

L. Oil and Gas

Business Environment

China's central government has given high priority to the development of its oil and gas industry. Oil and natural gas supply almost one fifth of China's energy needs. Breakneck economic expansion in the 1980s and double-digit growth in the 1990s have pushed domestic demand far ahead of production growth. Although still the world's fifth-largest oil producer, China is using up its reserves at mature eastern fields, and new discoveries mainly in Xinjiang Province, northwestern China and offshore areas are only at the initial stages of production.

As is so often the case in China, personal relationships are of fundamental importance in the petroleum industry. A foreign supplier must be reasonably well known to the end-user before it will be invited to offer a quote for its equipment. Companies serious about the China oil market must develop a local presence through an effective agent or a local office. Some companies may also want to consider joint-venture operations to better position themselves in relation to their competitors.

The Chinese oil industry regularly sends study missions abroad. These delegations gather information on new potential suppliers and also update the Chinese industry on recent technological developments or industry practices. These missions also expose foreign companies to useful Chinese contacts for follow-up missions to China.

Market Opportunities

To help meet escalating energy demand, China is turning to foreign expertise and investment to stabilize oil and gas output and bring new areas into production. Since 1994, foreign companies have been invited to explore parts of China's vast Northwest through several rounds of exploration and enhanced recovery blocks.

With oil demand forecast to climb to 210-260 million tonnes by the year 2000, analysts predict that China will be importing up to 50 million tonnes annually to make up for the difference between production and consumption. Foreign investment in oil exploration and development is expected to play an increasingly significant role in resolving China's energy bottleneck.

In addition to onshore and offshore oil and gas exploration and production opportunities, demand is growing for technology and equipment for heavy oil and/or oilsands development, enhanced oil recovery, natural gas processing, sulphur recovery, horizontal drilling, thermal recovery, pipeline construction and operation, and deep drilling. Potential exists for sales of computer systems and software, pumps, separators, steam generators, drilling rigs, modular gas plants, desulphurization and laboratory equipment, all-terrain vehicles, and engineering/consulting services from Canada. Downstream investment opportunities exist for oil refining and petrochemical joint ventures to produce synthetic ammonia, methanol, ethylene and fertilizer.