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China Oil & Gas Monitor

Issue 664 12 • October • 2017 Week 40

Production pared back

China's oil production has fallen steeply owing to cutbacks in development spending on the back of lower international oil prices.

Demand depression

The country's oil consumption appears set to stall as adoption rates for new energy vehicles (NEVs) soar over the next decade.

Refining rejection

Sri Lanka has rejected a proposal by a Chinese consortium to build a 100,000 bpd refinery near the southern port of Hambantota.

Truck change

The government's focus on gas as a low-emissions replacement for coal and petroleum products is now affecting the trucking industry.

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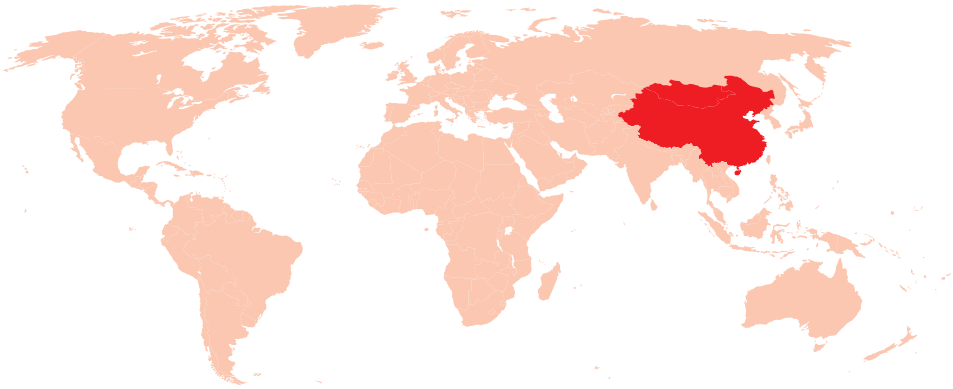


Have a question or comment? Contact the editor – Andrew Kemp (andrew.kemp@newsbase.com)

Low oil prices stifle Chinese production

China's oil production has fallen steeply owing to cutbacks in development spending on the back of lower international oil prices, writes Graham Lees

WHAT:
China's domestic crude output fell to 3.77 million bpd in August, its lowest monthly level since records were made public in 2011.

WHY:
Sub-US$60 per barrel oil makes it uneconomical to do more than keep China's older oilfields in working order.

WHAT NEXT:
Chinese output will continue to falter unless OPEC steps up its production cuts.

UNLESS there is a major upsurge in international crude prices China's domestic oil production is forecast to remain flat at best for the next few years. Onshore drilling in particular is reckoned by one analysis to be "hugely bearish" up to 2021.

The offshore sector may see some upturn in exploratory drilling, especially in unexplored areas of the South China Sea now that state-run CNOOC Ltd has access to deepwater technology, but production will continue to be constrained by tight capital expenditure budgets, Westward Global Energy said in a drilling trends assessment.

Although producers in other countries in Asia – such as Indonesia, Malaysia and Thailand – are also drilling less, it is the size of China's influence that will result in Eastern Europe and the former Soviet Union (FSU) states overtaking Asia to become the second largest market for onshore drilling expenditure between now and 2021, Westwood predicted.

Spending forecasts

"Many [Chinese] onshore oilfields are basically played out and not worth investing in beyond keeping them in working order," Westwood's Matt Cook told NewsBase Intelligence (NBI). "This could change of course if global crude prices surge upwards. Then it becomes more economically feasible to invest in home production. It does not make sense at all if crude remains below US$60 for the rest of this decade. With that in mind China's onshore drilling plans are hugely bearish."

Expenditure in both onshore and offshore well drilling is forecast by Westwood to shrink between 2018 and 2020. Onshore investment next year is expected to be US$25.2 billion, dropping to US$21.6 billion in 2020. Expenditure on offshore drilling will see a less pronounced fall, from US$2.4 billion in 2018 down to US$2.3 billion in 2020.

This year has certainly seen China's domestic crude output slip to its lowest monthly level since records were made public in 2011, while record volumes of crude are being imported. In August, production decreased 3.1% year on year to 15.96 million tonnes (3.77 million bpd), National Bureau of Statistics (NBS) figures showed.

PetroChina has cut spending on the large but ageing Daqing oilfield by 20% year on year, but Reuters said the rate of production decline had slowed this mid-year as global crude prices rose slightly.

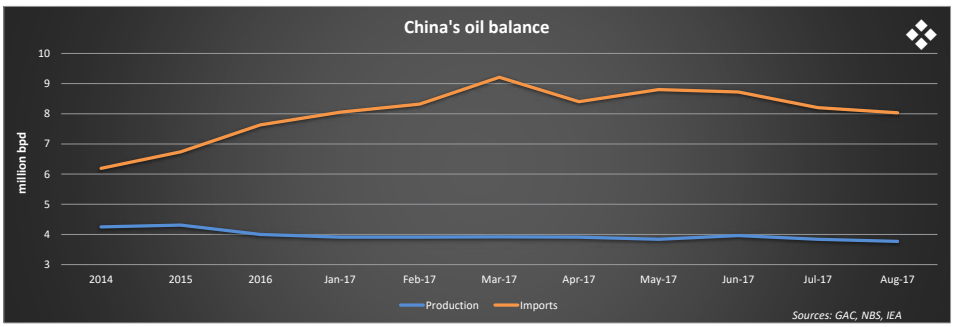
At the same time Reuters quoted state-run Sinopec as saying China's crude imports for 2017 were likely to top 400 million tonnes (8 million bpd). In the first half of this year imports averaged 8.58 million bpd, up 14% year on year. And imports in 2018 will maintain double-digit growth, Sinopec said.

Drilling doldrums

China's reluctance to invest in domestic oil production reflects a worldwide trend of curtailed spending on new drilling activity influenced by low prices and OPEC's apparent failure to significantly rein in member countries' output.

The latest Westwood assessment has forecast the global offshore drilling spend up to 2021 at US$244 billion, which is US$9.5 billion lower than its earlier forecast.

"The latest update … shows little movement in global spending expectations over the next ▸▸



five years," Westwood said. "Thus far, 2017 has seen a strengthening onshore rig count, led by US activity, but firms within the offshore sector have seen little abatement to the challenges presented over recent years."

China's focus now is on increasing natural gas production at home, although the offshore projection for 2018 indicates no growth in output, Cook said. Home-grown deepwater drilling technology now available to CNOOC Ltd should see the national oil company (NOC) keep probing the South China Sea. "It makes sense to have the technology to do this because it means keeping drilling in territorially contentious areas in house, so to speak."

Driving demand

None of this is good news for China's drilling services sector, led by China National Offshore Oil Corp. (CNOOC) subsidiary China Offshore Services Ltd (COSL), which is increasingly seeking contracts far from home in order to maintain business.

Although the NOCs are investing significantly in developing onshore unconventional plays, notably shale gas, the rising demand for gas is, as with crude, still being heavily met by imports, either in LNG format or pipelines from Russia, Central Asia and also in transit through Myanmar.

China's demand for gas is being generated by government policy to try and wean cities off coal usage. But the constantly rising demand for crude is more baffling. Beijing keeps insisting that a slowing economy means less demand. That may be true of heavy industry but conveniently ignores burgeoning car ownership.

The government recently announced plans for the eventually phase-out of fossil fuel-driven vehicles and their replacement with electric vehicles (EVs), but that is for an unspecified future. In the meantime, the new middle classes want to drive fuel-guzzling SUVs.

At Beijing's behest the NOCs supposedly reduced refining capacity by 10% at some of their refineries in the third quarter to contain rampant fuel output, but in the next few years China will see the start-up of a new generation of privately financed super refineries of 400,000 bpd or more.

The first of these, a US$24 billion giant being built by a consortium that includes Rongsheng Petrochemical, is due for completion in 2018, according to Bloomberg. Plans are in hand for a phase-two development, which would result in a refining capacity of more than 600,000 bpd by 2020.

What next

Future Market Insights believes that while upstream investment is challenging at present in China and other Asian producing countries, unconventional exploration as well as deepwater drilling will grow in the next few years.

This view was supported by a study last month from Markets and Markets, which predicted that the Asia-Pacific region would become global leader in the offshore drilling market by value over the next five years.

"Recent discoveries of oil and gas in the offshore basins in Australia, Gulf of Thailand and [the] South China Sea, and high demand from China and India, are expected to drive offshore drilling in this market," it said.

OPEC meets next month to consider whether to leave in place or lift their modest crude production cuts, but the cartel in September signalled that it expected increased demand from China and Europe in 2018. The anticipated rise could mean adding about 400,000 bpd to OPEC's current output, according to Bloomberg calculations.

If OPEC agrees to push up its overall crude production after March 2018 it will effectively stifle China's onshore oilfield investment for another year.❖

China's oil demand to lose steam

The country's oil consumption appears set to stall as adoption rates for new energy vehicles (NEVs) soar over the next decade, writes Helen Castell

WHAT:
China's oil demand has been robust this year, but may lose steam in the face of Beijing's aggressive NEV sales targets.

WHY:
The government wants NEV sales to account for at least 10% of total auto sales by 2019 and is already mulling a complete ban of conventional vehicle manufacturing.

WHAT NEXT:
While demand faces downwards pressure, imports should not be too affected given that production is already in steep decline.

WHILE China's crude demand has proved relatively resilient in 2017, despite lengthy maintenance periods at refineries, growth appears to be losing momentum and an anticipated surge in the use of electric and gas-fuelled vehicles threatens to prove even more of a drag from next year.

At the same time, however, dwindling domestic production means the trend may not have too stark an impact on the country's crude imports or on global prices.

Demand shift

China's oil demand expanded 6% year on year in July to 11.67 million bpd, according to OPEC figures published last month. Strong SUV sales have helped gasoline demand surge 17% year on year. China's overall vehicle sales were up 4% in July from a year earlier, to 1.7 million units.

But Beijing's ultimate goal of banning gasoline-fuelled cars could upend this trend. And while even electric vehicle (EV) makers such as BYD founder Wang Chuanfu do not expect this to take place until 2030, drivers and traditional auto makers are likely to go electric much earlier than this.

Regulators are already targeting for so-called new energy vehicles (NEVs) to account for at least 10% of China's total auto sales by as soon as 2019 – up from less than 2% in 2016. And by 2025, the Ministry of Industry and Information Technology sees them taking a 20% market share.

This is bad news for China's US$440 billion retail fuel market, which remains dominated by state-run Sinopec and PetroChina.

Money maker

Gasoline sales accounted for around a quarter of Sinopec's revenue in 2016 and the company operates nearly a third of China's more than 100,000 fuel stations. PetroChina operates around 20,000 fuel stations and sold more than 62 million tonnes of gasoline in 2016, worth around 357 billion yuan (US$54.19 billion).

A surge in sales of big LNG trucks will also dampen demand for oil products, and by extension crude oil, although those same two companies should at least benefit from stronger gas revenues. Sales of the vehicles soared 540% in the first seven months of this year to nearly 39,000, according to IHS Markit truck analyst Cassie Liu. *(See: China's anti-pollution rules drive LNG truck demand, page 8)*

Beijing is also becoming more vigilant of China's burgeoning independent refinery sector,

whose recent powers to use or directly import foreign crude oil have been largely blamed on a domestic oil product glut that has built up over the past two years.

Independent pressure

Since 2015, the government has allowed 31 so-called teapots to import crude oil, granting them quotas based on the size of oil refineries they had promised to scrap while encouraging them to build new facilities such as natural gas storage.

Baota Petrochemical was the latest this week to find itself facing the wrath of the National Development and Reform Commission (NDRC), which cut its oil import quota by two-thirds as punishment for failing to build a gas storage facility. From 2018, Baota will be allowed to import just 2.16 million tonnes (43,200 bpd), down from a current quota of 6.16 million tonnes (123,200 bpd).

But traders have noted that Baota – which has a refinery in Zhuhai, near Macau, and another in northern Ningxia region – was already under-using its existing quota because of its difficulty obtaining financing to pay for imports.

Still, further moves like this from the NDRC could place considerable downward pressure on China's oil demand.

For the moment, however, Chinese oil consumption looks solid and Beijing's efforts to build bigger strategic petroleum reserves (SPR) is helping to mop up a global crude glut that dragged down prices.

"China has helped to clean up the market," the head of BP's trading arm in Asia, Janet Kong, ▸▸

told the FT in late September. "We are at a juncture where we are going to see continued inventory draws."

Private players' efforts to build their own crude storage facilities will support this trend, she added.

Production

Meanwhile, China's own petroleum extraction is in decline, with oil production hitting a six-year low after upstream investment cuts were slashed in 2016. *(See: Low oil prices stifle Chinese production, page 4)*

China's total oil production, comprising both conventional and unconventional resources, could peak as early as 2018, according to a new state-funded study led by the China University of Petroleum. And while the country's technically recoverable gas reserves are unlikely to peak much before 2040, extraction rates will likely disappoint because of water supply constraints.

Water stress issues are already affecting the "highly exposed" areas of shale oil and gas extraction, the report found, predicting that these challenges will intensify in coming decades.

What next

China's crude imports continue to grow at a healthy clip and the country looks set to overtake the US this year as the world's biggest importer.

Its imports already expanded around 12.3% year on year in the first eight months of this year to 281.1 million tonnes (8.48 million), according to General Administration of Customs (GAC) data.

The figures make China the world's biggest contributor to global oil demand growth so far this year, meaning exporters – and global crude prices – are increasingly dependent on the country's appetite. The International Energy Agency (IEA) predicts that the world's total oil consumption will expand 1.6 million bpd this year from 2016.

Suppliers such as Saudi Arabia, Russia and Angola remain the most exposed to any tapering of Chinese demand. During the first eight months, Russia and Angola were China's top two suppliers, followed by Saudi Arabia, which slipped to third place from first place in the first eight months of 2016.

The next six months will be a balancing act for China's oil and gas heavyweights and for the regulators that oversee the sector. While both demand and production face downward pressure, Beijing has more control over the former than the latter.

Yes, state-run giants are in a better financial position this year to start investing more heavily in exploration and development, but the slow decline of some of the country's biggest oil and gas fields looks irreversible. The Chinese government is also under pressure to use its power in oil markets responsibly, meaning that even if domestic crude demand does slide, it will likely step in to slow any decline in imports by upping its own purchases for the SPR. ❖

China LNG in talks with SOE over bond issue

PUBLICLY listed China LNG is in talks with an unnamed state-owned enterprise (SOE) regarding the issuance of a 5 billion yuan (US$759 million) bond for three LNG projects in Fuping, Huanggang and Jiangyin.

Two other Chinese-listed companies will also be involved in establishing upstream, midstream and downstream infrastructure for the developments, China LNG has said.

Announced in late September, the Jiangyin City project will require 3.5 billion yuan (US$531.2 million) to build the LNG terminal, storage tanks, tanker logistics base, distribution, refuelling station and industrial coal-to-gas (CTG) project at Changjiang Port. China LNG believes the investment will help the group's LNG logistics and trading integration development in Eastern China and is expected to be operational within five years.

Jiangyin is also located near two existing LNG receiving stations in Rudong and Qidong, and an upcoming third at Binhai will be completed in 2019.

In July, China LNG also announced the Fuping and Huanggang projects, which are worth around a combined 1.66 billion yuan (US$251.9 million).

The Fuping County project, a clean energy logistics base, will require an initial investment of 170 million yuan (US$25.8 million), followed by another 230 million yuan (US$34.9 million) in 2018. China LNG expects the Fuping project to contribute 312 million yuan (US$47.3 million) in annual revenue after it is completed, of which a significant proportion will come from LNG transportation.

The Huanggang project involves setting up a peak shaving centre in southeastern Hubei at a cost of 1.26 billion yuan (US$191.2 million) and will take three years to build.

The first phase of development will involve the construction of a 10,000 cubic metre LNG reserve facility, 15 standardised industrial direct gasification stations and the purchase of 50 LNG carrier vehicles. The second phase, worth 1.01 billion yuan (US$153.2 million), will involve setting up CTG supply projects for 50 townships.❖

POLICY

Anti-pollution rules drive LNG truck demand

THE Chinese government's focus on natural gas as a low-emissions replacement for coal and petroleum products has already had an effect on the country's power-generating and heating sectors, and now the impact is spreading to the trucking industry. Anti-pollution regulations have pushed up demand for LNG-fuelled trucks since the beginning of this year, Reuters reported last week, with the trend looking set to continue.

Trucks currently account for the majority of freight transport in China, and most of the trucks now on the road burn diesel. In fact, Reuters noted, LNG-fuelled vehicles now account for just 4% of the country's 6 million-strong fleet of heavy trucks.

But conditions are changing in the wake of the government's imposition of new restrictions on heavy diesel trucks. In early 2017, for example, Beijing sought to improve air quality by barring diesel trucks from transporting coal in the city of Tianjin and in Hebei and Shandong Provinces.

As a result, truckers have shown greater interest in LNG trucks. IHS Markit trucking analyst Cassie Liu noted last week that Chinese dealers had sold nearly 39,000 LNG trucks in the first seven months of 2017. This is up by about 540% on the same period of last year, she told Reuters.

Sales of LNG trucks also appear to be rising more quickly than sales of comparable diesel vehicles. The ChinaTruck.org website recently

reported that the total number of new heavy-duty trucks sold in the country in the first eight months of 2017 had reached 768,214, up by 75% year on year. The site did not provide a breakdown of this figure, but Reuters cited trucking industry sources as saying that LNG accounted for a disproportionately large share of the year-on-year increase.

China National Heavy Duty Truck (Sinotruk), the country's largest manufacturer of heavy-duty trucks, has identified policy shifts as a major driver of demand for such vehicles. Sinotruk's marketing manager, Mu Lei, told Reuters: "We are seeing a blowout in LNG trucks this year, thanks to the government's policy push."

The news agency did not provide any projections for future sales, but it did indicate that interest in LNG-fuelled heavy vehicles was likely to remain strong. Although trucks of this type have a higher price tag than their diesel counterparts, it said, diesel fuel is more expensive than LNG. This makes heavy LNG trucks more economical, especially in light of regulations introduced last year to discourage overloading of cargo.❖

Sri Lanka turns down Chinese refinery proposal

THE Sri Lankan government last week rejected a proposal by a Chinese consortium to build a 100,000 bpd refinery near the southern port of Hambantota, which is slated to be a strategic piece in China's One Belt, One Road (OBOR) initiative.

Citing competition for the local market with two Sri Lanka fuel distributors, the government said the Chinese proposal could cause the local firms to suffer with the introduction of a new competitor.

China Huanqiu Contracting & Engineering, a subsidiary of China National Petroleum Corp. (CNPC), and privately owned refiner Shandong Dongming Petrochemical entered a joint bid some 18 months ago to build a US$3 billion refinery in Sri Lanka. The venture had asked the government's permission to sell refined products produced at the plant in the local market.

> "The firms were denied permission to sell locally but were advised to participate in tenders from local suppliers if they wanted to sell fuel in the Sri Lankan market

Denied entry

The Chinese companies proposed building the refinery on 500 acres (2 square km) near the southern port of Hambantota, which is operated by China Merchant Port Holding (CMPH) under a 99-year contract signed in July. CMPH is also planning the creation of an 11-square km special industrial zone located adjacent to the port.

A Sri Lanka government spokesman said the firms had been denied permission to sell locally but suggested that they should participate in tenders from local suppliers if they wanted to sell fuel in the Sri Lankan market, according to a report by Reuters. Another official said the government feared control of the US$6 billion annual market would be taken over by the Chinese consortium.

Ceylon Petroleum Corp. (CPC) and Lanka IOC, a subsidiary of India's state-owned Indian Oil, dominate the island's fuel product distribution sector. Sri Lanka has one ageing refinery located near Colombo and operated by CPC that was originally designed to process Iranian crude. International sanctions against Iran created problems with the refinery, which switched to running Malaysian and Abu Dhabi crude.

The Sri Lankan Petroleum Resources Ministry unveiled plans last year to expand the CPC refinery to 5 million tpy (100,000 bpd). In October 2016, the ministry said it would build a second refinery at Trincomalee with 100,000 bpd of capacity in partnership with Indian Oil. Lanka IOC operates a fuel storage facility at the southeastern port where most of 99 storage tanks that are there are unused.

It remains unclear, however, if the Chinese proposal is entirely dead or whether it could still go ahead if the Chinese companies accept the Sri Lankan government's refusal and opt to export the entirety of the proposed refinery's production.

Chinese ambitions

The position taken by Colombo may be political in that there is opposition in Sri Lanka and India over China's expanding role in the Indian Ocean region. The CMPH-managed port will likely figure prominently in the future distribution of Chinese-made goods throughout the Subcontinent, as the special industrial zone would serve as a regional base for Chinese manufactures.

Prior to signing the contract for port operation earlier this year, a Chinese official based in Sri Lanka commented that the port on its own would be of little interest to China if there were no industrial zone nearby. To this end, CMPH is drawing up a master plan for the zone. It includes an oil bunkering facility, Chinese manufacturing plants and logistic companies.

Sri Lankan unions are also playing a role in the future of the country's refining sector. They have in the past protested about government plans for the Trincomalee project with Lanka IOC and the Chinese refinery proposal, demanding that Colombo put its energy into revamping CPC and its refinery in the capital city.

A refinery at Hambantota would serve CMPH and China's OBOR project well, giving the port the ability not only to supply fuel to ships arriving at the port, but also to generate electricity for the port and surrounding area, and provide feedstock to industries that establish themselves in an industrial zone.

The deepwater port at Hambantota was built by Chinese companies at a cost of US$1 billion for the Sri Lankan government and has been operated by the country's Port Authority. But it has struggled under local management, losing some US$300 million since it opened seven years ago. With the resources available to CMPH – its total assets amount to US$855 billion – the port is expected to experience a significant change.

The port operations licence cost CMPH US$1.1 billion and to secure the special economic zone (SEZ), the company promised US$5 billion in investment from Chinese firms and 100,000 new jobs.❖

Greka, CUCBM sign agreements on three PSCs

GREEN Dragon Gas' Greka Energy unit has signed three supplementary agreements with China United Coalbed Methane (CUCBM) relating to three production-sharing contracts (PSCs) in China's Shanxi, Anhui and Jiangxi regions.

The new deals with CUCBM, which is a unit of state-owned China National Offshore Oil Corp. (CNOOC), will allow the partners to advance operations across the Fengcheng (GFC), Qinyuan (GQY) and Panxie East (GPX) coal-bed methane (CBM) blocks from exploration to commercialisation.

Under the new arrangements, the proposed exploration period has been extended until the second quarter of 2019, while minimum work commitments have also been agreed. Total expenditure on the blocks is now expected to be at least US$30 million.

The latest development complements a memorandum of understanding (MoU) on five PSCs, as well as two supplementary agreements on the Shizhuang South (GSS) and Shizhuang North (GSN) blocks the two companies signed last month.

The agreements have ended eight years of uncertainty over the two blocks, ensuring a "committed close co-operation" between CUCBM and Greka "to unlock and monetise all our lucrative prolific gas blocks", said Green Dragon's CEO, Randeep Grewal.

The company has now reached "another milestone on our path to monetisation", he said, adding that the deals would eliminate ambiguity and provide a roadmap for progressing the blocks.

"Both parties have significant experience of the Chinese coal-bed methane commerciality potential," Grewal said. "Pooling such knowledge is an optimum partnership with collective rewards."

The priority for both partners is to maximise the value within the exploration areas, according to Greka.

The deals come just weeks after the National Development and Reform Commission (NDRC) approved the overall development plan for the Chengzhuang (GCZ) block in the prolific Qinshui Basin, in which Green Dragon's Greka has partnered with China National Petroleum Corp. (CNPC).

The plan includes the drilling of an additional 147 production wells by year-end at the 67-square km block, which has proven reserves of around 275 bcf (7.79 bcm) of gas. Around 114 wells have so far been drilled on the acreage.

Green Dragon will invest US$25.3 million in the work, with CNPC contributing US$28.5 million. ❖

Dalian LNG reports on import volumes

STATE-RUN PetroChina's Dalian LNG terminal received 1.38 million tonnes of LNG in the first nine months of 2017, amid a growing Chinese appetite for the chilled fuel.

The terminal, located in Liaoning Province in the country's northeast, supplied 1.7 bcm of natural gas via pipeline in the same period, according to a report by Russian newswire Interfax. It also sent out 3 mcm of LNG via truck in the first nine months, it added.

The terminal, which began operating in 2011, saw its receiving capacity doubled to 6 million tpy in 2016 after a new storage tank was added.

In late September, PetroChina said its Rudong LNG terminal in the eastern Jiangsu Province had received 2.8 million tonnes of LNG via 35 shipments in the first nine months of the year. ▸▸

The Rudong terminal was also expanded in 2016, with PetroChina bringing online a new 200,000 cubic metre storage tank as well as regasification facilities and pipelines.

China, the world's third largest importer of LNG, wants to raise the share of gas in its energy mix to 10% by 2020 as it seeks to cut emissions while reducing its dependency on oil imports. The government is especially keen to boost gas usage over coal.

Beijing has pledged to more than double the share of gas in its energy mix by 2030, from around 6.5% to about 15%. It is aiming to boost domestic gas production but also import more LNG to meet additional demand.

That strategy is already starting to take effect. In the first eight months of this year, overall Chinese LNG imports climbed by 44% year on year.

China currently has a total of 13 operating LNG import terminals, owned by state-run giants, with a combined capacity of 5.4 bcf (152.93 mcm) per day.

But analysts have predicted that Chinese independents could account for up to 30% of the country's LNG import market by 2030. Independent LNG buyers started taking their first cargoes in 2015 after Beijing permitted third-party use of idle capacity at existing import terminals and approved some company plans to build their own facilities.

Among the firms that have received approval to build new infrastructure, ENN Group has the go-ahead for a 3 million tpy facility off the eastern city of Zhoushan. At least two more terminals are planned, by China Huadian and Guangzhou Development.❖

Sinopec plans major Ordos upstream campaign

STATE-RUN Sinopec is embarking on a major oil and gas exploration and development campaign, and will pay special attention to natural gas projects in China's northern Ordos Basin.

The decision to step up exploration in the northern basin is in response to the central government's call on developers to boost supplies of cleaner energy during the 13th Five-Year Plan (FYP, 2016-20).

Beijing wants to raise the proportion of natural gas in its energy consumption mix to more than 10% by 2020, from around 6.5% at present. The government has also set a target of 15% of the mix by 2030.

The basin, covering 370,000 square km, is already one of the largest gas producing areas in China. In 2016, it delivered 34.3 bcm of gas, accounting for 25% of the country's total. PetroChina is responsible for the bulk of the basin's gas production.

Sinopec is licensed to explore 40,000 square km of the basin, with industry sources noting that these acreages are highly prospective. The new campaign will focus on Jinhangqi Block, which holds 300 bcm of gas in place (GIP) in three prospects.

At present, the company is producing gas from the basin's Daniudi and Dongsheng gas fields. Daniudi has an annual gas production capacity of 4 bcm. The 10,000-square km Dongsheng block is currently producing 1 mcm per day, but Sinopec intends to boost output to 1 bcm per year by the end of 2017 before lifting it to 3 bcm per year by 2020.

The company is building a 23.5-km pipeline linking Daniudi and Dongsheng and another 280-km, 2 bcm per year line between Jinhangqi and Yinchuan City in the Ningxia Hui Autonomous Region. Sinopec Huabei Oil and Gas Field is leading the Ordos exploration and production campaign.❖

POLICY

China's oil giants brace for electric car crash

China's moves to slash reliance on the internal combustion engine signal tough times for the country's oil majors. A push into new energy vehicles (NEVs) – including battery-powered and hybrid cars – could curb demand for black gold. Sinopec and PetroChina will be hardest hit. The policy will also add to downward pressure on global crude prices.

The People's Republic is ultimately hoping to outlaw traditional gasoline-fuelled cars entirely, cleaning up the air and relieving it of dependence on oil imports. There is no official deadline for the move, but Wang Chuanfu, founder of Chinese electric vehicle maker BYD, reckons the ban could come as early as 2030. As a battery maker poised to profit from the shift, Wang's guesstimate is certainly self-interested, and probably wishful thinking. Electric cars accounted for less than 2% of China's market share in 2016, and a bottleneck in battery production will hamper the transition.

But there is no doubting China's determination to push the pace. The Ministry of Industry and Information Technology says NEVS should account for a fifth of auto sales by 2025. As soon as 2019, regulators want automakers to make NEVs at least 10% of total sales. That means China's US$440-billion retail fuel market is in for a bumpy ride.

REUTERS, October 9, 2017

China will 'compel' Saudi Arabia to trade oil in yuan

China will "compel" Saudi Arabia to trade oil in yuan and, when this happens, the rest of the oil market will follow suit and abandon the US dollar as the world's reserve currency, a leading economist has claimed. Carl Weinberg, chief economist and managing director at High Frequency Economics, said Beijing stands to become the most dominant global player in oil demand since China usurped the US as the "biggest oil importer on the planet".

Saudi Arabia has "to pay attention to this because even as much as one or two years from now, Chinese demand will dwarf US demand," Weinberg said. "I believe that yuan pricing of oil is coming and as soon as the Saudis move to accept it – as the Chinese will compel them to do – then the rest of the oil market will move along with them."

In recent years, several nations opposed to the dollar being the world's reserve currency have progressively sought to try and abandon it. For instance, Russia and China have sought to operate in a non-dollar environment when trading oil. Both countries have also increased their efforts to mine and acquire physical gold if, or perhaps when, the dollar collapses.

OPEC kingpin Saudi Arabia is at the crux of the petrodollar. Since a 1974 agreement between US President Richard Nixon and Saudi King Faisal, Saudi Arabia has accepted payments for nearly all of its oil exports in dollars. However, as China imports more and more oil from countries across the world, the idea of having to purchase that same oil in dollars has become increasingly irritable to Beijing.

CNBC (US), October 11, 2017

China establishes yuan-ruble payment system

China has established a payment versus payment (PVP) system for Chinese yuan and Russian ruble transactions in a move to reduce risks and improve the efficiency of its foreign exchange transactions.

The PVP system for yuan and ruble transactions was launched on Monday after receiving approval from China's central bank, according to a statement by the country's foreign exchange trading system.

It marks the first time a PVP system has been established for trading the yuan and foreign currencies, said the statement, which was posted on Wednesday on the website of the China Foreign Exchange Trade System (CFETS). PVP systems allow simultaneous settlement of transactions in two different currencies.

CFETS said the system would reduce settlement risk as well as the risk of transactions taking place in different time zones, and improve foreign exchange market efficiency.

CFETS said it plans to introduce PVP systems for yuan transactions with other currencies based on China's Belt and Road initiative, and complying with the process of renminbi internationalization.

China has ambitious plans to create a New Silk Road to expand links between Asia, Africa, Europe.

REUTERS, October 12, 2017

UPSTREAM

Buyers eye Sinopec's Argentina oil assets in sale worth up to US$1bn

Advisers to China's Sinopec have offered its oil assets in Argentina to about a dozen potential suitors, three sources familiar with the matter said, as losses and labour headaches prompt Asia's largest refiner to pull out.

The Argentine oil and gas assets, mainly in the southern province of Santa Cruz, could be worth US$750 million to US$1 billion, one of the sources said.

That would be less than half the US$2.45 billion Sinopec paid in 2010 to buy the Argentine assets from US-based Occidental Petroleum Corp, marking an aggressive drive to diversify its oil sources at the time.

Prospective buyers for the assets – mainly large energy firms from the United States, Europe, Africa and Latin America – include Angola's state oil company Sonangol and two Russian energy giants, including Rosneft, said two of the sources.

Mexico's Vista Oil & Gas has also expressed an interest, according to a separate source.

Meanwhile, Compania General de Combustibles (CGC), the energy arm of Argentine holding company Corporacion America, would also be studying some of the assets in Santa Cruz, Corporacion America spokeswoman Carolina Barros said.

One of the sources said there could be more than 15 prospective suitors.

Sinopec is being advised by Scotia Waterous, a unit of Canada's Bank of Nova Scotia, which focuses on energy deals, two of the sources said.

All the sources declined to be named as the sale plans are confidential.

Sinopec and Sonangol did not respond to requests for comment. Asked about the sale and its interest, Rosneft said it was not able to confirm the information.

Vista, Scotia Waterous and Argentina's energy ministry declined to comment.

In 2010, when Sinopec bought the Argentine assets, China – the world's No.2 oil consumer – was scouting for natural resources to feed its surging economy.

Worsening economic conditions and social unrest in Argentina, however, have "weighed" on the operation since then, Sinopec said in September last year.

Argentina's president, Mauricio Macri, has made attracting energy investment a priority since he took office in 2015. His government said last month it had brokered a deal to calm labour conflicts in Santa Cruz and lower costs.

But two sources said the Sinopec assets would be a tough sell regardless, given labour woes and declining oil output. Sinopec had already considered divesting the investment in 2015, sources told Reuters last year.

"It doesn't have to be [fast], unless Sinopec is willing to lose a huge amount of money," said one source, referring to Sinopec's willingness to accept low bids.

REUTERS, October 9, 2017

Rosneft aims for big boost in oil exports to China

Russia's largest oil producer Rosneft wants to boost its supplies of oil to China through Kazakhstan to as much as 18 mtpa (360,000 bpd) from around 10 million tonnes in 2017, three industry sources said. Such a big increase may significantly drain flows of Urals blend to Europe at a time when Russian oil output has been reduced as part of a global pact to support prices.

"(Rosneft's head Igor) Sechin would like to boost oil supplies to China to 13 mtpa with a possibility of further increase to 18 million tonnes," a source familiar with Rosneft's plans said, adding that there has been no decision yet at government level.

He didn't specify when the increase was likely to happen. "This would mean significant oil supplies cuts to Europe," the source added. Two other oil industry sources confirmed the plans.

REUTERS, October 6, 2017

CEFC set to raise US$5.1bn from VTB for Rosneft deal: sources

CEFC China Energy is set to raise $5.1 billion in short-term loans from VTB (VTBR.MM), Russia's second-biggest lender, to part finance its $9.1 billion purchase of a stake in Rosneft Oil ROSM.NN, three people with knowledge of the matter said.

CEFC last month said it will buy a 14.16 percent stake in the Russian oil major from a consortium of Glencore (GLEN.L) and the Qatar Investment Authority, strengthening energy ties between Moscow and Beijing.

It received preliminary Chinese approval to buy the stake about a week after the deal was announced.

The $5.1 billion loan agreement would help the privately run Chinese conglomerate to close the Rosneft deal. Two sources said the loan would be for one year, with one saying the tenure could be extended by another year.

CEFC will use its own cash for the remaining $4 billion of the purchase price, the sources said. CEFC is also in separate talks with China Development Bank (CDB), a policy bank, to refinance the short-term credit from VTB, they said.

"CDB is very actively engaged in discussions for the follow-up loans, ready to shoulder 70 percent or more of the value," said one source involved in the talks. Other Chinese banks could also provide refinancing, the source said.

CEFC and CDB did not immediately respond to a Reuters request for comment. VTB's press office in Moscow declined to comment.

REUTERS, October 12, 2017

Gazprom, CNPC and KazMunayGas sign MoU

Deputy chairman of the Gazprom management committee Vitaly Markelov, vice-president of PetroChina (under a power of attorney on behalf of CNPC) Huang Weihe, and executive vice-president for transportation, processing and marketing of KazMunayGas Daniyar Berlibayev have signed a memorandum of understanding at the seventh St. Petersburg International Gas Forum.

The document reflects the interest of the parties in long-term strategic cooperation in the NGV market, including via developing the natural gas filling infrastructure at the Europe-China international transport corridor.

The memorandum provides for, inter alia, an assessment of the potential number of gas-powered cargo vehicles and the amount of natural gas that could be used for refuelling vehicles at the Russian, Kazakh and Chinese sections of the route in the period up to 2030.

The results of the assessment will serve as the basis for the drawing up of the tripartite Roadmap for the development of the natural gas filling network along the Europe-China international transport route.

GAZPROM (RUSSIA), October 6, 2017

Glencore replaces Sinopec in Chevron's South Africa asset sale

Switzerland-based mining giant Glencore will acquire assets in South Africa and Botswana from Chevron Global Energy Inc., after a similar deal between Chevron and Chinese oil behemoth Sinopec Group fell through earlier this year.

Glencore will buy a 75% stake in Chevron South Africa Proprietary Ltd. and wholly acquire Chevron Botswana Proprietary Ltd., for a total of over US$970 million, Glencore said. The Chevron assets involved in the deal, which Glencore struck with South Africa-based shareholder Off the Shelf Investments Fifty Six (RF) Proprietary Ltd, include a refinery in Cape Town and a total of 850 retail sites in South Africa and Botswana.

Sinopec had announced in March that it would buy Chevron's Botswana subsidiary and the 75% stake in the South Africa business for US$900 million, after rounds of bidding that included offers from Glencore and France's Total SA. The Chinese company had planned to rebrand Chevron's Caltex gas stations in the two countries under Sinopec's name.

But Off the Shelf Investments Fifty Six exercised its pre-emptive right and re-opened the bidding process months later. Off the Shelf will continue to hold a 25% stake in Chevron South Africa.

CAIXIN (CHINA), October 9, 2017

MIDSTREAM

China buys rare Norway LNG cargo as spot deals rise ahead of winter

China has bought a rare cargo of liquefied natural gas (LNG) from Norway, Reuters shipping data shows, the latest sign that the world's second-largest economy has rushed to increase spot purchases to ensure fuel supplies ahead of the coming winter.

Trade flow data on Thomson Reuters Eikon shows LNG tanker Grace Cosmos, with a cargo of 143,625 cubic metres loaded in Melkoya, Norway, heading to China for delivery on Oct. 30.

It is the first LNG cargo China has bought from Norway since December last year and one of only six in the past 3-1/2 years. Melkoya serves the Snohvit LNG terminal operated by Statoil.

While only a small portion of the billions

of cubic metres China imports each year, the deal represents a growing need as Beijing intensifies its war on the choking smog that shrouds the north of the country.
REUTERS, October 12, 2017

China seen usurping Japan as world's leading LNG importer in 5 yrs

Rampant growth in China's LNG imports this year has fuelled expectations that the country is poised to usurp Japan as the world's biggest importer of the fuel in just five years, earlier than many had been anticipating.

China is likely to overtake South Korea to become the second-largest LNG importer already next year and could snatch the top spot in 2022, according to analysis by Tony Regan, respected LNG consultant and managing director of consultancy DataFusion Associates.

Mr Regan is forecasting a proliferation of companies in China that import LNG, increasing from eight currently to potentially 20 within five years.

While Chinese LNG buyers currently have more purchase contracts for the fuel than they need, the aggressive growth forecast points to significant demand for further supply commitments, with those emerging buyers likely to dominate new contract deals, he said.
AUSTRALIAN FINANCIAL REVIEW (AUSTRALIA),

DOWNSTREAM

Alibaba says filler up to its first 'smart gas station'

Although China's state-owned oil giants have dominated the country's gas station market, stations owned by private companies still accounted for 47% in 2015. After experimenting with "smart" convenience stores, e-commerce giant Alibaba plans to extend its smarts to gas stations.

The company will build an unstaffed gas station in its home city of Hangzhou by the end of the month. A robotic arm will fuel the vehicles, several Chinese media reported. The station will also have an unstaffed convenience store, a model that Alibaba showcased in July, which allows patrons to enter by scanning a QR code at the entrance, pick up their favourite items and automatically pay at the checkout gate.

An updated version of the smart gas station will launch next year, where information about the driver and his or her car, such as driver identity, car model, and fuel product type, will be automatically recognised.

Although China's top oil producer China National Petroleum Corp. (CNPC) and the largest refiner China Petroleum & Chemical Corp., known as Sinopec, have dominated the gas station market, those owned by private companies still accounted for 47% in 2015, although many were located in remote towns and villages, according to Bosi Data Research Centre.
CAIXIN (CHINA), October 6, 2017

CNOOC completes test runs at Huizhou Refinery in Guangdong

China National Offshore Oil Co (CNOOC) completed trial runs at its 200,000 bpd Huizhou refinery in the southern Guangdong province on October 2, China Securities Journal reported. The test runs were completed 16 days after crude oil was pumped into the unit, the Journal reported.

The new plant is part of the second phase of CNOOC's Huizhou refining and chemical complex, which also includes a 1.2-million-tonne-per-year ethylene plant, a joint-venture with Royal Dutch Shell. The new ethylene complex's construction is expected to be completed at the start of 2018, the report said. CNOOC is the parent of offshore oil and gas producer CNOOC Ltd.
REUTERS, October 9, 2017

Sinopec Shijiazhuang completes PP plant maintenance

Sinopec Shijiazhuang Refinery & Chemical Company has restarted a polypropylene (PP) plant following a maintenance turnaround.

A Polymer Update source in China informed that the company has resumed operations at the plant in early-October 2017. The plant was under maintenance since early-July, 2017. Located at Hebei, China, the PP plant has a production capacity of 200,000 tonnes per year.
POLYMER UPDATE, October 10, 2017

China independent oil refiners set up US$5-billion joint venture

A group of six Chinese independent oil refiners set up a 33-billion-yuan (US$5-billion) joint venture to compete with state-owned giants and the rise of private chemical giants, a senior executive at one of the partners said. The new alliance, called Shandong Refining & Chemical Group, gathers six independent oil processors and a provincial government-backed fund as investors, and was registered in late September, said Zhang Liucheng, a vice-president of Shandong Dongming Petrochemical Group.

Dongming, China's largest independent refiner, is the venture's biggest stakeholder with 22.63%. The number of investors, though, is much smaller than the around 20 independent refiners expected earlier by the two initiators Shandong Dongming and the Shandong Qingyuan Group.

The other four refiners are Shandong Tianhong Chemical, Shandong Shouguang Luqing Petrochemical, Wudi Xinyue Fuel and Chemical, and Shandong Shengxing Chemical. Jiangsu Xinhai Petrochemical, a Dongming subsidiary, also owns a stake.

A fund managed by Shandong province-backed Shandong Marine Group owns 22.59% and is the second-largest shareholder, said Zhang. Members of the alliance are expected to coordinate their production, marketing, crude oil imports and investments.
REUTERS, October 11, 2017

SERVICES

Chinese fishermen die as boat collides with tanker in Japan waters

Thirteen Chinese fishermen died after their boat collided with a Hong Kong oil tanker in international waters off Japan, state media Xinhua reported, citing sources at China's consulate in Osaka. Three people were found alive after Thursday's collision. It was not known if there was any damage to the tanker or what caused the accident.

The two vessels collided 400 km (240 miles) north of the Oki Islands in the Sea of Japan, also known as the East Sea, east of North Korea, state media reported. The identities of the victims have not yet been confirmed, Xinhua reported.

The 290-tonne Chinese fishing vessel Lurong Yuanyu 378 had 16 people on board, according to the South China Morning Post. All 21 crew members aboard the 63,294-tonne Hong Kong ship, Bright Oil Lucky, were safe, it said.
REUTERS, October 6, 2017

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