

The New China

New leadership, new roads, expanding cities, new found wealth and freedom are bringing dramatic changes to China's countryside and its people. Has this also brought with it new opportunities in the energy sector?

Thomas Smith, Associate Editor

The present governmental leaders are committed to continuing the reforms and openness; a drive that began 29 years ago when China's leaders realized their country was lagging far behind other developed countries. Now, China is the largest and fastest developing country and the world's second largest energy consumer and producer. The current sustained growth in energy supply has provided support for the country's economic and social progress. To this end, the government is accelerating its development of a modern energy industry and international cooperation.

During my recent visit to China, I talked with people associated with the oil and gas business from inside one of their major oil and gas companies to outside geophysical and service companies. While their opinions on doing business were quite diverse, they all echoed a central theme: China is a land of opportunity, but be ready for plenty of competition.

Fueling the Growth

My own observations, while traveling around the country, backed up so much of what I learned from the people I met along the way. Change is happening at a rapid pace in China. Within about 5 years they have built an entire freeway system to rival any in the world. Cities, such as Shanghai Pudong, have been constructed from what was agricultural land in the 80's, into a new financial, economic and trade center for China.

To fuel this growth, domestic oil and gas resources are being aggressively exploited. ►

China is ranked 5th in the world's oil producers, steadily increasing crude oil production to 232 MMm³ (1.46 Bb) in 2006. Natural gas production has increased from 14.3 Bm³ in 1980 to 58.6 Bm³ in 2006. New gas fields have prompted the building of the largest gas plant in Asia, along with a 1,700 km pipeline leading to urban centers in the east. China is encouraging foreign investment in coalbed methane development with tax rebates and other incentives. Exploration and development of frontier and offshore areas, as well as highly explored areas, continues to be robust.

Conventional reserves of oil and natural gas are relatively small and new development of energy resources will be difficult. Most of their oil and gas resources are located in areas with complex geological conditions and at great depths (see pp. 26-32 this issue). It will take advanced technologies and expensive prospecting to find and extract these resources. Coalbed methane, oil shale, tight fractured reservoirs, and other unconventional resources have huge potential here but remain underutilized.

Oil and Gas Perspective

Conversations with people in the oil and gas exploration and production business were quite frank. Here is what some had to say:

Dr. Ma, President of Exploration for SINOPEC: "We operate this oil company pretty much like everywhere else. Bids are received for just about everything from reprocessing of seismic data to drilling fluids. Before this, the Chinese companies tended to be very impatient when it came to exploration. With the new competition and cooperation we have now, we are doing much better and are competing quite well in other parts of the world. China has hard



Dr. Ma and Dr. Jiang.

working, practical people. I believe life here will continue to improve and 10 years from now we will be older, wiser, and better off."

Dr. Renqi Jiang, President of GCC, an exploration consulting firm, has a similar take, as does Dr. Ma: "China offers companies like mine many opportunities to expand along with this growing economy. To do business in China, you have to have a presence here. I now spend more than half of my time in the Beijing office, even though our primary operations are handled out of Houston."

Alex Dong, Marketing Manager for ION, a U.S. based geophysical company, looks to cooperation between Chinese companies and the technology his company has to offer: "I/O, now ION, has been doing business in China for over 20 years. We recently employed our full wave seismic imaging technology to the XinChang gas field (a tight, fractured gas reservoir) in Sichuan Province. The effort was a success and we are planning to expand our office in Beijing. Because of China's growing energy needs,

companies with leading technical support and good brand recognition have a leg up on the competition."

Steve Lee, of Baker Atlas, has supplied equipment in China since 1975. They are now changing their business plan: "When we started our business in China, we had little choice; deal with the government. It was their way or no deal. We sold logging systems and found them (Chinese companies) competing against us. We are now trying to supply our services. It is very difficult to get a start over the established companies even though we offer as good or better products. Good tools and top technical support is simply not enough to compete and do business here. Companies need to develop good customer relationships and have an aggressive marketing plan to sell their services."

Opportunities

The Chinese government is steering growth to a more holistic approach, which includes efforts aimed at reducing the consumption of resources and even bigger efforts toward environmental protection. They also recognize that responsible expansion requires an energy policy that requires closer ties with the outside world. Recent laws and regulations aimed to encourage foreign investment in the energy sector have been enacted. Included are energy exploration, production, supply, transportation, and equipment production. Joint ventures with foreign investors and Chinese companies in risk exploration, low-permeability reservoirs, enhanced recovery, and unconventional energy are happening all over the country; energy sector business opportunities that are beneficial for both China and the rest of the world.



Steve Lee.



Alex Dong.