People’s Republic of China

China’s Offshore Oil Development: An Interim Assessment

China started its offshore oil development with foreign oil companies in 1979. In May 1980 China signed five oil co-operative contracts with oil companies from Japan, France, and the United States. In February 1982 the CNOOC (China National Offshore Oil Corporation) opened the first round of bidding for offshore oil exploration on 43 blocks totalling 150,000 sq km. By 12 December 1983, 18 contracts had been signed in the first round of bidding covering an area of 39,199 sq km, about one-third of the total area where 48 foreign oil companies conducted geophysical surveys in 1979. Twenty-seven oil companies from nine countries were involved in this venture including Britain, Australia, Japan, Canada, France, Italy, Brazil and Spain. Eleven United States firms organized in 10 consortiums won bids for 11 zones totalling 19,372 sq km.¹

In late 1984 China announced an extra 93,000 sq km of its continental shelf for oil and gas exploitation in co-operation with foreign oil companies. The second round of bidding covers 50,000 sq km in the Pearl River Mouth Basin of the South China Sea and 43,000 sq km in the South Yellow Sea. The area open to foreign bidders in the second round represents another one-third of the total area set for offshore geophysical prospecting.

As of this date China has signed 23 contracts with 32 oil companies from 12 countries on the joint exploration and exploitation of its offshore oil. The contracted blocks cover the Bohai Sea, South Yellow Sea Basin, the Zhujiang (Pearl) River Mouth Basin of the South China Sea, the Beibu Gulf and the Yingge Sea. One

¹ Sources:


*China Economic News* (edited and published by External Services Department of Economic Daily, Beijing and Economic Information and Consultancy Co., Hong Kong), No. 13, 15 April 1985, pp. 4–5; No. 21, 10 June 1985, pp. 7–8; No. 23, 24 June 1985, p. 7; No. 25, 8 July 1985, pp. 1–2; No. 28, 29 July 1985, pp. 11–12; No. 29, 5 August 1985, p. 3; No. 30, 12 August 1985, p. 10; No. 36, 24 September 1985, p. 7.


hundred exploratory and 59 producing wells have been drilled, and oil and gas found in 21 formations.

There were some disappointing reports concerning the results of oil exploration in the South China Sea since the first bidding. According to the Western press, of the 11 wells drilled in the South China Sea since exploration began in November 1983, "10 have been dry, or nearly so." The British Petroleum Consortium was the first foreign oil group which won the bidding in the first round in the Pearl River Basin off Hongkong, which was generally regarded as the most promising area in the South China Sea. However, five wells thus far drilled in that area "have yielded nothing". Occidental Petroleum Corporation had drilled three unsuccessful wells and was "readying itself for a pullout after it completes its fourth well". The only good news is from Exxon Corporation and its Partner, the Royal/Dutch Shell Group. The well, located 75 miles east of Hainan Island, flowed at a rate of 3,200 barrels of oil a day. The well is reported as the first with commercial potential since the exploration began in late 1983. In September 1983, the Atlantic Richfield Company found a natural gas deposit in China's southern waters estimated to have a daily potential of 1.2 million cubic meters of gas.

The Chinese press reported a breakthrough in the Pearl River Mouth Basin early this year. The 2,731 metre well, about 270 km southeast of Canton, is expected to produce a daily capacity of 412 cubic metres of crude oil. China believes that the Pearl River Mouth Basin is still a "potential area of substantial oil resources". It was also reported that in 1984 foreign oil companies had drilled 17 wells in this area, of which "four have reportedly found commercial oil". [Emphasis added].

The first offshore oilfield in the South China Sea is reported to go into production in mid-June 1986. It is situated at the southwest of Weizhou Island in the northeast of the Beibu Gulf (Gulf of Tonkin).

In the Bohai Sea (in China's North) Sino-Japanese co-operation in oil exploitation seems to fare well and has yielded good results. The current output is 400,000 metric tons per year. The two countries have sunk 25 wells in this area in the past four years and 15 of them have struck oil.

After a perusal of both Western and Chinese press reports, the author wishes to make the following observations.

(a) The initial results of oil exploitation in China's offshore areas have not been so encouraging as had been originally expected. When the Chinese press uses "reportedly" in its own coverage of oil finds, it is certainly not a good omen. It is preparing a defensive position. The poor results of oil prospecting is also reflected in China's attitude toward the second round of bidding. The Chinese are evidently in a weaker bargaining position than in the first round due to the poor show after initial drilling, coupled with the downward trend in oil prices. The spokesman in Beijing said that "CNOOC will adopt a more flexible policy in the second round of bidding". The word "flexible" is the best indication of China's weakened position in the oil deal with the West.

(b) China's alternative to poor records in offshore oil search is to open its onshore oil resources to foreign participation. China has now awoken to the fact that the