



THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
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**THE BUSINESS DEVELOPMENT OF CHINA'S
NATIONAL OIL COMPANIES:
THE GOVERNMENT TO BUSINESS RELATIONSHIP IN CHINA**

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ABOUT THE POLICY REPORT

THE CHANGING ROLE OF NATIONAL OIL COMPANIES IN INTERNATIONAL ENERGY MARKETS

Of world proven oil reserves of 1,148 billion barrels, approximately 77% of these resources are under the control of national oil companies (NOCs) with no equity participation by foreign, international oil companies. The Western international oil companies now control less than 10% of the world's oil and gas resource base. In terms of current world oil production, NOCs also dominate. Of the top 20 oil producing companies in the world, 14 are NOCs or newly privatized NOCs. However, many of the Western major oil companies continue to achieve a dramatically higher return on capital than NOCs of similar size and operations.

Many NOCs are in the process of reevaluating and adjusting business strategies, with substantial consequences for international oil and gas markets. Several NOCs have increasingly been jockeying for strategic resources in the Middle East, Eurasia, and Africa, in some cases knocking the Western majors out of important resource development plays. Often these emerging NOCs have close and interlocking relationships with their national governments, with geopolitical and strategic aims factored into foreign investments rather than purely commercial considerations. At home, these emerging NOCs fulfill important social and economic functions that compete for capital budgets that might otherwise be spent on more commercial reserve replacement and production activities.

The Baker Institute Policy Report on NOCs focuses on the changing strategies and behavior of NOCs and the impact NOC activities will have on the future supply, security, and pricing of oil. The goals, strategies, and behaviors of NOCs have changed over time. Understanding this transformation is important to understanding the future organization and operation of the international energy industry.

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JPEC's international collaborations cover joint research and exchange of researchers and information with oil producing countries and international institutions and support for infrastructure improvement and solving environmental problems of the petroleum industries in oil producing countries.

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THE BUSINESS DEVELOPMENT OF CHINA'S NATIONAL OIL COMPANIES: THE GOVERNMENT TO BUSINESS RELATIONSHIP IN CHINA

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I. INTRODUCTION

Because of the rapid increase in the demand for oil brought about by China's advanced economic growth (more than 10 percent) in recent years, the Asian country has become the world's second largest petroleum consumer after the United States, and China's state-run petroleum companies, which are responsible for China's oil production and supply, continue to be the focus of great attention, both inside and outside of the country.

The major Chinese petroleum companies -- CNPC (China National Petroleum Corporation), Sinopec (China Petroleum and Chemical Corporation), and China National Offshore Oil Corporation (CNOOC) -- continue to develop as new and important players in the international petroleum and energy markets. According to *Fortune* magazine's 2006 business rankings, Sinopec and CNPC's turnovers were 7th and 9th in the list of the world's major petroleum enterprises, and their net profits were 4th and 7th, respectively. Therefore, in order to further recognize and understand the characteristics of the three major Chinese state-run petroleum companies, this paper examines the background behind their formation, their business development, and their relationships with the Chinese government.¹

¹ In particular, due to the restriction of information and data regarding the relationship with the government, the research is in its preliminary stage, with further investigations scheduled to be carried out in the next business year.

II. CHANGES IN ORGANIZATION AND FUNCTION OF CHINA'S OIL COMPANIES

II-1. Background behind the formation of China's three major petroleum companies

Between the early 1980s and 1998, against a setting of “reform and openness in China,” the direct control of the country's oil and gas production systems and management by the oilfields' administration bureaus and oil refineries under the Petroleum Industry Department was separated into government and administration and enterprises, and then shifted to a petroleum company (corporation) production system. In 1983, as part of the petroleum industry's government function reforms, the Petroleum Industry Department was separated into Offshore Oil Administration/Production sections (Bohai Sea, East China Sea, South China Sea oil administration bureaus), and CNOOC was established. The offshore oil and gas production system was then formed through the Bohai Sea, East China Sea and South China Sea branches established under CNOOC.

In addition, in 1988, the Petroleum Industry Department was abolished and renamed as CNPC, and the control of the land-based oil production system was transferred from the Petroleum Industry Department to CNPC. That is to say, both CNPC and Sinopec) were originally established to carry out onshore oil exploration and development. CNPC was responsible for the oil exploration and development, while the downstream petroleum and petrochemical production and marketing were the responsibility of the Sinopec. The upstream and downstream functions of the oil industry were this split, and under this production system, the corporations kept part of the administrative functions of the conventional Petroleum Industry Department, but to some extent, the enterprises' autonomous management rights were expanded.²

Furthermore, in March 1998, the assets of CNPC, whose operations centered on land-based oil field development, and those of Sinopec, whose businesses centered on oil refining and petrochemical marketing, were redistributed and each was reorganized into vertically-integrated enterprises with responsibilities shifting from exploration and development to refining and marketing.

² For example, in order to activate production and improve efficiency in exploration and development, each of the CNPC production sections and oilfield companies have begun to implement a production contract system.

The new CNPC and new Sinopec were born out of this restructuring. In February and April 2000, these two group companies subsequently became holding companies. Under each holding company was established a limited company responsible for production and operations. Under its holding company CNPC, PetroChina Co., LTD. oversees exploration and development of oilfields in China's northern and western regions, while Sinopec's limited company, Sinopec Corp., is mainly responsible for the exploration and development in the country's eastern and central regions.³

Meanwhile, in February 2001, CNOOC established CNOOC Ltd., which is responsible for offshore oil and gas exploration and development.⁴ These three major petroleum companies' production systems simplified the multi-strata production and administration organization level in the past organization's upstream section and form a "CNOOC Ltd. → mining area → operating well" production organization in an attempt to improve efficiency in management and production.⁵

In addition, since the latter half of 2004, CNPC and Sinopec have acquired offshore exploration and development rights, and CNOOC has been given land-based exploration and development rights.⁶ China's government introduced land-based/offshore competitive mechanisms in order to strengthen its domestic exploration and development. As stated above, between 1998 and 2004, China's new petroleum industry organization was restructured and the three major oil companies' organizations and functions were formed into the entities that we recognize today.

II.2. Reorganization/reform of state-run enterprises and relationship between government

³ Furthermore, the National Land Resource Department's (former Geological Mining Department) parent organization, China National Star Petroleum Corp. (CNSPC), in March 2001 transferred the rights and interests of its East China Sea natural gas development to Sinopec Corp. In the end it was absorbed and merged.

⁴ In July 2004, PetroChina received its first offshore exploration/development license from China's National Land Resource Department, with regards to the exploration and development in the South China Sea (DOWJONES China Energy, July 9, 2004).

⁵ For details, please refer to p.15 of Guo Sizhi's "China Oil Industry's Administrative System" (Published on the Institute of Energy Economics, Japan's website in Jan. 2004)

⁶ CNOOC has recently made inroads into oil refinery construction, as well as into the fields of LNG supply and petroleum-product marketing, and is actively accelerating the construction of the vertically-integrated enterprise's upstream and downstream operations to strengthen its structure in order to compete with CNPC and Sinopec.

and enterprises

A. Oil companies' reorganizations and reforms

In 1998, due to the globalization of the economy and the conversion to a market economy system, the two state-run petroleum companies, CNPC and Sinopec, underwent comprehensive reorganization under the leadership of the Chinese government. Initially, as part of the first stage, the assets of CNPC, which until then had concentrated its operations on land-based oilfield development, and Sinopec, whose business focused on oil refining and petrochemicals, were redistributed and each were reorganized into two main vertically-integrated groups, shifting their responsibilities from exploration and development to refining and marketing.

The purpose of this reorganization is cited below. Namely, firstly, to separate the functions of the government and the enterprises and to break down the traditional upstream/downstream monopolies, or split system, by establishing multi-enterprise competition; secondly, to promote momentum within the Chinese petroleum industry by the introduction of market principles and mechanisms created by the establishment of this multi-enterprise competitive system; and thirdly, to establish comprehensive petroleum enterprises like the major internationals in order to increase global competitiveness.

As a result of the business reorganization and reforms, the traditional government functions held by CNPC and Sinopec were changed, allowing for each company to maintain autonomous management. As far as the security of China's oil supply was concerned, these state-run enterprises continued to maintain an important position, but the pre-1998 "public corporation" system that mixed government functions and business functions, ceased to exist. Under the new oil industry structure, direct participation in management activities by means of government orders and administrative directives became impossible. Under state laws and policies related to the oil industry, the oil industry's government administration could supervise and guide the oil industry and its business activities. As a result of the simplified organizational structure as mentioned above, the function of the oil industry's administrative system is mainly to guide and supervise the direction of the industry's management/production activities through laws

and policies.⁷

B. Separation of government & enterprise; improved efficiency of management/production organization

As a result of the business reorganizations and reforms, the traditional government functions held by CNPC and Sinopec were changed so that each company could operate with autonomous management. The management and production systems of “unified government and enterprises” in the traditional oil sphere, ceased to exist. Under the new oil industry structure, direct participation in management activities by means of government orders and administrative directives, could no longer occur. In addition, as a result of government structural reforms and the slimming down and improved efficiency in oil industry-related administrative structures, the government -- via state laws and policies -- was able to establish industry plans, development policies, strategies and technical standards, and to supervise and guide the industry’s activities.⁸ Consequently, even though at the time they were under macro-policy control, CNPC and Sinopec, as corporate bodies were able to participate independently in management and production activities more efficiently than before.

C. Formation of a vertically integrated industry aimed at improving competitiveness and economies of scale

In 1998, through the redistribution of assets, the CNPC and Sinopec groups were established as vertically-integrated corporate groups from the hitherto upper/lower-related horizontally-divided system, and China’s oil industry welcomed a new industrial structure. CNPC focused on the development of oil and natural gas, while at the same time also carrying out work in downstream areas such as refinery and marketing. Sinopec not only specialized in downstream

⁷ For example, as state laws, regulations and policies related to oil exploration and development and product marketing, etc., “People’s Republic of China Mining Resource Law”, “Temporary Provisions Registration Control Related to Oil and Natural Gas Investigation/Development”, “Regulations for Overseas Cooperation Development of Land-based Oil Resources in the People’s Republic of China”, “Regulations for Overseas Cooperation Development of Offshore Oil Resources”, “People’s Republic of China Temporary Resource Tax Regulations”, “product quality laws”, “price laws”, “index price systems”, “export/import tariffs”, “temporary Resource Tax regulations” “certain decisions related to environmental conservation problems”, “current economic conditions and countermeasure proposals”, etc. are cited (Refer to Energy Research Institute, China; National Electric Power Company’s “China Energy 50-year Plan” China Electric Power Publishing House, 2002. pp. 256-257; Li Yun Sang (李 潤生) and others “Petroleum Management ” Oil Industry Publishing House, 2002. p. 137)

⁸ According to an interview at the CNPC Information Center conducted in April 2003

activities, but also carried out upstream work, including oil and gas exploration. The two new groups born from the reorganization and reforms continue to experience inter-enterprise competition, while aiming to improve international competitiveness, and realize economies of scale.

As a result of the reorganization and reforms, China's major oil companies since 2000 have been attempting the "separation of main businesses and auxiliary businesses," namely, stripping away non-profitable sections from profitable sections and creating limited companies in a bid to improve efficiency in management and production. In the case of CNPC, approximately 480,000 of its 1.5 million employees were transferred to PetroChina, as of April 2000. In addition, after its listing on the stock market in 2000, PetroChina made a total of 55,000 employees redundant by releasing approximately 38,400 in 2000 and a further 16,600 in 2001 in cost-cutting moves.

Apart from this, CNPC in 2002 simplified the operational strata of the multi-layered production/management of its upper sections to form an "oil field corporation → mining area → operating well" production organization. Furthermore, in carrying out the above "separation of main businesses and auxiliary businesses" reorganization and reforms, CNPC also transferred the group's non-profitable auxiliary business sections, such as schools, police structures and hospitals, to the local regional governments in 2004. For example, with regards to the transfer of CNPC's Daqing Oil Administration Bureau's schools and hospitals, CNPC and the local Daqing government held talks beginning in the second half of 2004 and agreement was quickly reached, with the transfers almost entirely completed before the end of the year.

In CNPC's refining operations too, reforms were promoted and the intermediate "department" layers were merged with the production posts. Furthermore, reforms and reorganizations within the group's marketing system were also carried out, recently. In other words, the hitherto headquarters → regional marketing company → provincial marketing company → city marketing company → prefectural marketing company system was simplified and the prefectural-level company abolished.⁹

Sinopec too, prompted by the reorganization of the two major groups in 1998, separated

⁹ Chinese Petroleum Society's "International Petroleum Magazine," April 2003 edition

profitable and non-profitable sections, established a limited company, and adjusted recruitment to increase business efficiency. By 2001, the company had released approximately 213,700 employees. In fact up to 18 percent of the total workforce was made redundant.¹⁰ In addition, Sinopec's dispersed exploration/development business was reorganized in 2002 into the Western, Southern and Shanghai offshore oil and gas companies and the intermediate layers of the refining and marketing systems were slimmed down in a bid to improve production and management efficiency. In 2004, Sinopec further reduced its administrative workforce by 18 percent, and compared to 2003, the number of Sinopec employees fell by 9.4 percent to 775,000. At the end of 2004, elementary and junior high schools and police structures belonging to Sinopec were transferred to local governments, while business and non-business sections within Sinopec were separated and the organization was streamlined even further.

After listing its subsidiary (CNOOC Ltd.) on the stock market in February 2001, CNOOC further simplified its production organization in 2002 by reorganizing the ten specialist companies under its jurisdiction into two companies and listing them on domestic and overseas stock markets. As an example, in five of CNOOC's mining areas, the production and distribution/management duties were united, making practical use of employees that had been made redundant from the headquarters, and increasing profits.¹¹

II.3. Chinese oil companies' listings on overseas stock markets and the significance of stock market listings

Under the reforms and reorganizations, The Chinese government directed CNPC, Sinopec and CNOOC towards increased structural reforms and to pursue listings on overseas stock markets. Beginning in the spring of 2000, the three Chinese state oil firms began listing themselves on international stock markets (*see Table 1*). The situation, particularly fund procurement and trading situations, regarding the listings of the three companies and their subsidiaries on the Hong Kong and New York stock markets are shown in Table 1.

¹⁰ However, from the point of view of the stability of the state and the business, a recruitment balance was achieved through the release of employees and in-house transfers. The number of employees released and transferred within the company in 2002 was 11,000.

¹¹ In 2002, the five mining areas realized profits of 53.56 million yuan (International Petroleum Magazine," April 2003 edition).

TABLE 1. OVERVIEW OF STOCK MARKET LISTINGS

Parent company		CNPC	Sinopec	CNOOC
Listed company		PetroChina	Sinopec Corp	CNOOC Ltd
Date of listing		April 2000	October 2000	February 2001
Number of shares issued		175.58 billion (10 percent of total)	1,803.85 billion (20 percent of total)	1.64 billion (27.5 percent of total)
Funds supplied		2.89 billion dollars	3.7385 billion dollars	1.26 billion dollars
ADS price		16.44 dollars	20.645 dollars	15.4 dollars
Listed stock exchange		Hong Kong, New York	Hong Kong, New York, London	Hong Kong, New York, London
Percentage of shares held by parent company and others		90 percent	Sinopec 53 percent Bank of China 27 percent	67.5 percent
Investing companies	ExxonMobil	-	1 billion dollars (approx. 20 percent of IPO)	-
	BP	0.62 billion dollars (approx. 20 percent of IPO)	0.43 billion dollars (14 percent of IPO)	0.2 billion dollars (13 percent of IPO)
	Shell	-	0.43 billion dollars (14 percent of IPO)	0.3 billion dollars (20 percent of IPO)
	Hong Kong organizations, etc.	0.35 billion dollars (approx. 11 percent of IPO)	0.2 billion dollars (approx. 5.3 percent of IPO)	-

Source: Prepared from “Chinese Oil and Petrochemical Industry’s Annual Economic Report” Sinopec 2002; “China’s Oil Production and Petrochemical Industry” East and West Trading Press, 2000 edition

In November 1999, CNPC established PetroChina in order to make its profitable sections independent. Then, in April 2000, CNPC listed PetroChina on the Hong Kong and New York stock markets.

In February 2000, Sinopec severed its non-profitable operations from its profitable operations with superior assets, created a limited company, Sinopec Corp., and in October of the same year, listed the company on the Hong Kong, New York and London stock markets, raising U.S. \$3.46 billion worth of funds. The shares were distributed so that the state owned 23.1 percent, state-run corporations (parent company) owned 56.9 percent, and other parties owned the remaining 20 percent.

In October 1999, CNOOC formed CNOOC Ltd., and in February 2001, followed PetroChina’s and Sinopec Corp.’s listings by being listed on the Hong Kong and London stock

markets.¹² In making these moves, China's petroleum companies raised funds from the international capital market, strengthened growth measures, implemented effective investment expansions, and realized strategic foreign capital alliances, including those with major corporations.¹³

Through initial public offerings (IPO), the three Chinese oil firms raised vast funds totaling more than U.S. \$7.8 billion dollars. Almost all of this was achieved through large-scale financing by the majors. What's more, through the IPO financings, strategic tie-ups with major corporations have led to various collaborations on projects. For example, in upstream exploration and development activities, CNOOC received IPO financing from Royal Dutch/Shell, and by making use of those funds and technological/management know-how from the European oil giant, the two are working together on upstream exploration and development activities.

In the refining arena, Sinopec made a strategic alliance with U.S. major ExxonMobil at the time of Sinopec's IPO. The Chinese energy firm has made use of its partner's technology and funds to plan oil refinery expansions in the Guangdong Province in southern China, to deal with the rising sour crude imports from the Middle East.¹⁴ In addition, CNOOC linked with Shell and used the European major's economic resources to begin making advancements into the downstream sector, including petrochemical projects.

China's petroleum companies are also progressing with strategic tie-ups with international majors with the goal of capitalizing on their branding and marketing expertise. In

¹² Meanwhile, China's oil industry reorganization/international stock market listings were accompanied by the participation in IPOs by international oil majors and other overseas petroleum companies, providing these foreign players with a foothold to make inroads into China's oil/energy market.

¹³ The strategic tie-ups between Chinese energy firms and major international corporations through IPOs are having a positive effect on China's oil industry. As far as China's petroleum companies are concerned, while there are educational effects like the absorption of management resources such as the technology, administrative know-how and marketing, the competition caused by the major companies' advancements into China's market also creates pressure to increase their own competitiveness. In future, the majors will use IPOs as a steppingstone to further expand direct investment projects (in the product manufacturing and marketing fields) in China, under the above changes in strategy. In that sense, competition between the Chinese energy firms – especially CNPC and Sinopec – and the international oil majors will become more intense. As far as China's petroleum companies are concerned, their relationships with the Western majors may ultimately change from ones of strategic tie-ups through IPOs to strategic tie-ups through business mergers.

¹⁴ Meanwhile, China's petroleum industry reorganization/international stock market listing was accompanied by the participation in IPO of major and other overseas petroleum enterprises, providing them with a foothold to participate or make advancements into China's oil/energy market.

¹⁶ Refer to p.117 of Yokoi Yoichi's aforementioned thesis

April 2001, PetroChina jointly established a petroleum product marketing company with British Petroleum (BP), one of its primary IPO financiers. As of 2002, Sinopec had already built and was operating 45 gasoline stations jointly with BP in the Zhejiang Province on the country's eastern coast. Sinopec and BP are scheduled to establish and operate 500 more gasoline stations in the same province by the end of 2007.

Since China's three major oil companies were listed on overseas stock markets, they have continued to be highly regarded. A good example is their success on the New York stock market.¹⁶

The three firms' stock prices as of September 2003 had doubled since they were first listed on the New York stock exchange in 2001. The stocks of PetroChina, Sinopec and CNOOC Ltd. rose 88.2 percent to \$33.55; 103.4 percent to \$27.38; and 78.1 percent to \$34.37, respectively.

The earnings of PetroChina, Sinopec Corp and CNOOC Ltd. have basically increased since being listed. The net profits per share of China's three stock market-listed petroleum companies are increasing substantially (*see Table 2*). PetroChina's shares rose from 0.17 yuan/share in 1999 to 0.32 in 2000, and furthermore to 0.40 yuan/share in 2003 and 2004, before rising significantly to 0.59 yuan/share. Net profits per share as of 2004 were approximately 3.4 times those of 1999.

In addition, Sinopec Corp.'s shares also rose from 0.07 yuan/share in 1999 to 0.23 in 2000, and furthermore to 0.26 in 2003 and 2004, before rising significantly to 0.42 yuan/share. Net profits per share as of 2004 increased to almost six times those of 1999.

TABLE 2. STOCK EARNINGS

(Yuan/share)

Company / Year	1999	2000	2001	2002	2003	2004
PetroChina	0.17	0.32	0.26	0.27	0.40	0.59
Sinopec Corp	0.07	0.23	0.18	0.19	0.26	0.42
CNOOC Ltd	-	-	1.00	1.12	0.40	0.39

Source: Prepared from the China National Development Reform Committee's Economic Operation Bureau "Chinese Oil and Petrochemical Industry's Annual Economic Report" 2003. Despite slight decreases in the net profits per share of the two major companies in 2001 and 2002, they still increased by 52.9 percent, and 58.8 percent and 157.1 percent and 171.4 percent more than when they were first listed.

Furthermore, the net profits of CNOOC Ltd. in 2002 increased by 12.4 percent to 1.124 yuan/share compared to net profits at listing in 2001. In addition, in recent years, as shown in Table 3, the total market share prices of the three Chinese majors rose from U.S. \$31.124 billion (CNPC), U.S. \$31.443 billion (Sinopec) and U.S. \$7.742 billion (CNOOC) in 2002 to U.S. \$93.17 billion (CNPC), U.S. \$48.663 billion (Sinopec) and U.S. \$22.108 billion (CNOOC) in 2004.

**TABLE 3. TOTAL MARKET SHARE PRICE
OF THE THREE MAJOR PETROLEUM COMPANIES**

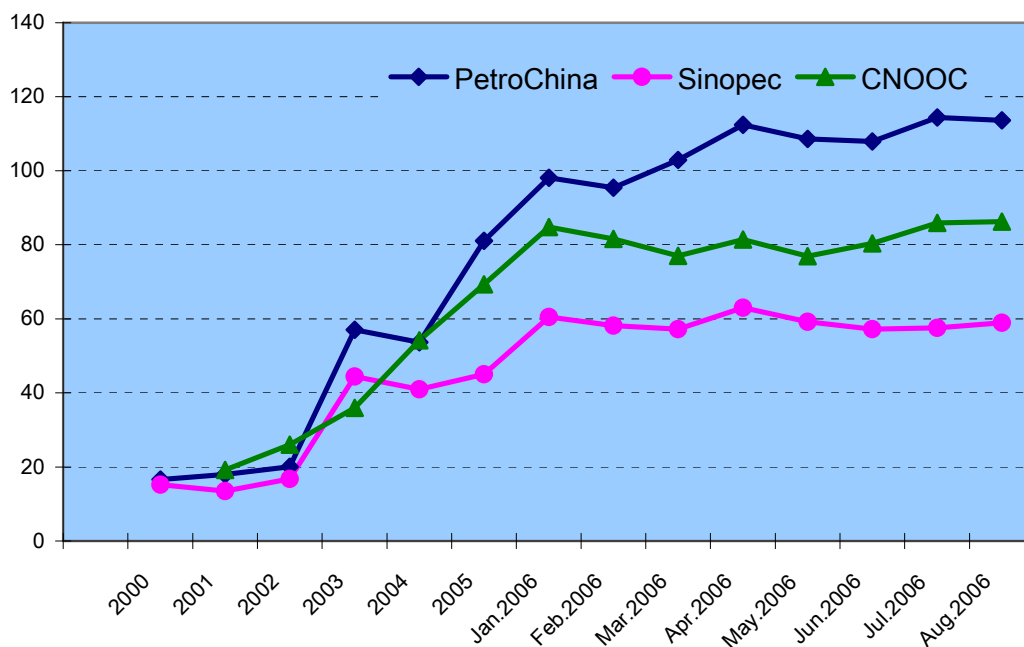
(U.S. \$billion)

PetroChina	2001 31.124	2004 93.187
Sinopec Corp	2002 31.443	2004 48.663
CNOOC Ltd	2002 7.742	2004 22.108

Source: "Chinese Oil and Petrochemical Industry's Annual Economic Report 2005" pp. 371- 372.

**FIGURE 1: TRANSITION OF CHINA'S 3 MAJOR PETROLEUM
COMPANIES' STOCK PRICES ON THE NEW YORK STOCK EXCHANGE**

(\$/Share)



Source: Prepared from annual "Chinese Oil Company Report"

The stock prices of the three Chinese oil companies on the Hong Kong stock exchange have continued to rise since their listing in 2000. The stock prices of PetroChina and Sinopec Corp at the end of 2002 were HK\$1.57 and HK\$1.31, respectively, 13.44 percent and 22.43 percent more than the same period in the previous year, and in particular, CNOOC's stocks rose dramatically by 42.18 percent to HK\$10.45 (compared to same period in previous year)¹⁷. In addition, as shown in Figure 2, the three energy companies' stock prices have continued to rise since they were listed on the New York stock exchange. The stock prices of PetroChina, Sinopec Corp and CNOOC Ltd rose from their respective values of U.S. \$16.56/share, U.S. \$15.25/share and U.S. \$19.15/share at the time of listing (April 2000, October 2000 and February 2001, respectively) to U.S. \$81.08/share, U.S. \$45.03/share and U.S. \$69.3/share in 2005 (December 1st).

Stock prices in 2005 and 2006 were influenced by the high international crude oil prices, and the stock prices of PetroChina and CNOOC Ltd., in December 2005 were approximately 145 percent and 130 percent higher than those in January of the same year (*see Figure 1*). The prices of CNOOC Ltd. and PetroChina's stocks rose to above \$80 and \$70 per share, respectively, as a result of soaring crude oil prices and were also influenced by CNOOC's efforts to purchase U.S. oil firm Unocal Corp., which ultimately failed, and PetroChina's successful bid to acquire the Canadian oil company, PetroKazakhstan .

Since their stock market listings, the three Chinese oil firms have attracted vast international capital, steadily increased their stock prices, and greatly boosted their stock profits. The principal factors for this success included the strong domestic management and production achievements made by the firms as well as high international crude oil prices amid the background of China's firm economic growth. In addition, their earnings increased as a result of active overseas advancements and the confidence and attention received from overseas stock markets. The Chinese oil companies were able to acquire abundant funds to increase the momentum of their overseas investments and purchases.

The three Chinese oil majors created a number of limited company subsidiaries and listed them on domestic and overseas stock markets with the aim of establishing "contemporary enterprise management systems" that would make a significant impact.

The creation of these subsidiaries resulted in changes to fundraising as well as in the procurement structure the oil companies used. Until the end of the 1970s, the distribution of the central government's finances had been CNPC's principal source of fundraising, but due to the expanding "reforms/openness" of the 1980s, those procurement plans changed to borrowing from domestic banks. The capital gains acquired from direct financing after the listing on overseas stock markets in 2000 contributed to a reduction in domestic borrowing – which in the 1990s had a high interest rate – and the amount of U.S. \$3.1 billion raised from overseas stock markets was 21 percent greater than the amount of CNPC's facility investment (for example, U.S. \$2.57 billion in 1996). In addition, a fundraising structure based on business-profit-based self-funding and "direct financing" on the stock market developed.

Not only was Sinopec listed on overseas stock markets in October 2000, but from as early as the latter half of the 1990s, its 16 affiliated companies, including Shanghai Petrochemical Co., Ltd. and Beijing Yanhua Petrochemical Co., Ltd. were actively reorganized into limited companies and listed on the domestic stock market (Shenzhen and Shanghai stock exchanges). The total assets of the 16 companies listed on the stock market since 1998 make up 19.3 percent of the assets of the parent companies (corporations). The method of direct financing from being listed on overseas stock markets enabled the acquisition of 23 billion yuan (U.S. \$2.8 billion) worth of capital gains. Through these stock market listings, Sinopec's fundraising structure shifted from the method of borrowing from domestic financial institutions to a diversified fundraising structure of financial institution loans, stock market fundraising and self-financing.

CNOOC also changed its fundraising structure. Beginning in the early 1980s, the company had been actively utilizing overseas funds through international bidding for offshore oilfield development and the introduction of foreign capital. Since 2000, CNOOC has achieved the fundraising target of U.S. \$2 billion through listing on the international stock market. Exploration and development fundraising via overseas stock market listings for all three Chinese oil majors has gone smoothly.

After splitting from their parent corporations and becoming limited companies, PetroChina, Sinopec Corp and CNOOC Ltd. have significantly increased their profits, compared to the years before they were listed on the stock market. CNOOC's total profits in 2002 were

11.65 billion yuan, 18.1 percent more than in 2000. Compared with 1999, Sinopec and CNOOC increased their profits by 128 percent to 17.6 billion yuan and by 206 percent to 53.6 billion yuan, respectively. In 2002, the profits of PetroChina were 46.9 billion yuan – accounting for 87.5 percent of the profits of the entire CNPC group; the profits of Sinopec Corp were 14.12 billion yuan – accounting for 79 percent of the profits of the Sinopec group; and the profits of CNOOC Ltd. were 9.233 billion yuan – totaling 62.6 percent of the profits of the CNOOC group. The two main reasons for these results, other than the distribution of blue-chip assets (profitable production sections) from parent companies, are: 1) The rationalization of the production organizations through reductions in surplus manpower improved business and production efficiency; 2) The limited companies accurately responded to international market competition, as a result of pressure from investors and international practices and rules, including information disclosure systems¹⁵ and international accounting standards.¹⁶

III. BUSINESS STRATEGIES OF THE 3 COMPANIES: OVERSEAS E&D

III.1. Business Strategies

The main characteristics of the three major Chinese oil firms are cited below (*see Table 4*). CNPC is predominant in the upstream E&D, with the main markets or districts of jurisdiction for production and business, -- including oilfields and refineries, located in the northeastern regions and inland areas north of Changcheng. Sinopec, on the other hand, is the primary player in the country's refining and petrochemical production sectors, with markets and refinery, oilfield and business and production jurisdiction areas situated mainly south of Changcheng in the coastal regions of northern, eastern and southern China.

CNOOC's production and business centers in offshore crude oil and gas producing territories, with its jurisdiction areas in the Bohai Sea and the waters of the East China and South

¹⁵ Concerning the information disclosure, companies are obliged to produce and publicize summaries of four reports -- the company's intermediate reports, quarterly reports, annual reports and extraordinary reports.

¹⁶ To be listed on overseas stock markets, financial guidelines must be drawn up based on international accounting standards (IAS) or the accounting standards of the partner country in question.

China Seas. A number of liquefied natural gas (LNG) and oil refining/petrochemical production projects have been undertaken in recent years, focused mainly in principal coastal cities such as Shanghai, and in the Guangdong and Hainan Provinces.

CNPC, with its predominantly upstream assets, is looking to strengthen its oil and gas E&D, while and at the same time, increase and strengthen its refining facilities and capacities to overcome its downstream weaknesses. Sinopec and the Guangdong Province have been planning to establish a joint oil refinery with the Kuwait National Petroleum Corporation, as well as to construct a service station network to increase its share in the southern region's market.

In an effort to overcome its weaknesses related to its upstream assets and relatively inferior management resources, Sinopec is actively working to shore up its research and development of technology capabilities, as well as strengthening its oil and gas E&D. Indeed, along with carrying out development at its own oilfields, Sinopec has recently allied with Brazil's Petrobras, and is planning to focus efforts into the development of offshore oilfields in the South China Sea. Through its predominance in coastal areas, in particular the utilization of its relationships with regional governments in areas under its jurisdiction, and the implementation of LNG projects such as the one in Qingdao in the Shandong Province, Sinopec aims to expand and strengthen its entire business operations.

TABLE 4. STATE OF MANAGEMENT IN 2005

	CNPC	Sinopec	CNOOC
Crude oil Output (10 thousand)	12,598 (4.1%)	3927 (2.9%)	2,789 (7.6%)
Surviving crude oil proven reserves (10 thousand)	22,9230 (3.8%)	45000 (N.A)	18,600 (N.A)
Natural gas output (100 million m ³)	368 (27.9%)	63.0 (8.6%)	58.0 (1.2%)
Surviving natural proven reserves (100m m ³)	20,578 (9.1%)	825 (N.A)	—
Product output (10 thousand)	7437.0 (9.5)	12449 (14%)	—
Asset amount (100 million Yuan)	11,602.2 (27.0)	7928.6 (27.8%)	1,985 (29.5%)
Sales (100 million Yuan)	6,937.0 (21.6)	8230.1 (29.8%)	874 (23.3%)
Profit	1,769.7 (37.3)	557.4 (87.0%)	376.0 (55.2%)

Source: Prepared from the National Development Reform Committee's "Chinese Oil and Petrochemical Industry's Annual Economic Report 2005"

For its part, CNOOC is utilizing its existing offshore oilfield E&D business resources, and expanding its upstream crude oil and gas production. At the same time, the company is moving to make advancements into the downstream, which has included the recent startup of a joint petrochemical project with Shell in the Guangdong Province, and the start of construction of a 240,000-barrel/a day (b/d) capacity refinery in Huizhou in the same province. In addition to these projects, CNOOC is taking advantage of its experience in offshore distribution by planning and implementing LNG projects in more than a dozen coastal regions, and it is also making inroads into the area of natural gas electrical-generation.

III.2. Overseas E&D Activities

China's three state oil firms are demonstrating increasing diversity in their operations, including in overseas E&D projects (*see Figure 2*). The companies are each developing overseas projects, in accordance with the characteristics of their business resources.

In 1992, CNPC's overseas project development in Canada's Alberta North Twing oil field opened the door for China's petroleum industry to make advancements overseas. CNPC, Sinopec and CNOOC are developing and implementing upstream projects, in Africa, the Middle East, Central Asia, Southeast Asia and Oceania, and North and South America.¹⁷ (*see Table 5*)

China has already invested and acquired exploration and development rights in a number of countries and regions, including Sudan, Indonesia, Malacca, South America, the Gulf of Mexico and Central Asia.

¹⁷ Chinese state chemicals firm, Sinochem, is also making advancements into upstream overseas projects. In January 2002, Sinochem and Petroleum Geo-Services (PGS) signed a contract for Sinochem to purchase the PGS subsidiary Atlantis. In addition, Sinochem and Sinopec are also planning joint development projects in oil and gas mining areas in Tunisia and around the Arabian Sea.

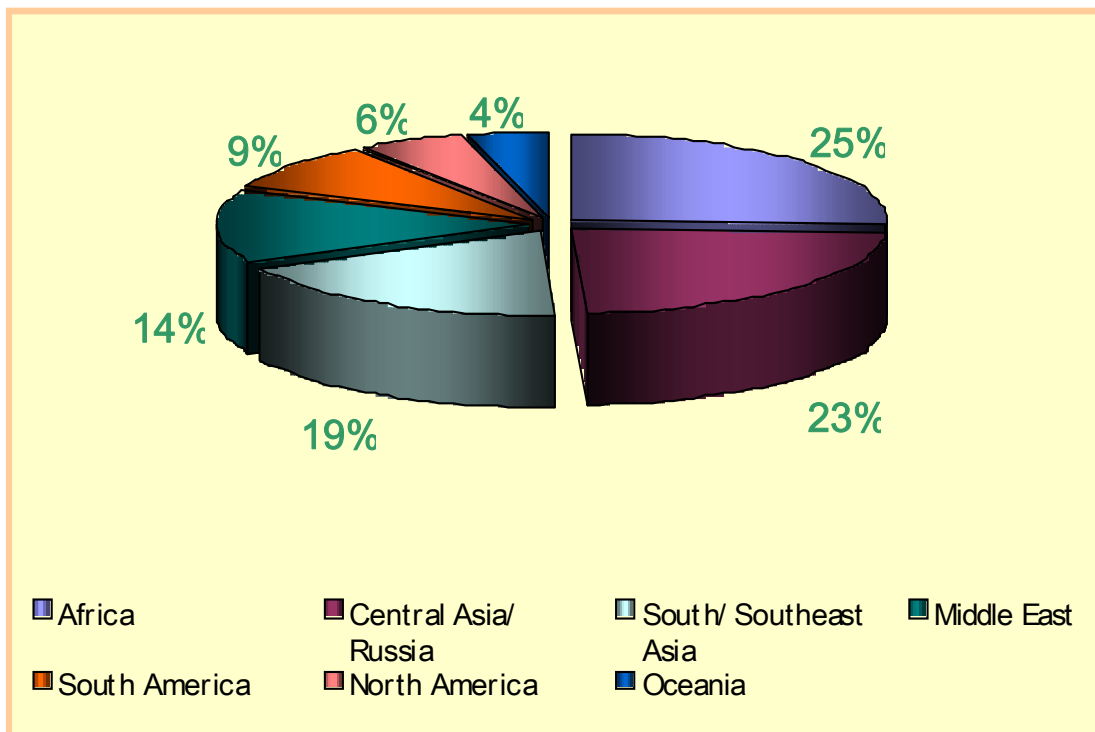
TABLE 5. OVERSEAS ACTIVITIES

	Project (cumulative total)	Main Regions	Oil Rights (millions of tons)	Gas rights (millions of m ³)
CNPC	69	24 countries, including in regions: Africa, the Middle East, Central Asia and South America	20.02.	2,900
Sinopec	36	18 countries, including the U.S. and some in Asia, and Middle East	0.2	-
CNOOC	18	11 countries and regions including Asia and Australia	2.02	7.7

Note: Project numbers are from data available as of August 2006. Joint CNPC and Sinopec projects are included in each of the companies' totals. Oil and gas mining right data are 2005 achievements.

Source: China OGP and materials from the three major petroleum companies

FIGURE 2 CHINESE OIL COMPANIES' OVERSEAS E&D BY REGION



(Unit: Number of E&D Projects; As of October 2006)

By taking advantage of its upstream E&D strengths, CNPC was able to get a jump over the other two Chinese oil majors in entering into overseas oil projects. Since the first local output began, CNPC has created an overseas production system with an annual crude oil production capacity of 150,000 tons; although the scale is still relatively small, the Chinese firm is making steady advancements in foreign upstream markets and is even targeting a limited number of overseas refining and pipeline projects. By September 2006, CNPC had either signed or began implementing contracts for 69 projects in 24 countries, the majority of which involved oil discovery and development projects, along with four oil refinery and three pipeline construction projects.

As of the end of 2004, CNPC had already invested a total of 15.6 billion yuan in the regions of the Middle East/Africa, Russia/Central Asia, and South America. In 2001 and 2002, the company produced 13.5 million and 21.29 million tons of crude oil, respectively, and acquired equity crude oil totaling 5.05 million tons and 10.15 million tons, respectively. Furthermore, in 2003, CNPC produced 25 million tons of overseas crude oil and acquired crude oil rights to 12.88 million more tons. In 2005, the Chinese energy firm's overseas production of crude oil and natural gas increased from the previous year by 18.9 percent to 35.82 million tons and by 13.2 percent to 4.02 million cubic meters, respectively.

Sinopec's overseas activities began in earnest from 2000, substantially behind the progress that CNPC had made. Following the reorganization of the petroleum industry's two groups in 1998, Sinopec began considering the globalization of its business and upstream production as an important economic strategy. From the late 1990s, as China's level of dependence on imported crude oil increased, overseas exploration and development became an essential task for Sinopec to pursue. China was processing almost all of the crude oil it imported from the Middle East at that time and was beginning to focus on inroads it could make into upstream activities in the Middle East. Indeed, in some ways Sinopec has forged ahead of CNPC, by concluding a contract to purchase LNG from Iran, and signing oilfield E&D contracts with Iran. In addition to this, groups such as the Shengli Oil Administration Bureau (Shengli Oilfield) -- which is a subsidiary of Sinopec -- are venturing themselves into overseas business activities.

As of the end of August 2006, Sinopec's equity crude oil totaled 880,000 tons, but the number of the state oil firm's overseas projects have risen to 36 in some 20 countries and regions, including Asia, the U.S. and the Middle East.

CNOOC is utilizing its dominance in offshore oilfield exploration and development to tackle independent development overseas. The company has made advancements overseas, and its efforts to secure more overseas resources have not gone unnoticed. Through its foreign purchasing activities, the company is expanding its reserves and production. As of 2004, its overseas crude oil reserves were 138.7 million barrels, its natural gas reserves totaled 215.9 billion cubic feet, and its rights to oil and gas amounted to 4,0479 b/d and 272.6 million cubic feet, respectively.

In early 2005, CNOOC gained worldwide attention when it sought unsuccessfully to purchase the U.S. oil firm Unocal.

As China's only state-owned offshore oil development specialist, CNOOC plays an important role in oil development, and is actively working on independent overseas development and to secure rights under the government's targets.¹⁸ CNOOC's overseas efforts began in 1994, when it acquired rights to the Malacca mining area in Indonesia. Some of CNOOC's overseas ventures include orders to build an offshore platform and carry out offshore drilling in the United Arab Emirates as well as geophysical research and earthquake data collection contracts from other countries. By capitalizing on its strengths in offshore exploration, the Chinese firm was also able to gain consulting work involving oil E&D in the Kazakhstan's sector of the Caspian Sea.

CNOOC's most significant and perhaps public drive to secure overseas rights and upstream assets was its takeover bid of Unocal Corp. On June 23, 2005, CNOOC offered U.S. \$18.5 billion for the purchase of Unocal. CNOOC's plan to take over Unocal had been known for some time, but in April 2005, another American major, ChevronTexaco agreed to purchase Unocal for a total of U.S. \$16.4 billion (via a cash and stock swap). On June 23, 2005, CNOOC proposed a large-scale U.S. \$18.5 billion takeover, to be entirely in cash. The proposal exceeded the value of Unocal based on the closing price on the New York Stock Exchange on June 21 by more than U.S. \$1.5 billion dollars. The fact that the U.S. \$18.5-billion cash bid for Unocal would

¹⁸ In the existing five-year plan, the aim is for CNOOC to produce 6 million tons of crude oil overseas.

be advantageous for the U.S. firm's stocks and employees suggested a possibility the purchase would succeed.

However, the takeover bid attracted rabidly strong opposition from the U.S. Congress. Indeed, the opposition proved far greater than CNOOC had anticipated. In response, the Chinese company ultimately judged that even if the bid was increased, the chances of it succeeding were slim, and on August 2, 2005, CNOOC decided to withdraw the bid.

The primary factor behind CNOOC's takeover bid for Unocal was its goal to quickly secure overseas resources and acquire rights.¹⁹ In particular, CNOOC needs to secure an import source for LNG projects the company is planning in a dozen of China's coastal cities, with operations to begin between 2006 and 2012. CNOOC is currently proceeding with 12 projects in cities from Guangdong Province in the south to Liaoning Province in the north. The scheduled amount of imported LNG to accommodate all of the projects once completed is approximately 45 million tons per year (MMT/Y), but at present only 3.25 MMT/Y of imported LNG has been secured.²⁰ If the Unocal takeover had succeeded, CNOOC's production of crude oil and gas would have both doubled. The Chinese oil firm's proved reserves would have also greatly increased by approximately 80 percent to 4 billion barrels of oil equivalent (BOE).

CNOOC's takeover bid was unsuccessful, but the impact it had on the international community, particularly the oil industry, was huge. In addition, the case provided important lessons for CNOOC and China's other state petroleum companies.

Beginning in 1997, CNOOC has pursued a number of overseas E&D projects, and to date has undertaken a total of 12, resulting in CNOOC acquiring rights to 2.02 MMT/Y of crude oil and 7.7 million cubic meters (MMCM/Y) of gas, respectively. Regarding the domestic LNG projects, one important factor is that CNOOC acquired rights to Indonesian and Australian gas fields in exchange for large purchases of LNG, reflecting the inroads the firm has made in the

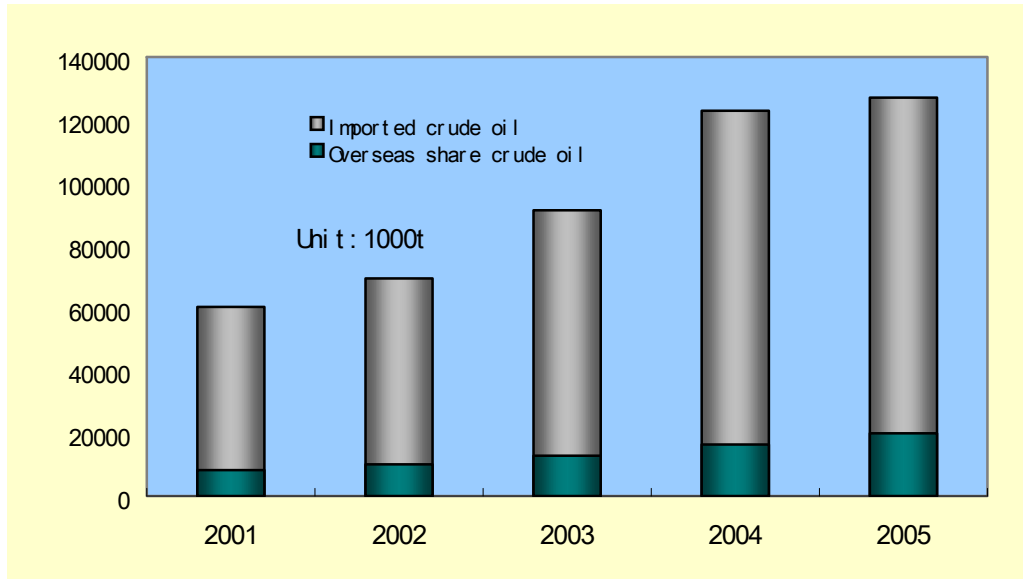
¹⁹ Unocal is an independent U.S. petroleum company, and has long been a part of the American oil industry since its establishment in California in 1890. In 1997, the company withdrew from the downstream section, and in recent years has cultivated oil and natural gas exploration and development projects in Asia, which along with North America is its principal area of business. As of 2003, crude oil reserves and production quantities were approximately 1.76 billion BOE and .1.64 BOE, respectively. Approximately 70 percent of the company's reserves and 50 percent of its production is concentrated in Southeast Asia and the Caspian Sea region, with natural gas accounting for approximately 60 percent of its reserves and production quantities.

²⁰ On October 28, 2002, CNOOC signed a contract with ALNG, the marketing company of Australia's NWS LNG consortium, to import 3.25 MMT/Y of LNG for a period of 25 years from Australia's NWS.

Southeast Asia and Oceania regions..

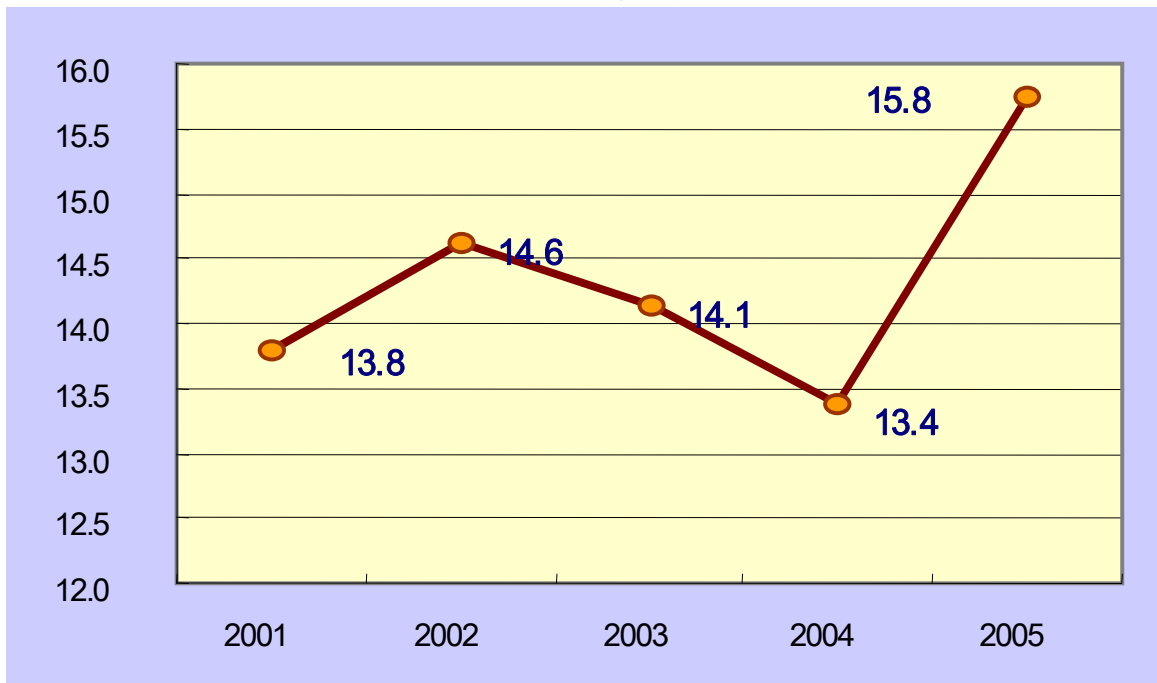
As of August 2006, China's three major state energy companies had planned or entered into 120 overseas E&D projects in some 30 countries and regions, acquiring more than 20 million of tons of oil field rights. The number of projects in which local rights were attained through purchases accounts for approximately 20 percent of the total number of deals in which the companies have entered. As the imbalance between China's domestic oil/energy supply and demand becomes more serious, there is a sense of urgency to accelerate foreign upstream activities and secure overseas rights. In 2005, the volume of crude oil that China imported reached 130 million tons, while China's overseas share of crude oil within its imported crude oil accounted for 15.8 percent of total imported oil that year (*see Figures 3 and 4*).

**FIGURE 3. CHINESE IMPORTED CRUDE OIL
& CNPC'S OVERSEAS SHARE CRUDE OIL**



**FIGURE 4. CHINA'S OVERSEAS SHARE CRUDE OIL
WITHIN IMPORTED CRUDE OIL**

(by %)



IV. CONCLUSION—

Government/Business Relationship in China and China's Overseas Strategy

IV.1. Management Personnel

The current CNPC president, Mr. Chen Geng, is also the president of PetroChina. Sinopec's president is Mr. Chen Tonghai, while the president of Sinopec Corp is Mr. Wang Tianpu. CNOOC's president, Mr. Fu Chengyu, is also the president of CNOOC Ltd.

The appointment and dismissal of top company personnel is first proposed by China's State Council State-Owned Assets Control Committee, and ultimately decided after screening by China's Communist Party Members Organization Department.

These people are the chiefs of the enterprises, as well as top government officials (equivalent to minister or vice-minister status) and members of China's Communist Party.

IV.2. Characteristics of Human Network Relationships

CNPC, Sinopec and CNOOC all have interesting human network relationships and their own route of connections with the central organization of China's government/Communist Party. In the case of CNPC, the firm has direct relationships with the highest leadership in the State Council through Public Security Chief (minister) Zhou Yongkang (a former CNPC president), former head of the Oil Department (minister) Wang Tao (who has a close relationship with the former CNPC president of two generations ago, Jiang Zemin), and Deputy Minister of the State Council's Energy Promotion Office, Ma Fucui (previous CNPC president), which forms a wide pipeline to the central government/leadership departments.

Sinopec reports directly to the leadership departments by utilizing the wide pipeline provided by the State Council's Deputy Prime Minister Wu Yi (former president of Yanshan Petrochemical Co., Ltd.), Director of the State-owned Assets Supervision and Administration Commission Li Rongrong (former president of Sinopec), and State Council Prime Minister Wen Jiabao (former vice-chief/deputy minister of the Geology and Mining Department).²⁴

Many of the current Sinopec Star executives who belonged to the Geology and Mining Department were subordinates of former State Council Prime Minister Wen Jiabao.

Through human networks via Vice Premier Zeng Qinghong (former chief of CNOOC External Affairs Bureau), and the deputy minister of the chief of the State Council Council's

Energy Promotion Office as well as the Director of the Energy Bureau of the National Development and Reform Commission (NDRC) Xu Dingming (former executive of CNOOC's South China Sea Company), CNOOC can present statements regarding company plans and strategies directly to the top leadership departments.

Through these communication pipelines, China's major state oil companies are able to report their opinions and requests directly to State Council and highest leadership departments of the government. The oil firms can benefit greatly from the involvement of high-ranking government officials in the case of screening/permission for large-scale projects such as the construction of new oil refineries, as the visit of these bureaucrats to the country of the proposed project can speed the process along.

IV.3. The Government's Stockholding

Through its state-run parent companies and state-run banks, the Chinese government controls the Chinese companies listed on the overseas stock markets. The government's stockholding ratio in the operating subsidiaries of the country's top petroleum enterprises is extremely high, with 90 percent of PetroChina's total shares, and 80 percent and 67.5 percent of those of Sinopec Corp. and CNOOC Ltd., respectively. With extremely high stockholding ratios like these, the Chinese government has a great degree of influence over the organization, important personnel, assets and decisions of the three major state-owned petroleum enterprises' production and their operating subsidiaries.

IV.4. Government Policy/Command Participation

The government not only instructs the state oil firms to increase production and profits in terms of business, it also continuously instructs and guides the enterprises' leadership, through administrative means and Communist Party documents to ensure the stable development of all the companies. For example, during the reforms and restructuring of the state-owned petroleum enterprises that were initiated in 1998, particularly involving CNPC and Sinopec, the government occasionally gave direct orders to the presidents of both companies. In other words, as the restructuring was being carried out, the methods and processes involved were observed. In consideration of the company's stability, the top leadership of each enterprise would be informed by the government of flexibility options that should be adopted, wherever possible -- in the form

of voluntary redundancies, temporary layoffs and transfers to suitable external posts (service and assistance sections) – so that the organizational reforms and restructuring could be best implemented.

Ensuring the stable supply of petroleum products can also be cited as another example of government involvement in the operations of the Chinese state oil firms and the domestic oil industry. Because the domestic product prices established by the Chinese government sometimes lag behind international market prices, they do not reflect changes in the international market accurately. Moreover, despite the soaring international oil prices, the government has not revised the retail standard price since it was decided according to the average price of the key regional markets in August of 2006. Even though the government adjusted the prices of gasoline and diesel several times since the beginning of 2005, it did not adjust them high enough to reflect the prices of the international market. As of August 2005, the average price of gasoline on the three key regional markets was 5,505 yuan per ton, but the price of gasoline in China was 3,945.6 yuan per ton, a significant 1,559.4 yuan lower than that of the international market.

As a result of the Chinese government's price regulations, a phenomenon occurred in which there is a negative margin between the wholesale and retail pieces of crude oil and refined products. China's oil refineries were unable to shift the soaring crude oil prices onto the price of refined petroleum products, resulting in the plants operating in the red; the more production continued, the more the losses increased. Therefore, production was decreased and exports increased, and as a result of a typhoon August 2005, the South China market experienced a shortage in supply of refined petroleum products. In response, the Chinese government moved to secure a return to the stable product supply by implementing several measures: in particular, instructions to increase production from the two major oil companies. Despite that both PetroChina and Sinopec's refining operations ran at a loss in 2005, the demands of the domestic market were met under the government's instructions.

IV.5. Preferential Treatment in Terms of Government Policies and Financing

As the mainstay of the Chinese business community, the petroleum industry holds an extremely important position. The state-owned petroleum companies are regarded as playing an essential role in ensuring China's energy security.

With regards to the permission and financing for China's petroleum companies' domestic E&D and refining projects, the government responds more swiftly than it does for these firms' external business needs. In addition, the government exempts equipment, apparatus and instruments intended for use in the exploration and development of crude oil and gas from import tariffs. The government also provides the three state-owned companies with oil and gas E&D rights, oil import rights, exclusive sales rights, and jurisdiction rights for service stations. The three leading Chinese oil majors currently control almost 100 percent of the country's upstream share, more than 90 percent of the downstream refining/marketing share, and approximately 90 percent of the Asian nation's oil reserves and infrastructure facilities.

Furthermore, as the three Chinese oil majors make overseas advancements and pursue independent development work, the Chinese government has supported these foreign advancements, especially those involving resource development-type operations, by instituting a number of support policies and providing these firms with preferential treatment.

Recently, China's National Development and Reforms Committee and the China Export-Import Bank made a joint declaration that they were providing favorable financial measures, such as lowering interest rates for loans, for state-promoted priority overseas investment projects. That refers to the low-interest loan policy reducing the interest rate by two percentage points lower than that offered by Chinese commercial banks. Incidentally, in November of 2006, the interest rate on one to three-year local currency loans from China's commercial banks was 5.76 percent.

IV.6. Supporting Resource Diplomacy

In order to secure a stable supply of oil, China's government is busy overseeing foreign upstream development projects and securing stable energy supply sources from all over the world. Since the late 1990s, leaders and key figures in China's government have visited oil-producing nations in the Middle East, Africa, South America and Central Asia on more than 40 occasions, and have invited the heads of those nations to visit China, thereby actively engaging in resource diplomacy²⁵. This diplomacy, in fact, often led to the aforementioned E&D agreements that allowed the three major Chinese petroleum companies to acquire overseas oil field rights.

As a result of the Chinese government's active resource diplomacy, CNPC, Sinopec and

CNOOC were all able to make active inroads into overseas development projects. From participating in more than 100 exploration and development projects -- some carried out jointly -- in 35 regions and countries, including the Middle East, Africa, Central Asia/Russia, Southeast Asia, and the U.S. to date, the three state oil firms have acquired rights to more than 20 million tons²⁶ of crude oil per year.

On March 14, 2006, at a press conference following the closing ceremony of the 4th conference of the 10th National Peoples' Congress, Prime Minister Wen Jiabao stated that, "In the next three years, China will implement U.S. \$10 billion worth of loan assistance to developing nations." These nations include oil-producing countries in the Middle East and Africa, and this assistance to developing nations can also be considered as part of China's active resource diplomacy.

IV.7. China's Overseas Strategy through Changing Conditions

Following CNOOC's failed purchase attempt of Unocal, China began to rethink its energy strategies. Firstly, the Asian nation began a greater effort towards downplaying the government's support of and involvement in oil affairs. At the same time, however, it moved to tie major acquisitions to important diplomatic initiatives taken by the government, with the essential goal of increasing cooperation between the Chinese government and the state oil firms but avoid the public image of government involvement. Secondly, China started a campaign to improve international understanding of the reasons for Chinese overseas E&D investment in order to foster a greater sense of cooperation. For example, China has worked to inform others of its escalating energy supply/demand crisis, as the second-most oil consumption country in world, and its effect on the overseas E&D sector, by conducting interchanges with other nations through energy forums and energy diplomacy. China also began to focus on building alliances with foreign companies to make joint investments in foreign oil fields, which has resulted in the reduction of investment costs, and has been helpful in avoiding conflict with certain foreign countries and companies. For example, CNPC/PetroChina, in cooperation with India's ONGC, purchased Texas-based Omimex Resource's Colombian oil assets in September 2006, as well as Petro-Canada's oil field interests in Syria in December of 2005.

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