

## Northeast Asia Petroleum Forum 2009

### Deepening Energy Cooperation, Facing Challenges Together

Speech delivered at Northeast Asia Petroleum Forum 2009

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Good morning Honourable Chairman, distinguished guests, ladies and gentlemen.

I am honoured to be invited to participate in Northeast Asia Petroleum Forum 2009.

The characteristics of Northeast Asia countries are very diverse. We differ in stages of development, political systems, economic structures, and we have a complex historical relationship. Despite all of these, a great potential for cooperation is leading to deeper regional economic ties. Energy cooperation is an important aspect of Northeast Asian economic cooperation. Northeast Asia countries all share a desire to deepen energy cooperation and to promote harmonious regional development. The Northeast Asia Petroleum Forum is an important means of achieving this, and as such has gained the attention and enthusiastic participation of the energy sector in each of the member countries. Today, we are in the process of gradually shaking off the effects of the financial crisis, petroleum and refining industry are slowly recovering, and the Second Trilateral Summit Meeting among People's Republic of China, Japan and the Republic of Korea was closed just two weeks ago. As such, this Forum is of particular practical importance.

Crisis also brings opportunity. I would like to take this opportunity, on behalf of the China National Petroleum Corporation (CNPC), to firstly introduce CNPC's current development position in the wake of the financial crisis, and then to discuss some ideas for a collaborative approach to post-crisis challenges, and for strengthening intra-industry cooperation amongst member countries.

#### **1. Turning Crisis into Opportunity: the continued increase of CNPC's scale and market influence**

CNPC is China's largest oil and gas producer and supplier, as well as one of the world's major integrated international energy companies, with business covering oil and gas exploration and development, refining and chemicals, pipeline transportation, products marketing, oilfield engineering technical service, petroleum machinery manufacturing and international trading. In 2008, our revenue reached 1.27 trillion Yuan, of which profits were 134.8 billion Yuan, taxes were 239.5 billion Yuan, and the value of total assets reached 1.8 trillion Yuan. At the end of 2008, the American periodical *Petroleum Intelligence Weekly* ranked CNPC number five in its list of the 50 largest oil companies in the world, up two places from the previous year, and making it the eighth consecutive year the company has been placed in the top ten. In 2009 *Fortune* Magazine ranked CNPC number 13<sup>th</sup> in its Fortune 500 rankings, up twelve places from the previous year.

Since the outbreak of the global financial crisis, CNPC has faced a turbulent international and domestic oil market, but has remained market-oriented and efficiency. It adjusted production and strategies in a timely manner, and has maintained smooth and orderly production.

**The domestic oil and gas operations have maintained steady growth, and the growth of reserves remains at a relatively high level.** In 2008 our proven reserves exceeded five tons for the fifth consecutive year, and proven reserves of natural gas exceeded 30 million cubic metres for the

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forth consecutive year. The production of crude oil emphasises the continued stable yield of existing fields, and the efficient exploitation of new fields. Domestic production of crude oil is in excess of 100 million tons. Production of natural gas reached 61.7 billion cubic metres, the sixth consecutive year of double digit growth.

**Refining and market sales have got a solidity development, and the competitiveness continues to increase.** In 2008, 125 million tons of crude was processed, producing 79.22 million tons of refined oil products. A series of strategically important pipeline and refining projects have been implemented, with work on the entire length of the China-Turkmenistan pipeline and the second West-East Gas Pipeline commencing. The project to process a further ten million tons of sour crude by Dalian Petrochemical Corporation has achieved full investment. The reliability and market competitiveness of technical projects, project design and equipment production have all been further enhanced.

**International business development is accelerating, and the scale of operations continues to grow.** Adherence to the principle of mutual benefits and developing together, we, gained oil reserves grew by 655 million tons in 2008. Crude oil output was 622 million tons and natural gas output was 6.73 billion cubic metres. Projects for developing new fields made significant headway, with the signing of contracts for 15 new projects in Venezuela, Nigeria, Qatar, Cuba and Costa Rica. International trade has been growing rapidly, with the company trading 127 million tons of products, having a total value of 78.2 billion US dollars.

**Fulfilling social responsibility seriously, conserving energy and reducing emissions energetically.** CNPC is one of China's major corporations, and is the main force in the Chinese Energy Sector. In light of this, CNPC has committed to conserving energy and reducing emissions and altering the driving mechanism of economic growth. The company has created special mechanisms for conserving energy and reducing emissions, allocating 12.6 billion Yuan for projects to conserve energy and reduce emissions, and is steadily working towards ten large projects for emission reduction. From 2006 to 2008, CNPC completed 184 emission reduction projects, reducing the COD rate by 21.6%, and projects to do with fossil fuel emissions achieved reductions of 31.2%. The rate of increase in use of energy resources has been brought under control, and the level to which a given amount of resources can be exploited has been further increased. The unit consumption levels of energy resources and water have been maintaining a downward trend. In 2008, CNPC worked together with the Tianjin Property Right Exchanges and the Chicago Climate Exchange to found the Tianjin Climate Exchange. This is a big step forward for utilizing financial market mechanisms to solve environmental problems. In order to promote carbon sequestration, CNPC contributed funds of 300 million Chinese Yuan in 2007 to set up the China Green Carbon Foundation together with the National Forestry Administration and the China Green Foundation. The aim of the foundation is to support reforestation, and bio-energy development. In 2008 CNPC, together with the National Forestry Administration launched Forestry Carbon Sequestration projects in seven cities or provinces, including Beijing and Hubei Province.

**Adjusting the business structure in time and promoting the development of low carbon economy.** China National Petroleum Corporation is vigorously promoting the development of natural gas operations, which leads the proportion of natural gas in domestic energy consumption continuing to increase. As new pipelines such as the second West-East gas pipeline come into operation, it is estimated that China's consumption of natural gas will be increased from 80 billion cubic metres in 2008 to 110 billion cubic metres in 2010. In addition, CNPC is proactively working towards the large scale exploitation of coal bed methane. Currently, 60% of domestic reserves contain coal bed methane. CNPC sees the utilization of new types of energy as an important strategy for addressing the challenges of future energy supply. It has had success in the development

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of such alternative energy sources as: biofuels, geo-thermal energy, unconventional hydro-carbon resources, solar energy and wind power. CNPC's diligent work in this area makes it an advocate and pioneer of clean energy and clean technology, and the company is gradually achieving its goal of becoming a comprehensive, international energy corporation.

In the first half of 2009, CNPC correctly ascertained the broad direction of domestic economic development and continued to turn crisis into opportunity. Based on maintaining stable and orderly production, CNPC has achieved strategic development in main business. In the first half of the year, the company's total revenues were 506.2 billion Chinese Yuan, profits making up 50.6 billion Yuan. Although this was down slightly compared to the same period last year, it is an improvement on the previous period, and the overall picture was better than predicted. Domestic oil exploration achieved important successes in oil fields in the Erdors, Bohai Bay, Songliao, Sichuan and the Junggar Basin, amongst others. Crude oil production reached 51.04 million tons, and production and sales of natural gas maintained yearly growth of 10%. In overseas operations, the corporation made the most of the opportunities provided by the low price of oil, completing a purchase of shares in Singapore Petroleum, and made breakthrough cooperation agreements with Iraq, Iran, Central Asia, Russia and India. Of particular note is our joining hands with BP to succeed in bidding for the Rumaila oilfield service contract in Iraq, which demonstrates CNPC's advantage in terms of brand value and overall capacity. I strongly believe that CNPC's vigorous yet steady development strategy will give its cooperative partners even more opportunities for development.

### **2. Taking preventative measures and facing post-crisis challenges together.**

Ladies and Gentlemen, in the past year, the global energy sector has undergone great changes.

**Firstly, the effects of the financial crisis will mean that the global oil and gas industry will face the major challenge of uncertain supply in the post-crisis period.** As a result of a collaborative effort on the part of governments all over the world, the trend towards dramatic economic contraction has started to come under control. At the end of February, the world oil price hit bottom and then rebounded, and the world economy showed signs of recovery. However, we should recognise that the effects of the financial crisis are still ongoing, and that the prospects for global economic recovery are still not bright. The road to recovery is likely to be rife with setbacks, and we will need time to deal with systemic problems that arise.

In the short term, global supply and demand for oil is likely to remain in a comfortable and balanced state. The state of the American economy and changes in the value of the US dollar are important factors influencing oil prices. The high level of fluidity has increased fluctuation in the global oil market, but the relatively high inventory levels and excess capacity will reduce the margin for oil price rises in the future.

In the long term, the current challenges facing the petroleum industry as a result of a sluggish world economy will not lead to a fundamental change in the long term scarcity of oil supply. Relative to the price of oil, changes in development costs will lag behind, and the postponement or even abandonment of some high cost projects will increase the risk of under-supply in the future. Once the crisis has passed, levels of oil consumption may rise rapidly. As a result, world economic recovery might simply be the beginning of a new supply bottleneck. Therefore, maintaining development of the oil industry is of strategic importance to world economic development as a whole.

**Secondly, the financial crisis has made it even more difficult to address the problem of climate change.** Since the climate change conference in Copenhagen, the international community has been trying to come to agreements about how to meet the responsibilities to address climate change.

However, the setting of new climate change targets will have effects on modes of investment and increase investment for energy efficiency projects. The current financial crisis has been the most severe since world war two, and because countries vary in level and stages of development and in ability, the process of deciding on a path to the realisation of climate change targets will be difficult and full of setbacks. The developed countries have a responsibility for accumulated emissions over time as well as current high levels of emissions per capita. They must take the lead in cutting emissions, as well as provide funds and technology transfer to developing countries. While continuing the process of development and poverty reduction, developing countries should make use of funds and technology supplied by developed countries to take positive steps to reduce emissions and make a contribution to the collaborative effort to tackle climate change.

As world energy demands increase, problems regarding resource scarcity, conflict over resources, and pollution will also increase. These problems pose a threat to our future existence and development. Energy security is becoming an increasingly important component of political and economic security. Climate change poses problems for food security, water security, the preservation of eco-systems and human existence itself. The burning of fossil fuels is the most significant and direct cause of climate change. Climate change influences energy security, but its influence is far from contained to this sphere. Energy security and climate change are the two major challenges to sustainable development in the post financial-crisis period. International cooperation will be a decisive factor in meeting these challenges. CNPC will continue its new security outlook which emphasises mutual trust, mutual benefit, equality and cooperation and will uphold the “shared but differentiated responsibilities” principle of the Chinese Government. In this way, CNPC will make a positive contribution to the fight against climate change. We will take on the responsibility that comes with being a comprehensive global energy company by taking appropriate preventative measures. These include working hard together with others in the industry to develop renewable energy sources, setting up a system for the spread of advanced energy technology development, diversifying energy supply, and promoting the dual aim of economic development and tackling climate change.

### **3. Being Positive and Practical, Deepening Northeast Asian Energy Cooperation**

Ladies and gentlemen, Northeast Asia is one of the most dynamic economic regions worldwide, attracting the attention of the international community. There is a strong complementation between the six countries in the region, in both economic and energy spheres. There is a long history of cooperation in the region. In recent years, cooperation within the region has been steadily increasing, with Sino-Japanese, Sino-Korean, Sino-Russian, Japanese-Korean and Russian-Korean bilateral economic relationships all developing successfully. Mutual dependence in the region is constantly on the rise. We believe that the Northeast Asian economy will develop rapidly in the post-crisis period, with the result that regional economic ties will grow ever closer and consumption of fossil fuels will continue to increase. Ensuring stable supplies of oil will become a challenge shared by all Northeast Asian countries. To this end, all governments in the region should work together with oil companies to take positive cooperative measures to meet these challenges. CNPC will continue to follow the principles of “Positive and practical, mutual benefits and gains, cooperating to win together”, and will strengthen cooperative relationships with other stakeholders.

CNPC already has an established history of cooperation within the Northeast Asian energy industry. The sphere and depth of this cooperation is constantly increasing. Japan, for example, signed a long term trade contract with China in the 1960's. CNPC was the main executor of the agreement, making long term exports of crude oil from the Daqing Oilfield to Japan, and we also made use of loans of Japanese yen to develop oilfields in our possession. Since the 1990's, our cooperation with Japanese industry has been widened to include oilfield exploration and exploitation, oil and gas trade and transportation, joint investment in manufacturing, purchases of goods, materials and

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equipment and technological exchange amongst others. This year, the jointly funded CNPC and Nippon Oil project to set up an oil refinery has received permission from the Chinese Government. This is an important step forward for Sino-Japanese joint-capital ventures.

Northeast Asian countries and oil companies both face the challenge of ensuring energy security as well as facing climate change. Amongst Northeast Asian countries, China has plentiful coal resources. Coal makes up approximately 70% of China's primary energy consumption, but oil makes up less than 20%, and natural gas less than 4%. If China can make appropriate reductions in the amount of coal consumed, and increase the proportion of oil, gas and other clean energy sources in primary energy consumption, this will go a long way in reducing China's carbon emissions. In 2008 China's consumption of coal was 2.74 billion tons. If 1% of this can be replaced with natural gas, and at the same time enhance efficiency in the use of coal, we can decrease carbon emissions by 500 million tons annually. At the same time as China is making great efforts in energy, conservation, we are also working hard to improve and optimize the energy structure, working towards the balanced development of the economy, the energy sector and environmental protection. We hope that the other countries in Northeast Asia can understand and support China's arduous efforts to increase the use of oil and gas, decrease the proportion of coal used and to promote low carbon economic development. These measures will exert a positive effect on climate change for the region.

The countries of Northeast Asia already have a solid basis for cooperation in the field of conserving energy and tackling with climate change. Japan has accumulated a wealth of experience in energy conservation technology and policies. China, as one of the main carbon emitting countries, has enormous potential for energy conservation. If the two countries can work together, it would not only be a great commercial opportunity for Japanese industry, but would also be an important contribution to reducing strain on the environment in the region.

In the Northeast Asian region, the three countries of China, Japan and Korea are all large importers of oil and gas. Japan and Korea are almost entirely relying on exports for their oil requirements. China is the fifth largest producer of oil in the world; however, it is currently in the process of industrialization. As a result, its need for oil, gas and other energy resources is growing rapidly, and it is increasingly unable to meet its own needs domestically. The three countries are competitors for global resources, but there are also opportunities for mutual gains. Northeast Asia countries find themselves at different stages of development, each having their own competitive advantages. Collaborating to build a regional system for energy security is an idea with bright prospects. In any case, if each country only focuses on its individual interests and they compete against each other, we will all be losers.

In Northeast Asia, Russia has a strong complementation with China, Japan and Korea in terms of energy production and consumption. How to ensure long term security in resource supplies is an important issue for all parties. The effects of the financial crisis have made countries and enterprises in the region desire even greater cooperation. In their dealings with Russia; China, Korea and Japan should strengthen communication and coordination, and make practical improvements in cooperation by promoting a "win-win" approach.

In light of the above, we suggest that each of the countries in Northeast Asia start developing cooperation in the following areas. Cooperation can start with the easier, confidence building aspects first.

**First, increase the scope of oil trade, and increase the strength of international cooperation in oil and gas exploration and exploitation.** In order to secure an adequate domestic oil supply, China, Japan and Korea are all vigorously developing overseas supply routes. The three countries

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can, according to their needs, bilaterally or multilaterally develop cooperation in areas such as crude oil exchanges, trade in refined oil products, trade in LNG, and shared transportation. If conditions are mature, the countries could even start a bilateral or multilateral joint-capital company, and take part in international tender submissions or exploration together. In this way, we could reduce unnecessary losses incurred by friction amongst ourselves, and increase our successes.

**Second, cooperate in the research, development and application of new technologies.** We could bilaterally or multilaterally select a technology area of mutual interest and come together to tackle the task together. An example might be to cooperate on the development of technologies to do with oil refinement, such as the production of synthetic rubber, plastics and clean fuels as well as research and development of catalytic agents and reagents, high performance products etc.

**Third, resolve the problem of premium price for Asia together.** This is a problem that we all are concerned about, in response to which we suggest the organisation of research personnel from each country to carry out thorough research, and to build a consensus. The continued presence of premium pricing for Asia has to do with Asia's historical overdependence on Middle-Eastern oil, but also with the fact that Asia lacks its own standard price for oil. Taking American and European experience as a model, we suggest taking the price of crude oil from representative oilfields in Northeast Asia as the standard for calculating oil price, and setting up a common oil futures trading centre. At the same time, we should strengthen internal cooperation to speed up the decision of the Gulf Cooperation Council regarding a free trade agreement, fight for the abolition of destination clauses in crude oil purchase contracts, and possibly even try to make it possible to pay in Asian currencies.

**Fourth, support China's efforts to build an improved system of oil reserves, and attempt to build a mechanism for mutual security for China, Japan and Korea.** In respect to Oil reserves, Japan and Korea are both members of the IEA and have set up comparatively large scale reserves of oil. However, the building of a system for oil reserves in China has only just begun. Japan and Korea can offer suggestions or participate directly in the areas of warehouse site selection, design, construction as well as operations and maintenance. The construction and improvement of CNPC oil reserve warehouses will be of great significance for energy security in the Northeast Asian region. Japan, Korea and China could even consider a further tri-lateral mutual security mechanism based on each country's reserves system.

**Fifth, strengthen cooperation regarding energy conservation, emission reduction and new energy sources.** As mentioned earlier; Japan, Korea and China have great potential for cooperation in this area.

Honourable Chairman, ladies and gentlemen:

In the past few decades, China National Petroleum Corporation has carried out effective intra-industry cooperation in each of the Northeast Asian countries. In the future, we hope to continue to strengthen communication and exchanges with our friends in the petroleum industry of each country. We hope to further our mutual understanding, build long-term, stable cooperative relationships, and to work hard to achieve mutually beneficial development. We are looking forward to even more extensive cooperation with each country in the fields of oil and gas exploration and development, oil refining, the construction of new pipelines and the development of new energy forms. Our cooperative partners can take advantage of the growth in Chinese market, particularly in the area of overseas oil and gas exploration and development. Companies that cooperate with us in the areas of oil and gas development investment and technical services projects can benefit from our technology, experience and personnel.

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Ladies and Gentlemen, history tells us that disaster is invariably followed by a new round of development. I am optimistic about prospects for cooperation in the energy sector of Northeast Asia. Let us come together with confidence, strengthen cooperation, overcome difficulties, and usher in a tomorrow full of hope and promise.

Thank you everyone!

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