

# CNPC Aims at Reform and Creation for Cost-effective Development

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China National Petroleum Corporation (CNPC) produced 317.21 million tons of oil and gas equivalent both at home and abroad in the whole year of 2014, up 3.5 percent from the previous year, and processed 193.03 million tons of crude oil, up 2.5 percent. Meanwhile, the oil giant marketed more than 178 million tons of oil products, about 4 percent up from the previous year, and 123.71 billion cubic meters of natural gas, 8.1 percent up from 2013. The company's business income was kept basically at the same level as the previous year with the total profit growing steadily.

In 2014, CNPC's remarkable achievements were highlighted mainly in eight areas – domestic oil and gas production reaching an all-time high, oil refining and marketing capacity kept growing sustainably, important breakthroughs made in international oil and gas cooperation, conversion and upgrading engineering technological services accelerated, key construction projects making progress as scheduled, coordinating capability for production business improved effectively, remarkable results achieved in reform and creation, and harmonious development further consolidated.

China's crude oil output increased 0.7 percent year on year to 210 million tons in 2014, according to the Ministry of Land and Resources. This is the fifth consecutive year that oil output has stayed above 200 million tons, the ministry said in a recent statement. Seven major oilfields, including Daqing in Heilongjiang Province, Shengli in Shandong Province and the offshore Bohai, all recorded production of more than 10 million tons. The output of natural gas rose 10.7 percent to 132.9 billion cubic meters, of which coal-bed methane and shale gas production were 3.6 billion cubic meters and 1.3 billion cubic meters respectively. Overall, 330 million tons of oil and gas equivalent was produced last year, up 3.7 percent year on year.

## China's largest oilfield to reduce output

Daqing Oilfield, the largest oilfield of China's major oil and gas producer PetroChina of which CNPC is the parent, is expected to reduce its production starting in 2015, according to a recent economic work conference of Northeast China's Heilongjiang Province. The giant oilfield, which produces nearly one-fourth of China's total oil output annually, will see output reduction by 1.5 million tons this year. By 2020, Daqing's annual output will be slashed to 32 million tons with an annual reduction of more than 1.3 million tons, according to PetroChina's plan, according to a recent economic work conference of Northeast China's Heilongjiang Province.

As China's largest inland oilfield, Daqing has produced more than 2.1 billion tons of crude oil since production started in 1960. It produced slightly more than 40 million tons of crude oil in 2013, marking the 12th consecutive year in which the crude oil output of Daqing exceeded 40 million tons. It also produced 3.5 billion cubic meters of natural gas. Previously, the oilfield had an annual output exceeding 50 million tons crude oil for 27 consecutive years, considered a "miracle" in the oil industry, but output shrank due to harder operations in oil exploitation. However, limited oil reserves, high cost of development and declining international oil prices have caused the fast-depleting Daqing Oilfield to reduce output. The proper adjustment of output can allow the oilfield to develop sustainably and give more time to research on new technologies. Discovered in 1959, Daqing is located in northeast China's Heilongjiang Province.

Rising production costs and falling global crude prices are prompting Chinese oil companies to reduce output and explore other options for sustainable profit growth in the long term, a leading industry expert says. Part of the reason why oil firms are resorting to such measures

stems from the over-exploitation of existing oilfields and their resultant inability to maintain output levels due to dwindling resource quality, reserves and higher production costs, said Li Li, research director at ICIS C1 Energy, a Shanghai-based energy information consultancy. "With global crude prices falling steadily, company officials have realized that it is an opportune time to reduce output," she added. In addition to Daqing, other oilfields including Liaohe Oilfield in Liaoning Province and Shengli Oilfield in Shandong Province have also passed their production peak periods, and are facing difficulties similar to Daqing's. The output from these oilfields is falling rapidly.

### CNPC willing to cooperate for exploration of Arctic resources

China National Petroleum Corporation (CNPC) is willing to engage in cooperation in extracting oil and gas as well as other natural resources in the Arctic region. CNPC, which has oil and gas investment in 35 countries, has already involved itself in the Arctic through holding a 20 percent share in the Yamal LNG project, a joint venture with Russia.

Development of Arctic resources requires joint efforts of all countries and CNPC is willing and able to participate in Arctic oil and gas cooperation to better promote the development of Arctic resources. The Arctic region is abundant with oil and gas resources. The US Geological Survey came out with an evaluation in 2008, showing that the oil and gas resources in the Arctic amounts to 56.4 billion tons of oil equivalent, or about 22 percent of the global oil and gas resources awaiting development.

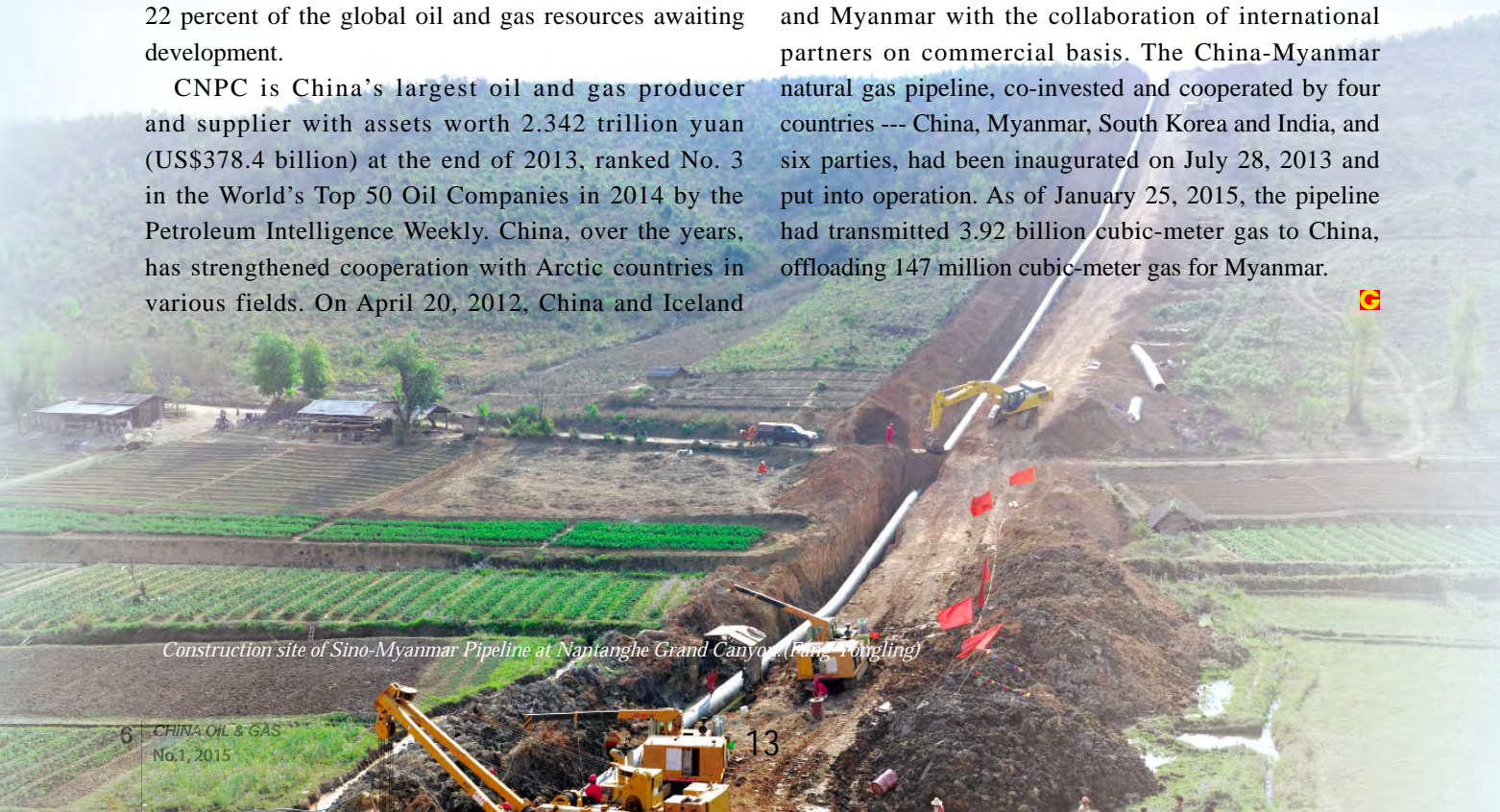
CNPC is China's largest oil and gas producer and supplier with assets worth 2.342 trillion yuan (US\$378.4 billion) at the end of 2013, ranked No. 3 in the World's Top 50 Oil Companies in 2014 by the Petroleum Intelligence Weekly. China, over the years, has strengthened cooperation with Arctic countries in various fields. On April 20, 2012, China and Iceland

signed a framework agreement on Arctic cooperation. During the APEC meeting in Beijing last year, China and Russia signed a number of cooperation agreements. All these provide CNPC with a good foundation for forging cooperation ties with partners from other countries.

### China-Myanmar crude oil pipeline enters trial operation

China-Myanmar crude oil pipeline (Myanmar section) was put into trial operation in late January 2015 after the project was announced basically completed through five years' efforts by the two sides. Made Island Port, the starting point of China-Myanmar Crude Oil Pipeline, where the first large oil tanker of 300,000 tons' capacity has been in place, was ceremonially opened. The China-Myanmar crude oil pipeline (Myanmar section), which was started in June 2010 and completed on May 30, 2014, was jointly invested and built by the CNPC and Myanmar's state-run oil and gas enterprise (MOGE) with the former holding a 50.9 percent stake and the latter taking the remaining 49.1 percent. The pipeline extends as 771 kilometers with designed transmission capacity of 22 million tons per year.

The Made Island lies southeast of Kyaukphyu town in Myanmar's Rakhine state with some main projects being implemented including 300,000-ton crude oil wharf, working vessel wharf, 650,000 cubic-meter water tank, 38-kilometer port channel and 1.2 million cubic-meter crude oil storage facility. The China-Myanmar oil and gas pipeline project, which comprises of a crude oil pipeline and a gas pipeline, is a state-operated project of China and Myanmar with the collaboration of international partners on commercial basis. The China-Myanmar natural gas pipeline, co-invested and cooperated by four countries --- China, Myanmar, South Korea and India, and six parties, had been inaugurated on July 28, 2013 and put into operation. As of January 25, 2015, the pipeline had transmitted 3.92 billion cubic-meter gas to China, offloading 147 million cubic-meter gas for Myanmar.



Construction site of Sino-Myanmar Pipeline at Nantanghe Grand Canyon (Fang Yongling)