards, and exercising administration of the industries.

Second, the industries and assets were reorganized. The former CNPC exchanged some of its oil and gas fields (including pipeline transport firms) for some refineries and chemical firms of the former Sinopec. With all the new changes, two conglomerates were formed--China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (Sinopec), both reincarnated. State-owned petroleum marketing companies in localities were transferred to the two conglomerates in accordance with their regional distribution. For both CNPC and Sinopec, the rebirth has brought about integration of both upstream and downstream operations, production and marketing, and domestic and foreign trade. For CNPC, its operation in exploring and developing oil and natural gas outweighs its petrochemical business, while for Sinopec,

it is the other way round--petrochemicals outweigh oil and natural gas. CNPC, Sinopec and the other two major petroleum corporations--China National Offshore Oil Corporation (CNOOC) and China New Star Petroleum Corporation (CNSPC), cooperate and compete with each other in an orderly way to promote the development of China's petroleum industry.

Third, the petroleum corporations have become in the true sense enterprises that operate in the market. Now the petroleum and petrochemical corporations have been deprived of functions of government, and the government has given them full rights to have independent business management, make investment decisions and engage in domestic and foreign trade. The corporations are now independent agents in the market, being responsible for their own profits and losses as well as accumulation and development. They take economic returns as their most important objective in business operation and make decisions on production and sales in accordance with market demand, while the state mainly exercises macro control and guidance of them.

After effective preparations, the two conglomerates were formally established in July last year. According to the statistics by the end of 1997, the country's proven oil reserves totaled 19 billion tons, with CNPC accounting for 70.1%, Sinopec, 24.2%, and CNOOC, 5.3%; proven natural gas reserves totaled 1.7% trillion cu.m, with CNPC accounting for 73.4%, Sinopec, 4.9%, CNOOC, 16.4%; crude oil output totaled 160.44 million tons, with CNPC accounting for 66.8%, Sinopec, 22.5%, and CNOOC, 10.2%; natural gas output totaled 22.32 billion cu.m, with CNPC accounting for 66.4%, Sinopec, 10.6% and CNOOC, 18.2%; capacity for primary processing of crude oil totaled 226.65 million tons, with Sinopec accounting for 52%, and CNPC, 45.7%; ethylene production capacity totaled 3.98 million tons, with Sinopec accounting for 59%, and CNPC, 33.5%.

The two groups' performance since July 1998 has proved that the reorganization as a whole is successful, with the two restructured groups gradually displaying their advantages. Last year, China petroleum industry faced a serious situation: impact of the Asian financial crisis, falling oil prices on the world market, and catastrophic flooding at home. Under the correct leadership of the State Council, cadres and workers of all administrative departments, enterprises and institutions of the petroleum sector made concerted efforts and scored substantial achievements in business operations and reforms. In 1998 the petroleum industry turned out 162.6 million tons of crude oil and 22.3 billion cu.m of natural gas and processed 165.7 million tons of crude, which were all roughly the same as in the previous year, the sector scored 8.59 billion yuan in profits, basically meeting the anticipated target.

In the first quarter of this year, the industry business operations further improved. In the quarter, crude output was 39.53 million tons, roughly the same as a year earlier, natural gas output, 5.94 billion cu.m, up 7.2%, the amount of crude processed, 43.08 million tons, up 7.6%. The two corporations made 2.26 billion yuan in profits, 3.21 billion yuan more than in the same quarter of 1998.

While noting the achievements, we are also aware of the sector problems that cannot be neglected. The problems include: the exploration and development of oil and gas become more difficult, there is over-capacity for primary processing of crude oil;

the development and utilization of natural gas remain at a relatively low level; the sector needs to enhance competitiveness of its petrochemical products; further improvements should be made in the operating mechanism in which the state exercises macro-control and petroleum enterprises cooperate and compete with each other in an orderly way for common development.

China's petroleum industry faces both serious challenges and good opportunities for development. At present, the state has started formulating the plan for the development of the petroleum industry in the tenth five-year plan period (2001-2005). In light of the present situation of China's petroleum industry and the trend of supply and demand, it is decided that the basic policies on future development of the industry should be: develop domestic production based on our own efforts, and maintain sustained and steady growth in output of petroleum and petrochemicals; develop concurrently oil and natural gas, and accelerate the development and utilization of natural gas resources; adhere to the policy of reform and opening, and expand international cooperation in the petroleum sector, practice strict economy and improve efficiency in energy consumption.

1. Develop domestic production based on our own efforts and maintain sustained and steady growth in output of petroleum and petrochemicals.

Land oil production will continue to follow the principle of "stabilizing the east, developing the west, concurrent development of oil and natural gas, and expanding opening to the outside world." Offshore oil production will keep following the principle of "further opening to the outside world, expanding independent operations, concurrent development of oil and natural gas, and making steady progress."

The oilfields in the eastern part of the country occupy a pivotal position in China's petroleum industry, accounting for 70% of the national oil output. Efforts should be made to improve the development of the oilfields by "stabilizing oil output and controlling water content," so as to effectively extend the period of stable production for the oilfields. As oilfields in the eastern part bear the hope of raising national oil output, exploration in new areas and new fields should be stepped up, so as to realize strategic succession for the petroleum industry. Coastal waters and the continental shelf periphery have constituted a major part of China's oil and natural gas production with an annual crude oil output of more than 16 million tons, and efforts should be made to ensure steady growth in recoverable reserves and output by international cooperation and independent operations.

China's petroleum and chemical industries will further readjust and optimize industrial pattern and product mix, control the capacity for primary processing of crude oil, rely on advances in science and technology, and adopt new processes, new technologies and new equipment, so as to raise product quality, increase product variety, lower cost and enhance competitiveness. In line with the requirements of the national economy, a number of large refining and chemical production bases will be upgraded and developed on the basis of existing

enterprises before the year 2010.

2. Develop concurrently oil and natural gas, and accelerate the development and utilization of natural gas resources.

In the future, exploration for natural gas in the central and western parts and coastal waters of the country will be further stepped up; overall planning for the utilization of natural gas will be intensified; development of gas fields, pipeline construction and natural gas utilization projects will be carried out simultaneously, and more natural gas will be used in power generation and domestic fuel consumption. The disparity between oil and natural gas will be changed, and natural gas will have a bigger share in the national energy structure. While making full use of domestic resources, we will also make plans and studies on importing natural gas and liquefied petroleum gas from abroad.

3. Adhere to the policy of reform and opening, and expand international cooperation in the petroleum sector.

China petroleum industry was one of the industries that began opening to the outside world in an early period. In 1982 its offshore oil section first began cooperation with foreign partners, and in 1993 tenders from foreign companies were invited for land oil operation at Tarim Basin in Xinjiang. By the end of 1997, China had signed 126 contracts and agreements with foreign firms on offshore oil cooperation, and 37 contracts on land oil exploration and development, and more than 150 Sino-foreign joint ventures had been set up in the petrochemical sector. While opening its petroleum sector to the outside world, China has also participated in exploration and development of oil and natural gas in other countries, and constantly expanded its export of products, technology and labor service. Cooperation between China petroleum industry and its foreign counterparts is getting ever closer.

The petroleum industry is of an international nature. The Chinese government is willing to, on the basis of equality and mutual benefit, take more flexible measures to make use of overseas funds, technology and talents. In addition, the government also encourages domestic enterprises and institutions to develop more extensive cooperation relations with their foreign counterparts to accelerate the development of domestic petroleum industry.

4. Practice strict economy and improve efficiency in energy consumption.

Since China began its reform and opening process, the country has basically realized its objective of ensuring energy supply for its national economy by both increasing production and practicing economy. However, compared with developed countries, China still has a big potential in saving petroleum resources, as its efficiency in oil consumption is not high enough. Through technological, economic, legal and educational means, we will strive to establish an efficient oil consumption structure and

economic structure, and reduce oil consumption while maintaining growth of the national economy. We will also raise the quality of oil products to reduce pollution by relying on advances in science and technology.

Facing the Asian financial crisis, the Chinese government has taken and is taking a series of major measures to expand domestic demand, keep the Chinese currency Renminbi stable and achieve sustained steady and fast growth of the national economy. China petroleum corporations are also meeting challenges by giving play to their own advantages, engaging in association and cooperation as well as orderly competition, advancing technological progress, enhancing internal management, tapping potentials and raising efficiency. They are striving to make greater contributions to the development of the national economy.

Finally, I wish this conference a great success.

Thank you.