

China's Offshore Oil Exploration

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China's Offshore Oil Exploration

Key Findings

Recent Chinese purchases of offshore oil drilling equipment suggest that China is planning to accelerate efforts to develop offshore petroleum resources.

Early this year Chinese representatives, acting through the China National Machinery Import-Export Corporation (CNMIEC), began payments on two offshore jack-up drilling rigs purchased from Robin Loh Enterprises, a Singapore-based firm. More recently, the Chinese exercised their option to buy two additional rigs from Robin Loh, while maintaining an option to purchase as many as four more. CNMIEC reportedly also has reached an agreement to buy two new drilling rigs from Mitsubishi of Japan, and is negotiating with the German firm Blohm and Voss for the purchase of as many as six deep-water, semi-submersible drilling rigs. Although preliminary negotiations between the Chinese and several US firms for the sale of offshore oil equipment have fallen through, China currently is expressing interest in leasing a highly sophisticated American "Glomar" drilling vessel from the Atlantic Richfield Company.

In addition to drilling equipment, the Chinese are actively seeking offshore support equipment. A deal with the Weco Shipping Company of Denmark will

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provide Peking with a total of eight new offshore supply vessels, of which at least two have already been delivered. Last year, the first of five rig supply vessels on order from Japan was also acquired, and a seismic ship for geophysical survey operations was purchased from France by China's Ministry of Fuel and Chemical Industries.

China's new purchases will vastly improve its small and primitive inventory of offshore drilling equipment. Even so, China's offshore oil exploitation probably will remain little more than a showcase activity for several years to come. Although all indications point toward very promising offshore oil deposits, the drilling equipment already contracted for probably will not be available until mid-1976, and a massive infusion of equipment necessary for producing oil on a large scale is precluded by a current worldwide shortage of offshore drilling equipment. Many suppliers, in fact, have already sold the rigs they plan to assemble through the end of 1976. Moreover, sufficient quantities of crude oil are now being drawn from onshore wells to meet current domestic requirements and export obligations, and to keep refineries operating at full capacity.

#### Current Use of Offshore Drilling Equipment

To date only four mobile oil drilling platforms are known to be in use off the coast of China, along with a

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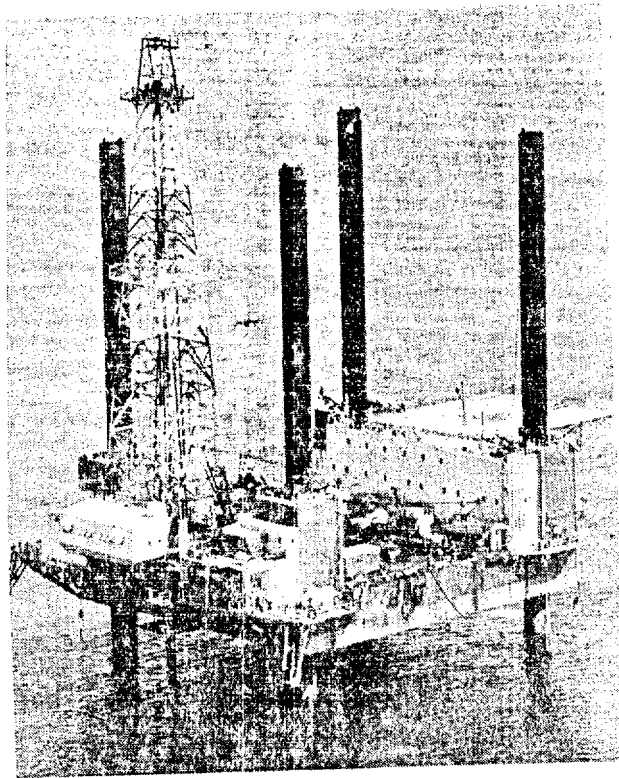
similar number of fixed platforms. The only imported mobile platform is the "Fuji", a self-elevating jack-up rig built by Mitsubishi Industries in Japan in 1969, and sold to CNMIEC by the Japan Drilling Company for \$8.7 million in late 1972. <sup>(See photo)</sup> The Fuji is capable of operating in 175 feet of water and drilling to a depth of 15,000 feet. Since its delivery in April, 1973, the Fuji has been used in the Po Hai Bay off the northern China coast, where virtually all of China's offshore oil drilling efforts have been concentrated thus far. The Po Hai Bay, with a conveniently shallow basin that in most places is under 150 feet, contains extensions of some of the richest onshore oil fields in northern China. (See map)

The first Chinese-made offshore rig was built in 1972. Called the "Po Hai No. 1", it is similar to the Fuji in that it is a self-elevating jack-up rig and can operate in water depths of more than 100 feet. The rig was constructed at the Lu-ta (Dairen) Shipyard.

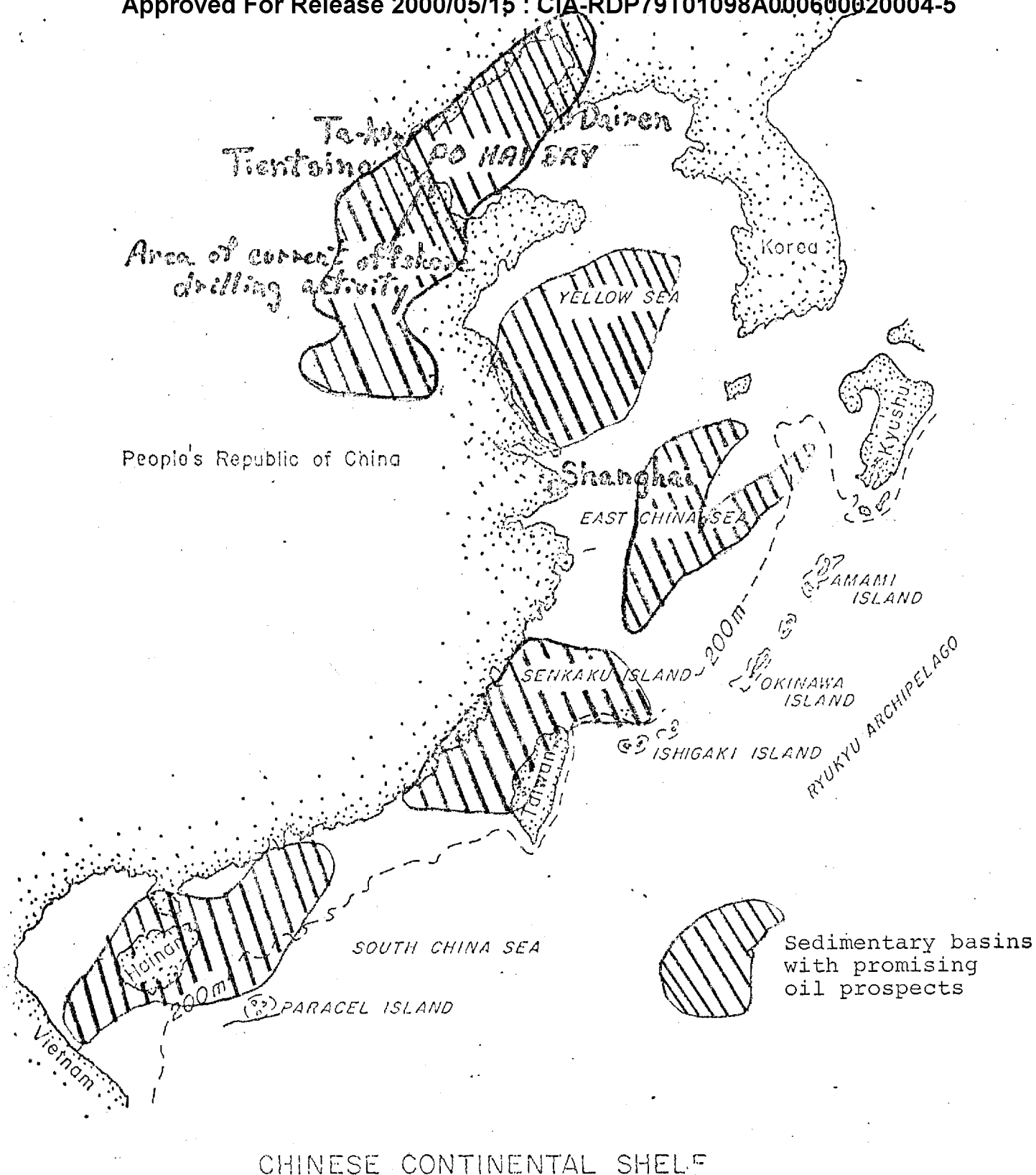
The Chinese subsequently have built a second movable jack-up rig and several stationary drilling platforms, all of which operate from time to time in the shallower parts of the Po Hai Bay, primarily just southeast of Ta-ku. The Chinese also have a deep-water, catamaran drill ship

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The "Fuji"



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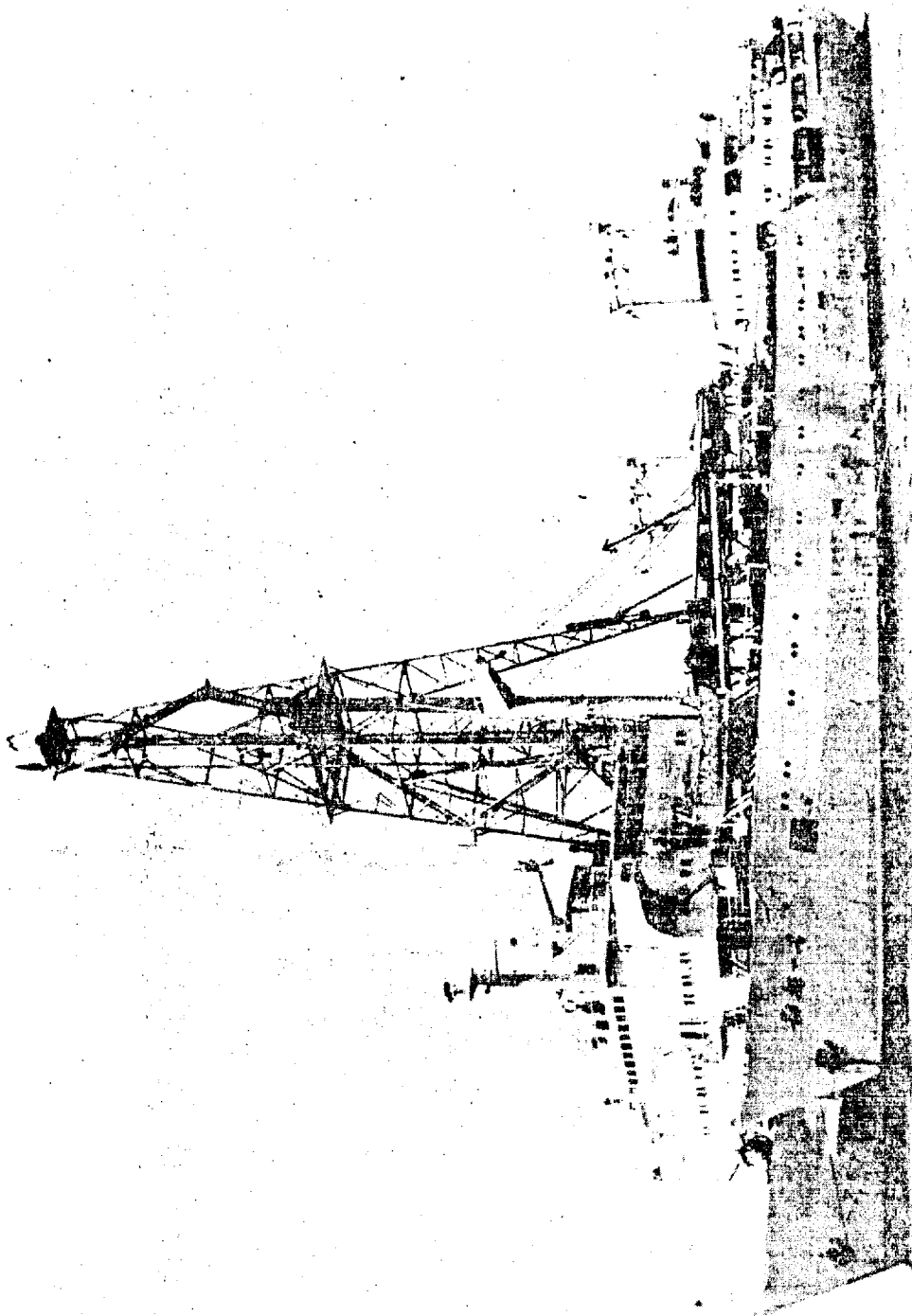
called "Kantan No. 1" which they assembled in 1973 in the Hutung (Shanghai) Shipyard. The twin hulls of the Kantan No. 1 reportedly were taken from old British Liberty ships, and were joined together by a platform and rig built in Teintsin. One observer estimated that the Kantan No. 1 probably could operate at water depths up to 800 feet. The Chinese announced in December, 1974, that they were using the ship to explore for oil in the southern part of the Yellow Sea. (See photo)

Recent Purchases and Contract Negotiations

The jack-up rigs being purchased from the Singapore firm Robin Loh are best suited for use in the Po Hai Bay and other areas close to the coast, suggesting that the equipment will be used to extend present drilling operations into only slightly deeper waters. The first two rigs purchased are a "Robray 300" model, capable of operating in water depths up to 300 feet and drilling a maximum of 20,000 feet. The rigs will cost about \$30 million each, which reportedly includes the price of some American made drilling equipment to be installed on the rigs. They are presently scheduled for delivery in mid-1976, although the first rig originally was to be completed by late 1975. The Chinese have already made payments on the rigs (in February and April, 1975), totalling more than \$20 million, and in early May sent a delegation to Robray Shipyards in Singapore to inspect the progress. The two additional

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The first Chinese designed and built floating drilling vessel for sea exploration,  
"Kanton (prospector No. 1)".



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25X1A rigs reportedly purchased recently from Robin Loh are similar to the Robray 300 model, and will be selected from among other jack-up rigs currently under construction in Singapore, or from two rigs being built in Japan by Hitachi for a Robin Loh subsidiary.

Information on a possible deal between China and Japan concerning the sale of offshore oil drilling equipment is much more sketchy. According to one press report, the Chinese signed for a \$8.4 million jack-up rig from Mitsubishi in 1974, and also have approached the firm about the construction of two "giant" offshore drilling rigs.

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Tokyo broadcast early this year reporting a surge in foreign orders for offshore oil drilling rigs from Japanese shipbuilders

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during the last three-quarters of 1974. According to the broadcast, twelve rigs were ordered during the period, including two to be built by Mitsubishi.

In addition to dealing with Mitsubishi, the Chinese reportedly are negotiating with Mitsui of Japan. As recently as May of this year the Chinese requested further details on the "AKER H-3", a Norwegian-designed semi-submersible drilling rig. At about the same time, the Chinese reportedly turned down a Norwegian offer for an AKER H-3 built in Hong Kong.

Potentially the most spectacular deal for offshore equipment is now under negotiation between Chinese representatives and Blohm and Voss of West Germany. Reportedly, the Chinese are seeking six offshore semi-submersible drilling rigs from Blohm and Voss, valued at about \$37 million each fully equipped. The design desired by the Chinese is the "Scarabeo," a deep-water, self-propelled platform capable of drilling up to 30,000 feet in water depths up to 1,000 feet. In addition, the Scarebo model is equipped with a derrick skidding system that enables it to drill six wells without relocating while resting on the sea floor.

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Although the Chinese often allow important contract negotiations to proceed to an advanced stage merely to gain technical information on equipment, [REDACTED]

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Acquisition of the Blohm and Voss semi-submersibles would considerably upgrade China's deep-water oil exploration capability, and might signal China's intention to back up its territorial claims in disputed waters with preliminary drilling operations. Some southern areas, such as the Paracel Islands in the South China Sea, are claimed by as many as four nations (China, Taiwan, Vietnam, and the Philippines). In the Yellow Sea and East China Sea to the north, Chinese claims overlap those of North and South Korea, Japan, and Taiwan.

Paralleling their growing interest in offshore drilling equipment, the Chinese are continuing efforts to augment their oil rig supply and support equipment. Among detected imports to China during 1974 were a \$7 million seismic survey ship purchased from France, a

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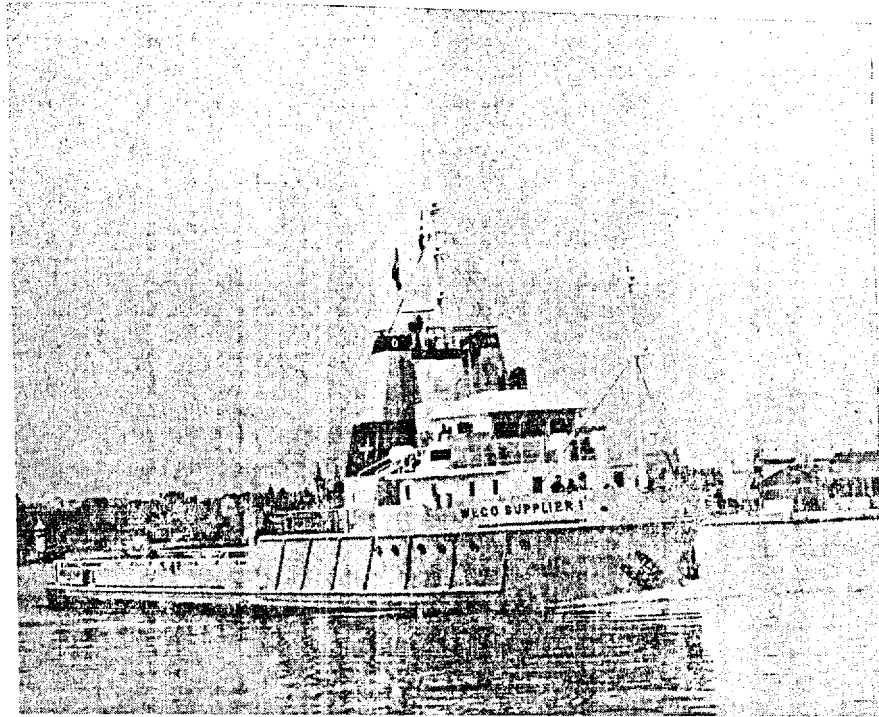
\$2 million oil rig supply vessel from Japan, and two oil rig supply vessels valued at nearly \$20 million each (See photo) from Denmark. / At least six more offshore supply vessels are scheduled to be delivered from Denmark's Weco Shipping Company, and four more from Japan. These purchases underscore the seriousness of China's present negotiations for more offshore drilling equipment.

#### Outlook

China's vast onshore oil resources, booming onshore production of crude oil (now growing at greater than 20 percent annually), and offshore equipment and technological constraints are likely to combine to keep offshore development of petroleum reserves a small-scale -- although perhaps prestigious -- operation for some time. There are, however, several forces operating in the opposite direction, which could explain the high priority China is believed to have assigned to offshore oil exploration. One is the current disagreement over territorial rights to potentially rich offshore oil deposits. By establishing a capability to work deep-water claims, China may gain a decisive advantage in the contest for offshore oil. Although China's neighbors might be able to circumvent this disadvantage by leasing drilling rights to Western oil firms, attempts by Japan in this direction have thus far been thwarted by a reluctance of American firms to trespass on China's claims.

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Danish-built supply  
vessel

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Another incentive for China to develop its offshore production capability is the acquisition of experience and technology needed for future exploitation. As China's agriculture, transportation, and petrochemical industries are modernized, domestic needs for petroleum will grow rapidly. The demand for foreign exchange to finance modernization will increase similarly, and may be satisfied in large part through increased oil exports. Finally, China may be interested in gaining additional political prestige and leverage through offshore oil production and increased oil exports. These considerations could prompt China to invest heavily in offshore oil producing equipment, even at the expense of other energy and industrial sectors -- coal, for example -- that are suffering badly from under-investment.

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