CHINA OIL, GAS & PETROCHEMICALS

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China switches on new oil products pricing mechanism

Lin Fanjing

China top economic planner National Development and Reform Commission (NDRC) announced on Jan. 14 that China's gasoline and diesel ceiling prices will be cut by 140 yuan per ton and 160 yuan per ton from midnight on Jan. 15.

The price cut, the second one within one month and smaller than expected, can be regarded as startup of the new pricing mechanism, according to which China's oil products price will be adjusted more frequently to pace international oil price changes.

A Sinopec Group source earlier said the shortest period for price adjustment is 22 days as regulated in the new pricing system effective as of Jan. 1, suggesting there is every likelihood for another price adjustment within a month.

NDRC official also said the latest gasoline and diesel price cut, by about 2 percent and 3.2 percent respectively, could be bigger if strictly following the new pricing system.

After the cut, the ex-factory price of gasoline and diesel as of Jan. 15 will be 5,440 yuan/ton and 4,810 yuan/ton, and the ceiling retail prices will be 5,490 yuan/ton and 5,260 yuan/ton respectively after average domestic processing costs, taxes and a "reasonable" refining margin based on the new pricing system are counted in.

NDRC also said the highest oil products supply price for private wholesalers should be 400 yuan less than the government-set ceiling retail price and at least a 400 yuan/ton profit should be guaranteed for private wholesalers in any adjustment. Such a governmental statement to guarantee private-run pricing is very rare.

The price cut by about 0.1-0.14 yuan/liter, though unexpectedly, has actually exerted little impact on the market as Chinese retailers in some cities have preceded it with an even bigger price cut, said many analysts.

PetroChina and Sinopec, China's biggest oil products suppliers, in such big cities as Shanghai and Beijing have cut pump prices in some of its stations by more than 0.3 yuan.

"It hardly has any influence on futures market as the small cut has been first made in some regions," said analyst Chen Chaoze from Galaxy Securities.

Most of wholesalers also show they would not be affected as the ceiling price after the cut is still higher than the actual market price.

Many analysts believe the price cut tallies with China's plan to stimulate domestic demand that remains pretty weary amid the global economic downturn.

As for the influence on PetroChina and Sinopec, most analysts believe there is no big harm to them as their refining profit can still be guaranteed, which is one of purposes for launching the new pricing system.

China as of Jan. 1 2009 initiated the new pricing mechanism, but gave no key details, leaving them to be revealed by NDRC later without specific timetable.

But the new one clarifies that China's oil products price adjustment will follow the change of international oil price rather than the former average oil products prices in Singapore, Rotterdam and New York.

Meanwhile, the former benchmark ex-factory price set by the government has been replaced by a ceiling retail price, below which the retailers are able to cut prices to any extent.

Along with pricing reform, China also levied fuel consumption tax on gasoline and diesel, respectively 0.1 yuan/liter and 0.8 yuan/liter as of Jan.1.

In Dec. 2008, China cut gasoline and diesel prices by 13.9 percent and 18.1 percent respectively, greatly lessening burdens on Chinese consumers that had shouldered high fuel prices for months, one of reasons for the slipping demand in the country.

Analysis: Shanghai price war not to spread all over China

Lin Fanjing

Price war in Shanghai waged between PetroChina and Sinopec, China's oil duopolies, is predictably not to spread all over China as the war is more a result of slowing demand and brimming stocks mainly in the southern and eastern China than any real head-on competition caused by the new pricing mechanism throughout the whole country.

PetroChina on Dec. 25 first cut retail prices for three types of oil products in 150 petroleum stations in Shanghai, triggering a domino effect of price cut for oil products. Sinopec followed suit to cut price on Jan. 1, and it was followed by the second cut of PetroChina on the same day which again spurred Sinopec to further lower its retail prices on Jan. 5.

Till Jan. 5, gasoline RON 90, RON 93 and 0# diesel sold by PetroChina and Sinopec in Shanghai were priced 6-9 percent lower than the government's official cap.

PetroChina and Sinopec, however, have agreed to a truce in Shanghai before traditional Chinese New Year which falls on Jan. 26, 2009, though in other cities the price cut still holds on.

Price cut amid bleak market

The price war is regarded as a good use of the newly launched pricing mechanism that allows retailers to adjust down pump prices based on the state-set ceiling price.

"The purpose of sales promotion is a result of weary demand that has created a buyer's market," said a PetroChina source.

Statistics show China's apparent oil demand in December shrank 3.2 percent from a year earlier, the first drop in the past three years, and the figure for January is anticipated to be unoptimistic either.

Sinopec stated that its oil products sales in Shanghai during New Year Holiday (from January 1 to 3) fell by about 15 percent each day, and its gasoline 90 RON sales even plunged more than 50 percent.

Meanwhile, inventories held by the duopolies hit highs with gasoline inventories by end-November, 2008, reaching 34.8 million barrels, and diesel inventories, 52 million barrels.

Market analysts believe that the inventory pressure is particularly big in eastern and southern China areas, where the demand for oil products has plunged drastically in wake of shutdown of many export-oriented processing factories.

Market analyzed that oil product smuggling in south China is another factor forcing Chinese duopolies to cut price for grabbing market share.

"The smuggling is particularly rampant in coastal regions," said Feng Shiliang, director of

China Petroleum and Chemical Industry Association, adding that Chinese retailers have to lower selling price in the competition with smugglers.

Not a head-on competition

The price war between Sinopec and PetroChina is furious on the surface, particularly in Shanghai, but both sides actually take a firm hold on themselves.

In Shanghai, Sinopec just cut the price selectively in 90 of its 530 stations in the region to cope with PetroChina's price cut. The price cuts in Guangzhou can only be seen in 60 stations in total, all far from the downtown area. In Beijing, PetroChina trimmed pump prices in January, only in stations outside the fifth ring road (Beijing suburbs).

PetroChina insists that it is a normal promotion activity, rather than any head-on competition.

Sinopec is also believed to just follow suit without intention of combating against PetroChina because it is not profitable for Sinopec, China's largest oil products retailer, to do so.

Slim prospect for companies' further cut

China on Jan. 15 lowered state-set ceiling retail price of gasoline and diesel by 2 and 2.3 percent respectively.

Upon the latest price cut, NDRC official said there is still room for a further cut in domestic oil prices despite recent fluctuation in global prices.

If strictly following the new pricing mechanism, a price adjustment may likely happen again in 20-30 days.

Under such market expectation, PetroChina and Sinopec may not adjust down their pump prices frequently or by a bigger margin, considering a better guarantee of their profits. It can be seen in PetroChina's recent move in terminating its sales promotion in Beijing.

Private-run stations follow suit in reserved manner

Private-run petrol stations, used to be the leading force to cut price, this time followed suit of PetroChina and Sinopec, but in reserved manner.

A boss from a Chongqing private-run petrol station said he dared not lower its retail price by a wide margin, in fear of exasperating PetroChina and Sinopec, which are both oil products suppliers and market competitors for private-run stations.

Another private-run petrol station owner held the same apprehension and showed worries of falling in short supply if joining the price war.

In all, the oil products price war would not last too long and it is anticipated the price cut may end in February as demand then would resume fast growth with arrival of spring farming season.

PetroChina streamlines marketing system for sharper competitive edge

Lin Fanjing

PetroChina is reshuffling its oil products distribution sector in a bid to streamline sales channel to sharpen its competitive edge in distributing oil products in the world's fourth largest market and also to compete with Sinopec, China's largest oil products distributor.

As one part of PetroChina's internal integration plan, the move of straightening its sales channels is expected to improve its efficiency in oil products sales.

PetroChina has abolished the marketing function of all of its seven grand region companies that originally controlled lower-ranking local sales companies, while the coordination function of regional companies would be remained for serving local companies and the headquarters.

Among the seven, two companies respectively in northwest and northeast regions will assume responsibility of allocating and transporting oil products.

"Regional companies are expected to be a coordinator between headquarters and local sales companies rather than a manager," said PetroChina source.

The source say PetroChina would simplify its oil products price adjustment procedure by canceling interference from regional companies, meaning local companies can adjust retail price overnight after reporting to the headquarters directly.

Market analysts believe PetroChina's move is to adapt itself to China's new oil products pricing system under which China's oil products retail price will be adjusted more frequently.

The streamlining is also helpful for PetroChina to compete with its competitor Sinopec, China's largest oil products seller that seizes more than half market share in Chinese oil products distribution market.

PetroChina in the past weeks first waged price-cut war in Sinopec's turfs, including Shanghai, Guangzhou, Fujian, Chongqing and Beijing, reflecting its new distribution mechanism has started to play a swift role.

PetroChina sold 70.250 million tons of oil products, including 17.707 million tons of gasoline and 36.134 million tons of diesel, in the first three quarters of 2008. The company sold 81.76 million tons of oil products in 2007 with a total of 18,600 petrol stations.

CNOOC's refining group ready to come out

Li Xiaohui

CNOOC is studying the plan for establishing a large refining and petrochemical group and it may take action soon, revealed an official in charge of CNOOC's refining business.

Diao Guotao, vice general manager with CNOOC Oil & Petrochemicals Co., Ltd stated that the large refining and petrochemical group is expected to integrate the upstream and downstream of oil industry with only one business entity to streamline the whole operation of CNOOC.

The reorganization plan tells the offshore oil producer's intense efforts in laying out its refining business since 2005.

CNOOC's layout for refining industry

CNOOC has been striving to seize a share on the oil refining market since China's oil duopolies, CNPC and Sinopec, completed their layout of refining industry nationwide. Now it has formed three oil refining bases in Pearl River Delta, south China, Yangtze River Delta, east China, and Bohai Sea rim area, north China respectively. And its oil refining capacity has expanded rapidly with the building of a large refining project in Huizhou, Pearl River Delta, and the acquiring of Daxie Petrochemical in Yangtze River Delta, and three local refineries in Shandong and Hebei provinces of Bohai Sea Rim region.

By 2020, CNOOC Oil & Petrochemicals Co., Ltd, a refining subsidiary of CNOOC, is expected to achieve a capacity of refining 70 million tons of oil, 5 million tons of ethylene, and 2-3 million tons of aromatics annually.

CNOOC is planning to expand the annual refining capacity of Daxie Petrochemical in Zhejiang from 8 million tons in 2008 to 10 million tons in 2009, Shandong Haihua and Dongying Petrochemical in Shandong from the present 1.5 million tons to 5 million tons in 2009, respectively, and Zhongjie Petrochemical in Hebei from 2 million tons to 6 million tons.

Meanwhile, CNOOC's Huizhou oil refining project, which is expected to go into operation in March of 2009, will manage an annual refining capacity of 12 million tons, including 7-odd million tons of gasoline, diesel and kerosene.

Diao Guotao noted that acquiring local refineries has always been a strategy of CNOOC to develop its refining business, which is also the most efficient way.

On Huizhou refining project

Huizhou refining project, which was scheduled to go into operation in September of 2008, has postponed operation to March of 2009.

It is the first large refinery wholly invested by CNOOC with 21.6 billion yuan. It is de-

signed to form an annual refining capacity of 12 million tons of high acid heavy crude oil, 7.3 million tons of gasoline, diesel and kerosene, 1.5 million tons of ethylene cracking feed and 800,000 tons of paraxylene.

CNOOC announced in August 2008 that the operation of Huizhou refinery would be postponed to November of 2008 for the snow disaster hitting southern China at the beginning of 2008 and the rain disaster occurring in Guangdong province in June. In mid September, Fu Chengyu, general manager with CNOOC declared that it would further postpone the operation of Huizhou refinery to 2009.

The delay has triggered a wide market guess that it might be related to the present oversupply of product oil on domestic market. Actually China's domestic refined oil decreased 2.3 percent year on year in November to 27.27 million tons.

Diao Guotao disclosed that Huizhou refining project has basically been completed and it will hopefully be put into official production in March of 2009.

The second phase project of Huizhou refinery involving planned investment of 50-odd billion yuan will also kick off in 2009, which is expected to go into operation in 2011, said Diao.

However, the profit of refining business is an issue CNOOC has to worry about. According to the latest statistics released by the State-owned Assets Supervision and Administration Commission, CNPC and Sinopec incurred a total loss of 180.4 billion yuan in refining sector in the first 10 months of 2008, while CNOOC, China's largest offshore oil producer with few business in refining sector, was cheered up by a 89.3 percent surge in net profit in the first half of 2008, which hit 27.54 billion yuan.

Diao Guotao noted that the development strategy of CNOOC is different from those of CNPC and Sinopec. CNOOC is devoted to refining high acid heavy crude oil and aromatics.

■ Distribution bottleneck

With the completion and operation of 12-million-ton Huizhou Refinery, how to distribute the oil product will become a focal point affecting the future development of CNOOC's refining business and it also contributes to one of the highlights of CNOOC reorganization.

According to the statistics of the Commercial Petroleum Flow Committee under the China General Chamber of Commerce, there were 2,505 product oil wholesale enterprises in total in China by the end of 2007, and 1,682 enterprises are under the aegis of CNPC or Sinopec, taking up 67 percent of the total.

Meanwhile, CNPC and Sinopec possess 46,000 gas stations throughout China, taking up 50 percent of the total, which is close to 100,000.

In a sharp contrast, CNOOC only has a very limited number of gas stations, which is so small that they can even be neglected.

The Huizhou project is just a refinery at present, and only when its products are sold via the group's marketing channel, can the value be maximized, said Diao, stressing that CNOOC's marketing network and refinery are built synchronously.

Currently, CNOOC is building its marketing network through three channels, that is, independent building, cooperation with local government and other enterprises.

According to the plan of CNOOC, the product oil produced in Huizhou refinery will be sold partly to Yangtze River Delta and Bohai Sea Rim region, and partly to the Pearl River Delta and northern and western areas of Guangdong province.

CBM

China funds 17 CBM research & demo projects

Liu Yanan

The development of large-scale oil, natural gas field and CBM in China is expected to win a financial support totaling 60 billion yuan from the central government in the 2006-2020 period, according to the Special Program on the Development of Large-Scale Oil, Natural Gas Fields and CBM that started implementation recently.

A total of 17 CMB projects include 10 research projects, five demonstration (demo) projects and two equipment manufacturing localization projects, will be funded by the Special Program. With CBM developers, universities and research organs all involved in, the program may help streamline the development and operation of the CBM industry and facilitate the rapid development of the industry.

■ CBM industry chain to get firmed up

Chinese CBM industry is expected to see faster development in the coming years as the 17 projects go into operation with the strong financial support from the government. The 17 CBM projects are among 42 oil, gas and CBM projects to be financed by the Special Program.

As vanguards for the special program, China United Coalbed Methane Cooperation (China CBM), the flagship CBM enterprise in China, and China National Petroleum Corporation (CNPC), the country's largest oil producer, have paid much attention to the development of CBM, which makes up a big proportion of the total programs. It's anticipated that Chinese CBM industry chain will develop by leaps and bounds on the way of industrialization, considering the firm determination of the government and the implementation of a strict accountability system.

It's estimated that 1-2 billion yuan of capital will be channeled into these programs in 2006-2010 with about one third coming from national budget and the rest from relevant enterprises. Enterprise will enjoy the research results and economic benefits generating from these projects with national budget focusing on feasibility studies rather than the construction of projects, said industry insider.

Table 1 CBM projects under the special program on oil, gas and CBM			
Program	Theme	Fund (mln yuan)	Type
China CBM	CBM development in Qinshui Basin	200	Demo project
China CBM	CBM development in Erdos Basin	300	Demo project
China CBM	Localization of CBM production & well drainage equipment	100	Localization project
China CBM	Analysis on economic efficiency of CBM development	56	Studies
PetroChina Huabei Oilfield Co., Ltd.	CBM development in Qinshui Basin		Demo project
PetroChina's Langfang Branch of Research Institute of Petroleum Exploration and Development			Studies
CNPC Drilling Research Institute			Localization project
Sinopec Exploration & Production Research Institute			Studies
Ministry of Education		>40	Studies
Xi'an Branch of China Coal Research Institute			Studies
Chongqing Branch of China Coal Research Institute			Studies
China Coal Research Institute			Studies (2 ones)
Jincheng Anthracite Mining Group	Integration of CBM development & coal mining	>100	Demo project
Huainan Mining Group & Huaibei Mining Group	Underground CBM drainage		Demo project
Chongqing Coal Industry Group's Songzao Coal and Electricity Co.,			Studies

Industry insider with China University of Petroleum-Beijing told *China OGP* that China CBM would let PetroChina take away one and half of the five programs in accordance with the proposed plan for PetroChina to pull out its 50% shares from its 50-50 JV China CBM with China National Coal Group. The withdrawal of PetroChina form China CBM is yet to be approved. When it is approved, China CBM and PetroChina probably will jointly develop eastern margin of Erdos Basin with PetroChina managing the CBM development in Hancheng.

Source with China CBM said that CBM developers would conduct researches and demo projects at their own CBM blocks with the help of some universities. The source told *China OGP* that new demo projects would have hundreds of wells, far more than the present scores. Moreover, diversified or pricier technologies like the nitrogen and carbon dioxide foam fracturing will be applied.

China CBM once expressed a will to quit from the special program, plagued by PetroChina's ambitions to control more projects when withdrawing from China CBM and to dominate the leading group of the special program. Under the coordination of NDRC, the five projects under China CBM finally avoided to be delayed or suspended.

China aims to make use of 1.8 billion cu.m of coal mine methane (CMM) and 700 million cu.m of CBM in 2009 with a CMM drainage of 5.5 billion cu.m and a CMB production of

one billion cu.m. The country also plans to expand the production of CBM to 2.2 billion cu.m in 2009.

With a CBM production capacity of about two billion cu.m, the estimated CMM drainage and CBM production in China exceeded five billion cu.m and 500 million cu.m in 2008, respectively,

Backgrouder:

The implementation plan for the Special Program on the Development of Large-Scale Oil, Natural Gas Fields and CBM got approval from China's cabinet, the State Council, in June 2008. This special program covers R&D studies, pilot projects and demo projects on the E & P of onshore, offshore and overseas oil and natural gas as well as CBM.

Relevant leading group, implementation group, management office, expert panel and offices of the two groups were established in mid 2008 with Ma Kai, then chairman of NDRC heading the leading group.

Jidong oilfield, Bohai oilfield, Qinnan CBM field, Puguang gas field highlight the special program. CNPC takes charge of most of component projects of the special program, said an industry insider, a participant of the program.

The National Guideline on Medium- and Long-Term Program for Science and Technology Development (2006-2020) was announced in early 2006, setting a target of channeling more than 2.5% of national GDP into R&D programs by 2020. China is striving to make significant progress in self-innovation and overall R&D capacity in both basic and frontier scientific fields, in a bid to shore up sustainable economic and social development and secure national security.

08' overview & 09' outlook of China's chemical industry

China OGP

■ Refining/ethylene production

China's cruderun during January–November 2008 period hit 314.93 million tons, up 4.82 percent on year, but the growth rate was a bit slower than 6.43 percent a year earlier, indicating China's refining industry is being affected by the global financial crisis.

Among major oil products, diesel output in 2008 kept faster growth with January–November output up 9.67 percent on year, faster than that of gasoline and kerosene.

Under the impact of the global financial crisis, however, Chinese refineries are anticipated to reduce operation this year, though their newly added refining capacity would hit 50 million tons in 2009. Included is the capacity of 12 million tons in Huizhou Refinery, 10 million tons in Qingdao Refinery, 10 million tons in Qinzhou Refinery and 8 mln tons in Fujian Refinery.

During the 2009-2010 period, China plans to expand its refining capacity by 400~420 million tons by way of building a group of refining projects in Yinkou (Liaoning province), Huludao (Liaoning province), Tianjin, Tangshan (Hebei province), Guangzhou, Huizhou (Fujian province), Chengdu, Chongqing and Quanzhou (Fujian province).

It is anticipated that the operation time of aforesaid refining projects may not strictly follow their original timetable due to uncertainties amid worldwide financial crisis.

Ethylene

China's ethylene production in 2008 was estimated to fall 1.26 percent from a year ago to 10.35 million tons based on January–November figure of 9.55 million tons.

The shrinking demand has dampened production of downstream ethylene products with an annual growth between 2 percent-7 percent in 2008, a plunge from 2007's 15 percent-27 percent of year-on-year growth.

The following table shows the output of ethylene downstream products in January–November 2008.

Table 2 Output of ethylene downstream products

Products	Output in Jan. –Nov. 2008	Growth on year
Resin	28.92 mln tons	3.14 percent
Synthetic rubber	2.14 mln tons	7.36 percent
Synthetic fiber	20.56 mln tons	2.34 percent
Monomer	9 mln tons	-3.21 percent

Stricken by weak demand, the forecast that China's annual ethylene production capacity to reach 15.80 million tons by 2010 may not be realized. Under such circumstances, Chinese ethylene producers are faced with tougher operation in 2009.

Table 3 Price change of ethylene products in 2008

Products	Peak price before Oct. 2008	Fallen price after Oct. 2008
Polyethylene	14,000-15,000	8,700-8,800
Polypropylene	12,800-13,200	7,300-7,500
Glycol	7,600-7,800	4,100-4,500
Butyl alcohol	15,000-16,000	7,000-7,300
Octyl alcohol	17,500-17,700	7,700-7,900

Chemical fiber industry

Chemical fiber industry is anticipated to undergo the hardest time in the first half of 2009, driven by the bleak market demand.

The industry reported that both output and imports of chemical fiber started to follow downward curve in the second half of 2008.

Data showed chemical fiber output in the January–October 2008period reached 20.0672 million tons, up 2.15 percent but 17.11 percentage lower than the growth rate of one year earlier. The imports dived by 24.66 percent to 714,800 tons.

The total supply during January–October 2008 stood at 19.30 million tons for the first time representing minus growth of –0.22 percent, 16.04 percentage points lower from a year ago.

Chemical fiber inventories by the end of October, therefore, surged by 45.62 percent on year with the operation rate of the industry lingering between 70 percent-80 percent.

Since the third quarter, chemical fiber industry entered a loss period with net loss in September-November amounting to 1.243 billion yuan, and profits totaling 4.713 billion yuan in January–August.

The year 2009 is regarded as a reshuffle year for chemical fiber industry as many chemical fiber producers as Zhejiang Hualian Sunshine Petrochemical Co., Ltd., Zongheng Holding Group and Wuhuan Spandex Industry Group Co., Ltd. have launched internal regrouping for keeping edge on the domestic market.

Table 4 Output of major fiber products in Jan. –Oct. 2008

Products	Output	Growth y-o-y	Change in growth on year
Polyester fiber	16.3705 mln tons	3.94 percent	-15.66 pct points
Polyamide fiber	863,400 tons	7.34 percent	-9.64 pct points
Acrylic fiber	515,100 tons	25.84 percent	-30.34 pct points

Nitric acid

Nitric acid industry in 2008 experienced ups and downs with nitric acid price skyrocketing to historical high in August and then plunged by 60 percent within two months. The violent price fluctuation showed nitric acid industry was pretty sensitive to the macro economy.

The industry in the dull season of January–February 2008, unexpectedly, enjoyed the price surge partly because of the supply cut as a result of restricted transportation amid snow disaster period.

Along with the price rise of coal and synthetic ammonia in March, nitric acid price started to climb by about 300 yuan/ton on month. The upward trend extended to May in which the monthly price even rose by 1,000 yuan/ton, partly due to China's robust economic situation. The price rise took a brake until August, triggered by the control of transporting dangerous goods during Beijing Olympic Games period. Until the end of Sept., nitric acid price had lowered to its Feb. level.

It is anticipated the industry in first half of 2009 will have to undergo downturn due to the dull season in January–March and its H2 performance would heavily rely on the recovery of global economy.

Table 5 Nitric acid price change in 2008

(unit: RMB/ton)

	Jan. –Feb.	Mar.	Apr. – May	June	July-Aug.	Aug.-Sept.
Price	1, 520-1,580	1,850	2,400-3,600	2,800-4,100	4,300	4,300-1,600

Chlorine and alkali industry

Caustic soda and PVC, major products of chlorine and alkali industry, saw their prices in 2008 set a record high till June and then fell by about 40 percent in the rest of the year.

The price ups and downs were due to natural disasters in southwestern China in earlier 2008 and the global financial crisis. The snow disaster and the earthquake had tightened market supply that pushed up prices of both caustic soda and PVC. The financial crisis, however, affected chlorine and alkali industry.

Data show that PVC output in Nov. 2008 came to 497,000 tons, down 38.7 percent from a year ago. Dragged down by Nov. figure, PVC output in Jan.–Nov. for the first time presented minus growth at –2.7 percent, boding PVC output for 2008 would also saw minus year-on-year growth.

Caustic soda output in Nov. dropped by 21.8 percent on year to 1.233 million tons and the output during the January–November period edged up 3.7 percent to 17.14 million tons.

The annual production capacity to be added for caustic soda in 2009 is scheduled to reach 4.945 million tons, and that for PVC to hit 3.33 million tons. But some new capacity may likely be on the shelf because of the current bleak economy.

Besides economic factor, development of chlorine and alkali industry in 2009 will also depend on government's attitude towards the energy-guzzling chlorine and alkali industry that is now not the investment targets in China's stimulus plan.

Soda industry

Soda industry in 2008 set a record high in output, exports, production costs and market price. The industry, however, also saw historical low in market price.

The violent fluctuation of soda industry was regarded as an epitome of China's economic trend in 2008. The development of soda industry in 2009 will largely rely on China's economic situation.

Soda industry is expected to have a hard time in the first half of 2009 with both exports and domestic demands keeping low level due to economic downturn.

China's soda output by the end of October 2008 hit historical high of 16.18 million tons, up 12.9 percent year on year. It actually increased pressure on the oversupply amid the weary demand on the market, in particular in the period from the fourth quarter of 2008 to the beginning of 2009. The industry started to cut its output in November. Experts suggested keeping production reduction until the recovery of market demand.

China's soda exports in January-October 2008 jumped 29.7 percent on year to 1.824 million tons, partly because United States, the largest soda exporter, reduced its export to Asian countries, thus providing an opportunity for China to enter the Asian market.

Production costs recorded high in 2008 with industrial salt, coal and fuels surging by a large margin. The historical high costs even pushed up soda price to the peak of 2,350-2,

500 yuan/ton, helping the industry earn more profit.

Soda industry saw an apparent downward curve in November, in which the selling price, at 880 yuan/ton, actually touched the bottom if taking inflation into account.

China's chemical fertilizer industry

China's chemical fertilizer industry is expected to develop steadily in 2009, with favorable government policy, stable raw material prices and rational fertilizer application.

Chemical fertilizer producers would have to launch the price war to digest the inventory in 2009 as in 2008 a huge amount of high-price inventory were stored due to frequent governmental policy adjustment and the fluctuation of domestic raw material prices as well as the global financial crisis.

The industry expects Chinese government to make flexible policies in accordance with actual industrial conditions to help stabilize the prices of urea, monoammonium phosphate and ammonium phosphate.

Fertilizer prices will be stabilized in 2009 with slim possibility for big swings of raw material prices. Compound or mixed fertilizer will become more popular, creating more opportunities for large-scale fertilizer producers.

The amount of chemical fertilizer applied to farming this year will be rational with the stability of prices and the rise of governmental grain purchase prices.

Chinese government had adjusted chemical fertilizer export policy for seven times in 2008 alone via introducing special tariffs and benchmark prices to secure home supply.

Although the central government eased control on the export of chemical fertilizer starting from December 1, 2008 allowing 10 percent of tariff rate in slack season in accordance with relevant benchmark prices, China has missed the best opportunity to export its chemical fertilizer.

Statistics show that China produced an estimated 42.5 million tons of nitrogenous fertilizer, 12.2 million tons of phosphate fertilizer and 2.84 million tons of potassium fertilizer in 2008.

The prices of sulfur jumped to 800 US dollars/ton in 2008 from 50 dollars/ton in early 2007, and dived to 50 dollars/ton again with the price plunges.

According to China Phosphate Fertilizer Industry Association, the fluctuation of sulfur prices has caused Chinese phosphate fertilizer producers to lose more than 15 billion yuan. At present, Chinese producers of monoammonium phosphate and ammonium phosphate have still stockpiled about 3 million tons and 1.5 million tons of fertilizer and high-cost sulfur stockpiles.

Polyolefin industry

China's petrochemical products, which ended the booming period from 2004 to June

2008, are expected to hit the bottom in 2009-2011 and recover after 2012, Gao Chunyu with Sinopec's Economics and Development Research Institute forecasted.

The prices for polyethylene (PE) and polypropylene (PP) will be estimated at 7,000-9,000 yuan/ton and 6,500-8,000 yuan/ton in 2009, considering anticipated substantial new production in the world. Included are 12 million tons of ethylene, 8 million tons of PE, and 4. 7 million tons of PP.

The following table shows China's market demand for synthetic resin 2008-2009.

Table 6 China's demand for synthetic resin in 2008-2009

(mln tons)

Name	2008	2009	Change (percent)
Synthetic resin	39.13	40.15	2.6
PE	11.55	11.8	2.6
PP	10.2	10.5	2.9
PVC	9.7	10.1	4.1
PS	3.85	3.9	1.3
ABS	3.7	3.8	2.7

Statistics show that China's demand for PE and PP totaled 11.55 million tons and 10.2 million tons in 2008, down 0.3 percent and 1.1 percent from 2007, respectively due to cooling real estate, automobile, household appliance and other industries.

Currently, Sinopec and ethylene makers from Southeast Asia reported an operation rate of 80 percent and 60-70 percent respectively in an effort to reduce stockpiles, leaving substantial space for production increase. These ethylene enterprises are expected to crank up operating rate in case of lower stockpiles or price hikes, making price recovery unsustainable.

China produced 9.55 million tons of ethylene, 6.532 million tons of PE, and 6.75 million tons of PP in January-November 2008, with year on year growth of minus 0.5 percent, minus 0.3 percent and 1.2 percent, respectively.

China imported 4.004 million tons and 2.523 million tons of PE and PP during this period, down 3.7 percent and 10.5 percent from a year earlier. The import of HDPE and LLDPE stood at 2.053 million tons and 1.315 million tons, up 11.8 percent and down 13.7 percent, thanks to governmental restriction on the use of plastic bags.

China's apparent consumption of synthetic resin, PE and PP reached 34.98 million tons, 10. 476 million tons and 9.228 million tons, down 2.9 percent, 1.6 percent and 2.4 percent on year.

Coal chemical industry

China's methanol and DME market will remain at the adjustment stage in 2009 with no significant price fluctuations, and some major enterprises are expected to restore production in the second quarter of 2009, predicted Li Fenming, assistant chief engineer of China National Petroleum & Chemical Planning Institute.

Affected by the global financial crisis, most of China's coal chemical products have run into the price snowslide rarely seen in the history since the third quarter of 2008, and the methanol industry, in particular, was dramatically pushed from the age of profiteering to a freeze season and the whole coal chemical industry fell to the bottom of development cycle.

With the coming of the adjustment stage, large-scale methanol facilities with advanced technologies will firm up their advantages thanks to secured raw material supply and lower cost, and small units will get phased out faster, which is favorable to the technological upgrading of the Chinese methanol industry.

Methanol gasoline, MTO/MTP and DME will gain more opportunities in the coming days, which are fueled by substantial price gap between methanol-based fuels and fossil oil products.

Domestic demand for methanol gasoline is expected to experience significant growth in 2009, which will offset reduction in demand for traditional coal chemicals like formaldehyde and acetic acid.

China is expected to release the standard for M85 methanol gasoline and DME for town gas in the first half of 2009 with relevant approval procedures finished or winding up.

Additionally, national production capacity of DME amounted to near four million tons annually as of October-end 2008 with production capacity up 60 percent within 2008. Still, DME facilities maintain roughly 30 percent of operating rate.

Still, price plunges with many coal chemical products after Beijing Olympics forced many enterprises to shut down production facilities or cut production, leaving a number of sub-industries in losses.

Methanol prices fell below 1,800 yuan/ton in later October 2008 in East China from more than 4,000 yuan/ton in its peak and more than 70 percent methanol producer halted production or maintained in half production in mid November 2008.

■ Farm chemicals industry

The Ministry of Agriculture forecasted that Chinese demand for farm chemicals would be 313,600 tons in 2009, up 5 percent year on year. Included are 152,700 tons of pesticide, 80,000 tons of germicide and 77,100 tons of herbicide.

China Pesticide Industry Association (CPIA) estimated that China would utilize more than 450,000 tons of farm chemicals in 2009 in consideration of the supportive policy, higher crop prices at home and abroad and overseas supply shortage.

Statistics show that China produced 1.8~1.85 million tons of farm chemicals in 2008, setting a record high. Included were 1.737 million tons produced in January-November period of 2008. Industrial output value was estimated at more than 120 billion yuan and profit at 12 billion yuan.

Industrial output value at current prices totaled 113.5 billion yuan in the first 11 months of 2008, up 38.5 percent year on year. The farm chemicals sector generated 9 billion yuan

in profit from January to August of 2008, surging 155.6 percent from a year ago.

The following table shows China's farm chemical output in the first 11 months of 2008.

Table 7 China's farm chemical output in Jan.-Nov. 2008

(thousand tons)

Name	Output	Change	Share	Change
Pesticide	607	9.5	34.9	-1.1
Germicide	185	67	10.7	2.7
Herbcide	560	14.1	32.2	-0.7
Total	1,737	14.9		

Chinese agricultural chemical industry will maintain robust growth in both production and sales in 2009 with fundamental changes to take place in planting structure and agricultural technologies, according to Wang Luxian, honorary chairman of the board of CPIA.

China stopped production, sales and utilization of O,S-Dimethyl phosphoramidothioate and other four high efficiency pesticides in 2008. The sales prices of glyphosate dropped to 30,000 yuan/ton in November 2008 from 100,000 yuan/ton in early 2008 due to excessive production expansion.

The following table shows China's import, export and trade surplus of farm chemicals in the first ten months of 2008.

Table 8 China's import, export & trade surplus of farm chemicals in Jan.-Oct.

Name	Import (1,000 t)	Y-o-y percent Change	Export (1,000 t)	Y-o-y percent Change	Trade surplus (bn US dollars)	Y-o-y percent Change
Pesticide	7	10.1	123	7.5	400	38
Germicide	11	2.6	48	15	120	75.5
Herbicide	15	-11	238	10.6	1,030	107.4
Total	37	1	425	8.4	1,570	76.9

Synthetic rubber

Weakening demand will lead to the oversupply of synthetic rubber on domestic market in 2009, in particular after operation of newly added production capacity this year.

More production capacity of synthetic rubber is expected to add in China in 2009 and 2010. Included are 300,000 t/a of styrene-butadiene rubber production capacity in Sinopec Qilu Co., Ltd., 180,000 t/a solution styrene-butadiene rubber and SBS project in Dushanzi Petrochemical Co., Ltd, 90,000 t/a bromobutyl rubber and 45,000 t/a butyl rubber in Yanshan Petrochemical.

The newly added production capacity will lead to the oversupply of synthetic rubber on domestic market in consideration of weakening market consumption.

In view to the performance on synthetic rubber market by the end of 2008, synthetic rubber price is expected to continue floating at low level till the end of 2009 as the demand for synthetic rubber hasn't seen any positive change on domestic market and the

automobile sales down and tire export declines probably will go to worse condition.

The demand for synthetic rubber of downstream sectors including tire, shoe-making, auto parts manufacturing and transportation sharply declined, forcing a number of synthetic rubber enterprises to cut or suspend production.

According to statistics, synthetic rubber output dropped from 213,500 tons in July to 170, 000 tons in September, down 16.5 percent month on month and 5.7 percent year on year. The output in October came to 181,200 tons, down 5.8 percent on year.

Meanwhile, the import of synthetic rubber experienced decline since the second quarter of 2008 with the decreasing synthetic rubber price on the Chinese market. China imported 107,200 tons of synthetic rubber in August, 880,000 tons in September, and 700, 000 tons in October, down 14.2 percent, 18 percent and 20 percent from previous month, respectively. The total synthetic rubber import accumulated to 1.09 million tons in the first ten months of 2008, down six percent from a year earlier.

Rubber industry

The development of China's rubber industry may be much frustrated in 2009 with the sharp decline in demand and rubber export. Oversupply in domestic market will be the major problem bothering the entire industry.

The slight depreciation of RMB and the Chinese government's 4-trillion stimulus economic plan may reverse the situation of weak demand, but it has to take a long time to see the actual effect.

The development of China's rubber industry left an "L"-track in 2008. The performance of the industry was generally satisfactory in the first half of 2008, but dived suddenly in September when the global financial crisis occurred.

According to the statistics from the China Rubber Industry Association, in the first 11 months of 2008, the sales revenue growth of China's tire industry decreased by 16.8 percent from that of 2007, and the tire export only increased by 1.6 percent, while tire inventory surged by 49.1 percent. The economic benefits of tire enterprises dropped by 43.1 percent and only half of tire production facilities were still in operation.

China may launch natural gas pricing reform within year

Market experts forecast that China may in 2009 launch the natural gas pricing reform with a reference to the pattern of oil products pricing reform.

The forecast comes after CNPC, China's largest natural gas producer, submitted a proposal to Chinese government for natural gas pricing reform.

"Our proposal is being studied by competent department and the reform is aimed to unify the price of natural gas sold by Chinese oil firms in the future," said a CNPC source.

Lin Boqiang, expert from Xiamen University, insists that China should take advantage of low oil prices to reform natural gas pricing mechanism under which the gas price is currently charged relatively lower than other fuels.

China's natural gas is now in short supply, which is regarded as a result of lower prices, but some experts believe that it is not easy to launch gas pricing reform as natural gas is not a product requiring market-oriented pricing in WTO protocol and price hike may likely stir social dissatisfaction as more cities are using natural gas as daily towngas.

China 2008 natural gas output growth slower

China in 2008 yielded 79.3 billion cubic meters of natural gas, about 10 billion cubic meters more on year, reported CNPC-run China Petroleum Newspaper.

The figure suggests China's natural gas output for 2008 grow by 14.4 percent on year, slower than the 23.1 percent for 2007.

The newspaper earlier revealed that CNPC, China's largest natural gas producer, in 2008 produced 61.7 billion cubic meters of natural gas, up 13.7 percent on year.

Sinopec Group, China's second largest oil and gas producer, said its 2008 gas output was 8.1 billion cubic meters.

Chinese government is making efforts to lift proportion of natural gas consumption in its energy mix to 5. 3 percent before 2010, from 2.8 percent in 2005.

Chinese refineries turn to bitumen production

Many Chinese refineries are considering diverting production of fuel oil to bitumen, driven by increased consumption tax on fuel oil and anticipated bitumen consumption boom.

It's learnt that Guangzhou Petrochemical Company under Sinopec has decided to slash monthly production of fuel oil from 15,000 tons to less than 10,500 tons in 2009.

Meanwhile, the monthly production of bitumen will be adjusted up from 8,000-8,500 tons to 10,000-11,000 tons.

According to Sinopec Maoming Company, Sinopec Maoming Company will cut monthly production of fuel oil from 5,000-8,000 tons to less than 5,000 tons and crank up the monthly bitumen output from 25,000 tons to about 35,000 tons,

"Independent refineries in East China's Shandong Province have demonstrated obvious production shift from fuel oil to bitumen," said Liu Feng, an analyst with Shandong Zhuochaung Info Co., Ltd.

Many "teapot" refineries in South China also have plans to lower fuel oil production and turn to bitumen production in February, according to CBI (Shanghai) Co., Ltd.

China started to raise the consumption tax of fuel oil this month from 0.1 yuan/liter to 0.8 yuan/liter, which led to about 40 percent jump in processing cost of fuel oil.

Moreover, industry insiders anticipate booming bitumen consumption thanks to the construction of many

infrastructure projects under national four-trillion-yuan stimulus package.

Now, refiners could earn profit of bitumen roughly 1, 300 yuan/ton, much higher than that of fuel oil.

Liu predicted that bitumen prices probably rise in 2009 due to domestic demand expansion and less overseas supply. More refineries will join in the shift of production.

Source with Sinopec didn't rule out the possibility that Sinopec would adjust up the planned production of bitumen.

Usually, Sinopec's refineries are entitled to adjust the proportion of oil products and chemical products in their production in accordance with market demand after fulfilling the production plan decided by the parent company.

China's vintage oilfields report steady output rises despite reserve decline

China's largest oil base Daqing Oilfield has fulfilled its production target by stabilizing its crude oil output above 40 million tonnes the past year although its reserve has been on the decline.

The 2008 crude oil output stood at 40.2 million tonnes, which was the smallest in three years if compared to the 41.7 million tonnes in 2007 and 43.41 million tonnes in 2006.

Its 2008 natural gas output hit 2.76 billion cubic meters, up 8.241 percent from the 2.55 billion cubic meters in 2007.

The field, administered by the China National Petroleum, was discovered in 1959 and began to produce oil the next year and now accounts for nearly 25 percent of the country's total crude output.

Having kept its annual crude oil output at more than 50 million tonnes for 27 consecutive years, the oilfield in northeastern China had to scale back its production on dwindling reserve so as to sustain its development.

However, as the prices of crude oil fluctuated turbulently on global market last year, the company had hoped to maintain its output above 40 million tonnes to ease the shortage on home turf.

Under the 2006-2010 plan, the field will cut its crude output to 38 million tonnes by 2010 and 31 million tonnes by 2020.

Another vintage oilfield Shengli, developed 44 years ago on China's eastern coast, saw its 2008 crude oil output rise for 10 years in a row to 27.74 million tonnes, up 40,000 tonnes from 2007 level.

Run by the China Petrochemical, Shengli attributed its output expansion to continuous improvement in technical innovation. More than three million tonnes of crude oil output were generated by such innovations every year, the company said.

To meet its rising energy demand for economic development, China has counted on more advanced technologies when it came to the exploitation of vintage oilfields.

In a separate report released by PetroChina, the nation's leading oil producer, the country was forecast to produce 189 million tonnes of crude oil in 2008, a growth of 1.61 percent over the 186 million tonnes the previous year. The production would rank the nation fifth among all oil producing countries of the world.

Most DME facilities suspend production in China upon oil price slump

About 40.3 percent of dimethyl ether (DME) production units in China have suspended production and another 45.8 percent suspended half of production due to oil price slump, according to latest survey by China Petroleum and Chemical Industry Association.

Only 13.9 percent of the DME facilities maintain normal production.

DME has no obvious advantage over diesel oil or LPG under current price levels with its production cost staying about 3,000 yuan/ton.

The CIF prices of imported LPG for delivery in mid-December of 2008 in South China stood at 2,880 yuan/ton and domestic diesel oil prices dropped from near 7,000 yuan/ton to 4,500 yuan/ton. One and half tons of DEM equals to one ton of diesel oil in terms of heat value.

Now, more than 90 percent of Chinese DME consumption is for civil purposes.

China produced 8.23 million tons of DME in 2008 with more than 80 percent of DME production facilities relying on methanol bought from others.

Chinese DME industry witnessed robust growth in past years with 2.2 million tons of production capacity added in 2007.

PetroChina, Sinopec jointly obtain exploration right in offshore Peru

PetroChina (PTR.NYSE; 0857.HK; 601857.SH) and Sinopec (SNP.NYSE; 0386.HK; 600028.SH) have jointly obtained exploration right in Peru offshore blocks owned by Petro-Tech Peruana with bidding price of 2.5 billion US dollars, according to media report.

It is one part of China's efforts in pursuing overseas assets as domestic oil production stagnates. The jointly bidding also indicates Chinese oil firms prefer cooperation to competition in oversea acquisition.

Petro-Tech, possessing equities in five-million-acre waters in the offshore of Peru, currently yields 22,000 barrels of oil equivalents per day. In June 2008 it announced discovery of Z-2B block, close to its San Pedro gasfield found in 2005. These two gasfields are estimated to have proven reserves of 1,200 billion cubic feet.

Headquartered at Huston and a subsidiary of Offshore International Group, Petro-Tech discovered 1.13 billion barrels of reserves from its Z-6 block in April 2008 and plans to put the block into operation in 2010.

Sinopec, CNOOC join hands in bidding for Talisman assets

China Petroleum Corporation, known as Sinopec, has joined hands with CNOOC Ltd. (CEO.NYSE; 0883.HK) in the competitive bidding for Talisman Energy Inc. natural gas assets in Trinidad and Tobago and the bidding now has entered the later stage, a source quoted by Dow Jones as saying.

The source that refused to be named said the deal is worth no more than 400 million US dollars.

No comments from aforesaid companies are available.

Chinese oil companies are seeking opportunities to purchase upstream assets overseas in a bid to feed domestic supply.

CNOOC and Sinopec have also jointly bid 1.8 billion US dollars for a 20 percent stake in a deepwater Angolan oil block put on sale by U.S. producer Marathon Oil Co., said the report.

Talisman website said the Trinidad and Tobago assets in 2007 yielded 6,439 barrels of crude oil per day, accounting for two percent of the company's output from its international business.

Sinopec cuts refiners' cruderun as demand ebbs

Sinopec Guangzhou Refinery will cut cruderun for January by eight percent from a month earlier, reported Guangzhou Daily, as the demand for oil products in energy-guzzling Guangdong province wanes owing to economic downturn.

The report quoted a source as saying that Guangzhou refinery in Jan. may process 207,200 barrels of crude, eight percent less than the volume of 226,100 barrels for Dec.

Upon waning demand, Maoming Refinery, Sinopec's largest refinery, also plans to cut cruderun for January by 3-6 percent month on month, revealed the source.

Sinopec Guangzhou Refinery plans to put its 160,000-barrel-per-day crude oil processing facilities into 45-day maintenance in end-March, a move to lessen supply pressure amid weakening demand, according to the report.

Sinopec Corp. to build LNG terminal in Jiaozhou, Shandong province

Sinopec Corp. plans to build a LNG terminal in Jiaozhou, a coastal city in eastern Shandong province, via its natural gas branch.

Sinopec plans to invest about 10 billion yuan in the project without elaborating other details.

According to earlier reports, the first phase of the Jiaozhou LNG terminal will have two 160,000-cu.m storage tanks with total receiving capacity of three million tons/year and the capacity will be expanded to six million tons during the second phase

The terminal, scheduled to come on stream in 2012, will by then annually supply about four billion cubic meters of natural gas to Shandong province that in 2007 consumed 2.4 billion cubic meters.

Sinopec Group puts 3.8-mln cu.m commercial oil reserves base in Zhejiang into operation

Sinopec Group's 3.8-mln cu.m Lanshan commercial oil reserves base in east China's Zhejiang has been injected with oil, reported the company.

The report said two of 100,000-cu.m tanks have been injected with oil and till Dec. 30 the tanks received 4.7 meters in height of oil, estimated to be more than 40, 000 tons.

Also in Zhejiang, Sinopec is building Baishawan commercial oil reserves base of two million cubic meters of total storage capacity, of which 600,000 cubic meters of capacity has met operational requirement.

Adjacent to state oil strategic reserves base in Zhenhai, both of foresaid reserves are expected to complement to China's state oil reserves during emergency time.

Sources revealed that Sinopec mulls building another two commercial reserves with one in Huangdao of Shandong, close to the state oil reserves base there, and another in Zhanjiang of Guangdong province.

Xinjiang becomes China's second largest crude oil producer

The western Xinjiang Uygur Autonomous Region became China's second largest oil production base in 2008 with an output of 27.4 million tonnes, up 1 million tonnes from 2007.

According to report of Chinanews.com, Xinjiang overtook Shangdong Province, the previous second largest.

Xinjiang ranked third from 1997 to 2007. Daqing in the northern Heilongjiang Province leads with annual output of 40.2 million tonnes.

Output of oil in Xinjiang is expected to hit 28 million tonnes in 2009, a new record.

Oil and gas are abundant in Xinjiang. Reserves are estimated at 20.9 billion tonnes of oil and 10.8 trillion cubic meters of gas.

Proven reserves of oil and gas reached 3.9 billion tonnes and 1.4 trillion cubic meters.

In 1990, Xinjiang produced only 7 million tonnes of oil but recorded annual growth of more than 1 million tonnes thereafter, accounting for 40 percent of the total growth of 2.7 million tonnes nationwide each year. It offset decreased production from the eastern oilfields.

Oilfields in Xinjiang have been stepping up production in the face of rising imports and their output has been rising.

Xinjiang Oilfield Co. took fourth place in terms of oil production in 2008, and Tarim Oilfield Co. and Sinopec's North Branch were listed as the seventh and the ninth, respectively.

CNPC aims to lift annual oil and gas output by 5 pct

Despite the global economic downturn, CNPC, China's largest oil producer, said on Jan. 12 it aims to lift its annual oil and gas output by five percent and maintain an increase in its total investment in 2009 as a part of effort to strengthen its foothold on domestic market.

CNPC in 2008 is anticipated to realize the aforesaid aim as its oil output may edge up 1.6 percent and gas output jump 14 percent on year.

CNPC, parent of PetroChina (PTR.NYSE; 0857.HK; 601857.SH), also said the global financial crisis provides an opportunity for low-cost expansion and the market potential becomes large for the company as short supply on domestic market will long persist.

CNPC 08' overseas gas output jumps 24.07 pct to 6.7 bln cu.m

CNPC's oversea gas output for 2008 jumped 24.07 percent on year to hit new high of 6.7 billion cubic meters, said CNPC on Jan.8.

The company also said its crude output overseas for 2008 also gained a new high to 60.23 million tons, though just edging up 3.2 percent on year.

The growth comes as most of CNPC's oversea projects, including those in Kazakhstan, Indonesia, Ecuador, Peru and Venezuela, yielded oil and gas more than the original target.

According to CNPC, its exploration and development projects in Chad are heading towards target of forming two million tons of production capacity and new discoveries were found in Kazakhstan PK project, Sudan-4, Sudan-6, Omen-5 blocks and Indonesian Salawati block.

The aging Sudan-1/2/4 blocks still obtain an annual oil output of more than 11 million tons and Sudan-3/7 block yielded more than 11 million tons in 2008, said the company. CNPC is parent of PetroChina (PTR.NYSE; 0857.HK; 601857.SH).

PetroChina targets to sell 10 bln cu.m. gas via CNG stations by 2015

PetroChina plans to build more than 2,000 compressed natural gas (CNG) stations by 2015, which are estimated to sell at least 10 billion cubic meters least a year, announced CNPC in its website.

PetroChina Kunlun Gas Ltd. is currently the largest CNG operator in China with 139 CNG stations under operation till end-2008 as announced by the company earlier this week. Kunlun said it would build more than 700 CNG stations by 2010.

CNPC also stated in the announcement that China's natural gas output in 2008 is close to 80 billion cubic meters, of which CNPC accounts for more than 77 percent.

PetroChina starts exploration of al-Ahdab oilfield in Iraq

PetroChina started to explore the al-Ahdab oilfield in Iraq last week in accordance with the three-billion-

US-dollar contract, according to China's Ministry of Commerce (MOC).

PetroChina announced to sign a 23-year contract with Iraq on developing the al-Ahdab oilfield in November last year.

The new move indicates that the cooperation has entered into material operation phase.

The contract required PetroChina to adopt advanced and practical technology for oilfield exploration and build up a production capacity of 25,000 barrels per day in three years, and 115,000 barrels per day in six years.

The oilfield is located to the south of Baghdad, capital of Iraq, covering an area of about 200 square kilometers.

PetroChina's southwest oilfield fulfils natural gas production target

The Southwest oil and gas field, a subsidiary of PetroChina which is based in southwest China's Sichuan Province, turned out a total of 14.63 billion cubic meters of natural gas by December 25 of 2008, fulfilling the yearly target ahead of time schedule.

According to OilNews, due to the impact of the rare snow disaster early 2008, and the Sichuan Wenchuan earthquake and global financial crisis, the old oil and gas field's composite decline rate has been brought up to 17%.

PetroChina 08' crude output in South America up 19.5 pct on year

PetroChina had yielded 10.56 million tons of crude oil in South America in 2008, posting an increase of 19.5 percent or 2.06 million tons over 2007, reported CNPC-run China Petroleum Newspaper.

PetroChina's business in South America, mainly in Venezuela, has made significant progress in 2008. PetroChina and Venezuelan state-owned Petroleo De Venezuela established a joint venture to annually produce 20 million tons of heavy oil in Venezuela.

CNOOC starts constructing 40, 000-cu.m oil products storage tank in Guangdong

CNOOC, parent of CNOOC Ltd., has kicked off construction of a 40,000-cu.m oil products storage tank in Shaoguan, a coastal city in energy-guzzling Guangdong province, reported a local media.

As planned, the project is to yield annual sales of over 2 billion yuan on distribution of 300,000 tons of oil products three years later, fed mainly by the 12-mln-t/y Huizhou Refinery run by CNOOC.

CNOOC, China's largest offshore explorer, takes up a tiny portion in China's oil products distribution market. Market experts believe the building of oil products tanks in Guangdong would strengthen CNOOC's presence there. Investment in the tank is 80 million yuan, according to the report.

Chinese enterprises continue piloting low-profit CTL projects

Chinese enterprises are keeping on trial run of coal-to-liquid (CTL) fuel projects despite of little profit.

According to Chen Liang, researcher of Ping An Securities, the development of CTL projects is for the sake of strategic technological reserves.

"We are not only be aware of the difficulties and challenges amid the global financial crisis, but also pay attention to the cherish opportunities brought by the development of substitute and new energy," said Ren Runhou, President of Lu'an Group, one of China's five coal giants.

Lu'an Group has succeeded in piloting CTL projects with an annual production capacity of 160,000 tons.

Included is a 10,000-ton fixed-bed reactor of cobalt-based catalysts.

Shenhua Coal Liquefaction Company, a subsidiary of China's No. 1coal producer Shenhua Group, has streamlined its production process of direct coal liquefaction projects with an annual output of one million tons.

Yitai Group, also a coal giant, has made progress in its CTL pilot project and it is preparing for trial run of the project in the near future.

Yankuang Group, the largest coal company in Eastern China, had got an environmental impact assessment from China's environmental protection authority for its indirect coal liquefaction project based in Yulin, Shanxi Province at the end of 2008. Such an assessment is a must for the launch of a new project.

According to a senior advisor to the Energy Research Institute under the National Development and Reform Commission,CTL investment return is mainly decided by the international oil prices, and a CTL project is generally considered to be financially viable when crude oil price is above 40 US dollars a barrel.

A coal expert explained whether a CTL investment project is profitable or not depends on enterprise's actual operation.