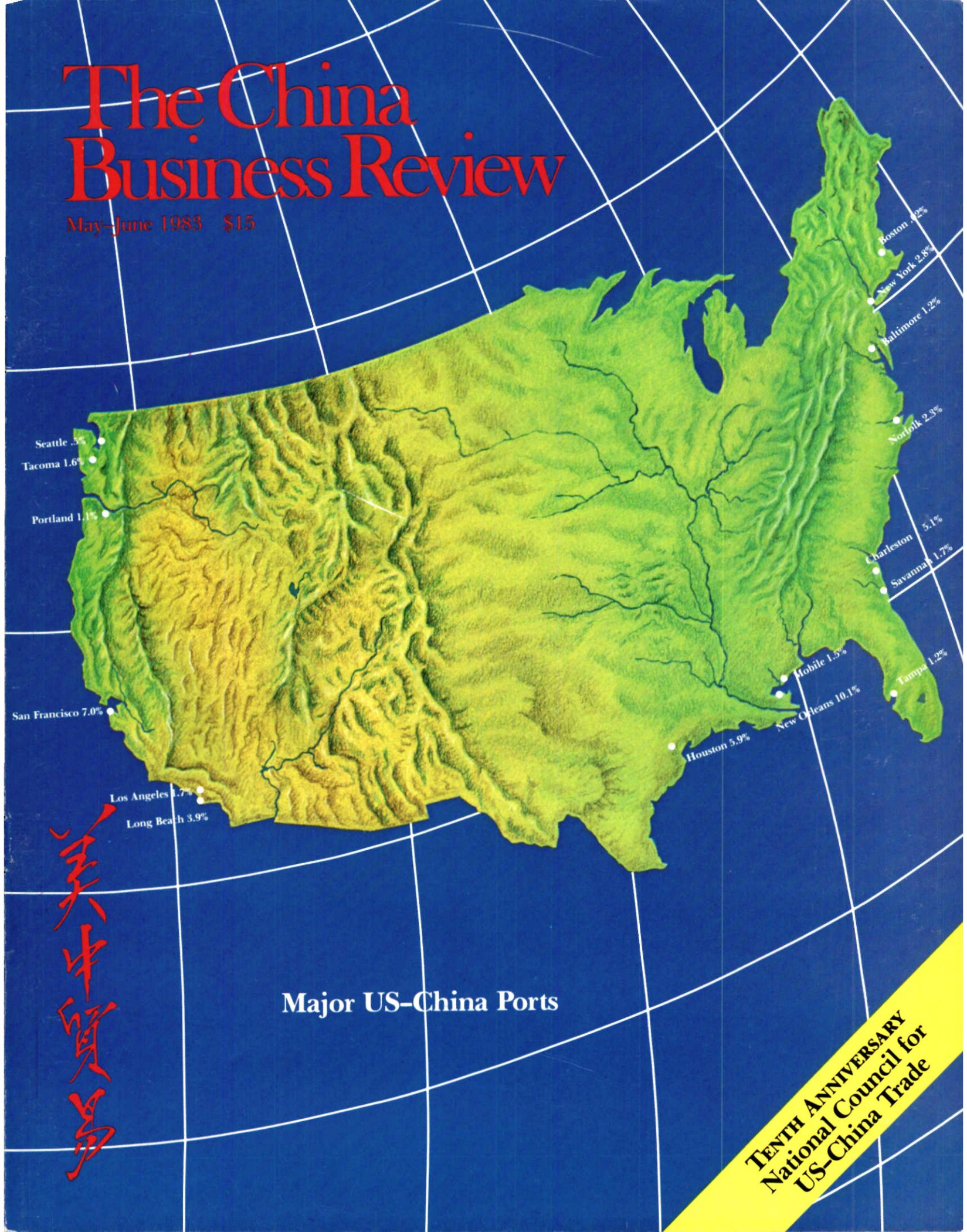
The China Business Review

May–June 1983 $15

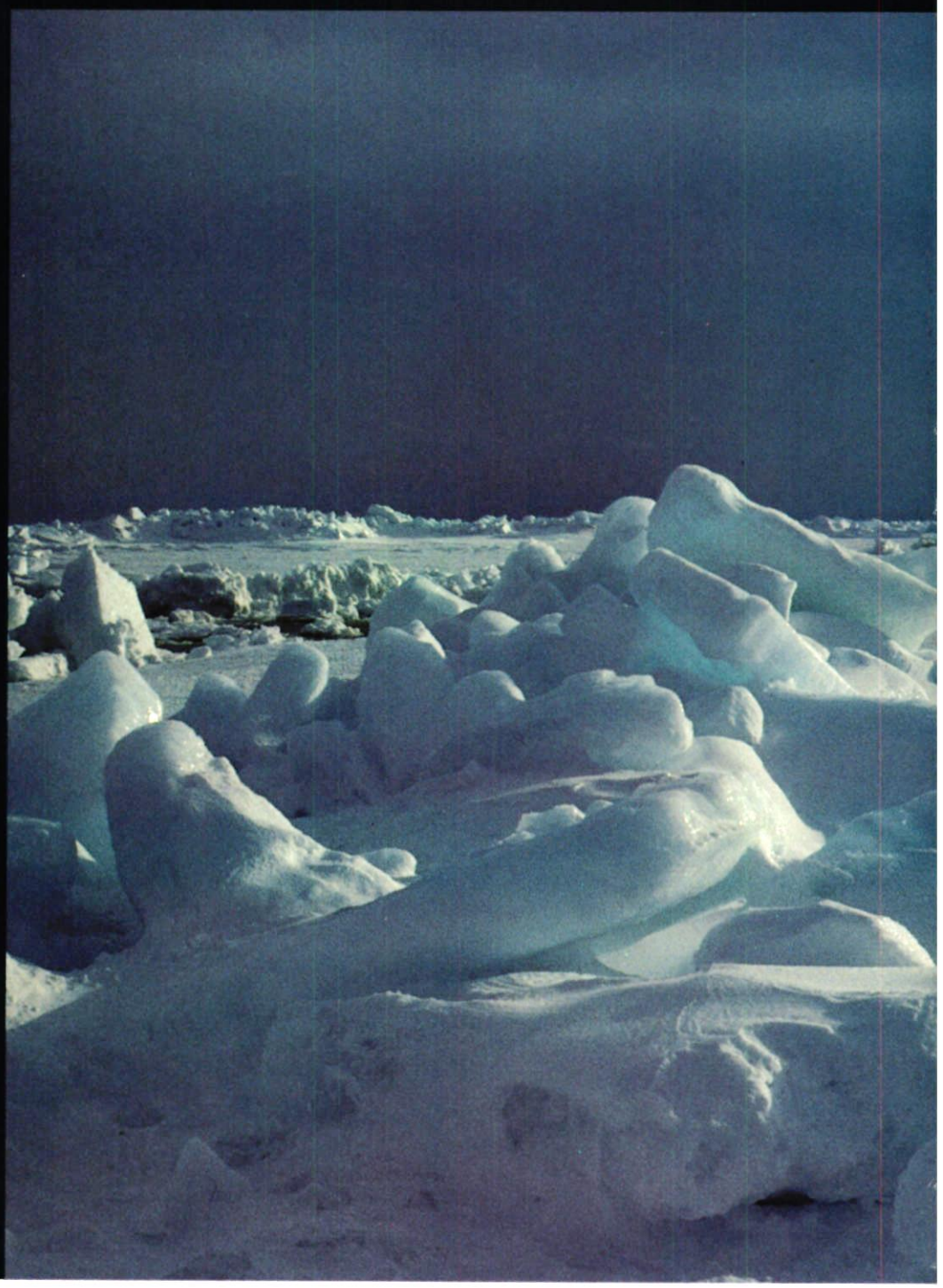


美中貿易

Major US–China Ports

Tenth Anniversary National Council for US–China Trade

Inspecting a map of the Beaufort Sea are, left to right, Diamond Shamrock's Vice Chairman Avery Rush, President Al Tomlinson, and Bill Bricker, Chairman and CEO.



"The conventional wisdom said, 'Global oil glut... trim your sails.' Diamond Shamrock responded with $161 million for five offshore Alaska leases."

— W. H. Bricker

With the price of oil down, why did Diamond Shamrock make the largest exploration commitment of its history?

1. Diamond Shamrock believes there is oil in the Harrison Bay structure under the Beaufort Sea. If oil is found, we believe it could be a reservoir so huge it would increase our domestic reserves many times over . . . at a remarkably low cost per barrel. Not incidentally, that judgment is shared by our partners and the geological community.

2. We see a bright future for oil. In the U.S. alone, demand for energy is expected to increase 15% by 1990 . . . and only companies that explore for significant new reserves today will be ready to meet that demand.

3. The timing was right. Diamond Shamrock had the resourcefulness . . . and the financial resources . . . to seize the opportunity. We have found that, from time to time, the unconventional action can generate the uncommon profit.

Write Director of Communications, Suite 3255, for the booklet, "The Beaufort Sea Story." And for all the facts on Diamond Shamrock. Entrepreneurial. Big enough to make an impact. And, when genuine opportunity knocks, pretty darned resourceful.

Diamond Shamrock
The resourceful company.

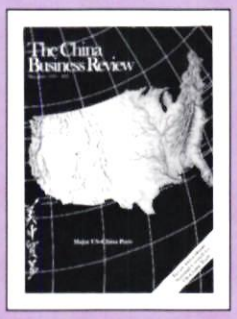
Diamond Shamrock Corporation,
Dallas, Texas 75201

The China Business Review

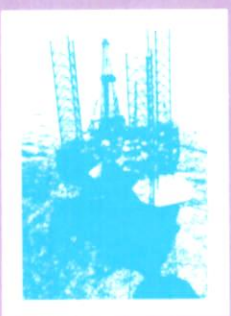
The magazine of the National Council for US–China Trade

May–June 1983 Volume 10, Number 3

Cover: This special ten-year anniversary issue highlights the landmark political and trade events of the past decade. **Page 4 and 6.** *Front and back cover by John Yanson.*



Oil: As one executive put it, "The key point is to find oil." So far the success ratio achieved by the early offshore wildcats has been impressive. **Page 18.**



TEN-YEAR ANNIVERSARY

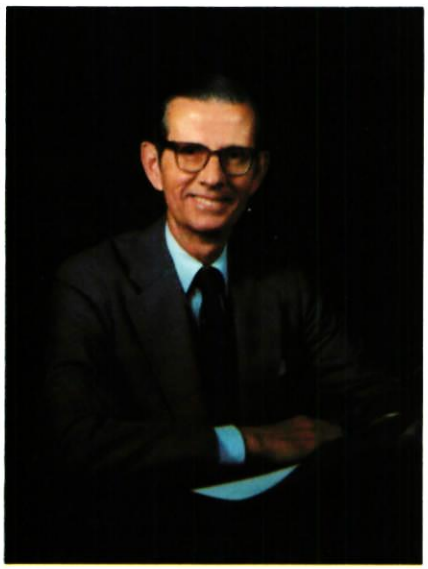
庆祝十周年

LETTER TO MEMBERS

Trade relations between the United States and the People's Republic of China have progressed at a pace and in directions few could have anticipated 10 years ago. Not only has trade itself increased from just a few hundred million dollars to well over five billion dollars, but our economic relations with China have been accompanied by a remarkable transformation in China's economic system. When one surveys the breadth of activities now underway, from US–China cooperation in energy and mining to joint manufacturing, it is hard to believe that just 10 years ago China did not accept foreign loans or direct foreign investment, and had not yet opened its doors to export processing.

The inaugural conference of the National Council for US–China Trade, held on May 31, 1973, marked a turning point in this remarkable chain of events. The occasion took place in Washington's Shoreham Hotel, and received the full support of the White House, Commerce, and State departments, the recently established Chinese Liaison Office in Washington, and the active participation of America's leading corporations. From the start, this broad-based support assured the Council of strong official encouragement, and above all, enthusiastic cooperation from every segment of the American business community.

On the occasion of the Council's tenth anniversary, it is therefore fitting that we acknowledge our special debt to those who helped inaugurate our commercial relations with China: former President



National Council President Christopher H. Phillips

Richard M. Nixon, Vice-Foreign Minister Han Xu, former deputy chief of the Chinese Liaison Office; Chairman Wang Yaoting of the China Council for the Promotion of International Trade, which became the Council's official counterpart agency in November 1973, and the Council's first board of directors. Our chairman, Donald C. Burnham, chairman of Westinghouse Electric, led the first delegation of American business leaders to China in 24 years on the occasion of the board's November 1973 visit at the invitation of the CCPIT. The Council's two vice-chairmen were William A. Hewitt, then chairman of Deere and Company, and David Rockefeller, of Chase Manhattan Bank. Gabriel Hauge, the late chairman of the Manufacturers Hanover Trust Company, served as secretary-treasurer. Walter S. Surrey, of Surrey & Morse, our current chairman, served as our counsel.

For both countries the first decade of trade was one of feeling our way, of establishing contacts between state and commercial institutions on both sides, and of normalizing political and economic relations. Many barriers were overcome in these years.

In retrospect, it is surprising that US–China trade could have increased from $4.9 million in 1971, to $5.2 billion by 1982, in the face of the many obstacles which existed. When the embargo on trade with China was officially lifted on June 10, 1971, the establishment of diplomatic relations was still eight years away. Most-Favored-Nation tariff treatment was not accorded Chinese imports until February 1, 1980, when the US–China Trade Agreement became law. Moreover, the financing of two-way trade was still impeded by the frozen assets issue and consequent lack of any direct banking relations, and would be until January 1978. Finally, the requisite laws and regulations needed to maintain a stable business relationship were almost totally lacking on the Chinese side; today, of course, China has promulgated more than 30 major pieces of legislation governing joint equity ventures, offshore oil exploration, and taxation.

To facilitate this historic process, the Council worked to remove the mystery and misinformation about China's commercial practices by publishing in-depth reports on virtually every aspect of China's foreign trade. The Council launched the bimonthly *China Business Review* in January 1974, and the equally successful monthly *China*

Market Intelligence in May 1981. Meanwhile, our library quickly expanded to become one of the world's most extensive collections on the China trade.

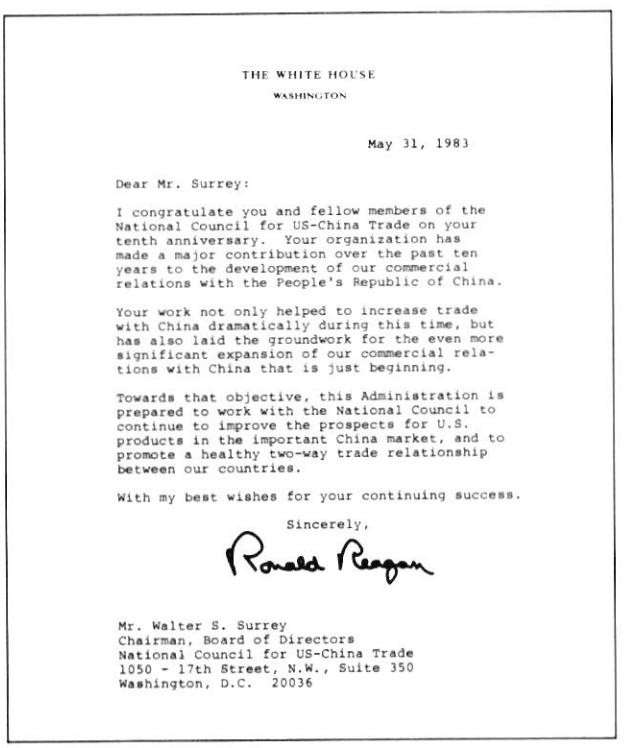
Member firms have benefitted from new Council services at every juncture in China's evolving trade relations. The creation of the Business Advisory Services department last year increased the Council's expertise in the critical areas of joint ventures, coproduction, and countertrade, as well as the special problem areas associated with straight buying and selling. And at the highest levels of both governments the Council has worked to overcome the export controls problem, as well as the disincentives to investment in China experienced by American companies.

On the trade front, US exports to China initially exceeded our imports by wide margins. Our surpluses reached $704 million in 1974, $1.1 billion in 1979, and a record $2.7 billion in 1980. Throughout this period, however, China's exports to the US kept up a steady 50–60 percent annual growth rate, which eventually reduced our surpluses to $1.7 billion in 1981, and to just $621 million last year. When one takes into account China's net dollar earnings from tourism, shipping services, and insurance, it is probable that an overall balance in our trade with China has already been achieved.

I am confident that in the next decade we will see a continuation of the rapid growth and transformation that has characterized our trade with China thus far. In his recent Washington visit, Finance Minister Wang Bingqian underscored China's commitment to the expansion of bilateral trade, and assured US firms of his country's intention to carry out even more initiatives in the future. He referred to the ongoing reforms requiring Chinese enterprises to behave more like for-profit Western enterprises, a development that bears close watching by US firms already established in China, and to the rapidly expanding participation by US oil companies in China's search for offshore oil.

Looking toward the future, one cannot escape the conclusion that China's need for agricultural products, industrial supplies, and Western technology, combined with the country's strong balance-of-payments position, will continue to make foreign trade the fastest growing sector of the Chinese economy.

Barriers to trade nevertheless still exist—export controls, inadequate export financing, protectionism, as well as the disincentives to trade and investment on the Chinese side. The list is shorter than it was a decade ago, but as our economic relations develop, the removal of obstacles becomes more important and more urgent. The Council will continue its efforts to remove these barriers. We will also work to improve our information-gathering and dissemination services to ensure that members receive the detailed, up-to-date market intelligence they require. And we will place particular emphasis on filling the need for more sophisticated information and advice on how to operate within an increasingly complex Chinese economic system.



THE WHITE HOUSE
WASHINGTON

May 31, 1983

Dear Mr. Surrey:

I congratulate you and fellow members of the National Council for US-China Trade on your tenth anniversary. Your organization has made a major contribution over the past ten years to the development of our commercial relations with the People's Republic of China.

Your work not only helped to increase trade with China dramatically during this time, but has also laid the groundwork for the even more significant expansion of our commercial relations with China that is just beginning.

Towards that objective, this Administration is prepared to work with the National Council to continue to improve the prospects for U.S. products in the important China market, and to promote a healthy two-way trade relationship between our countries.

With my best wishes for your continuing success.

Sincerely,

Ronald Reagan

Mr. Walter S. Surrey
Chairman, Board of Directors
National Council for US-China Trade
1050 - 17th Street, N.W., Suite 350
Washington, D.C. 20036

On behalf of The China Council for the Promotion of International Trade, I would like to extend our warmest congratulations to The National Council for US–China Trade on the occasion of its tenth anniversary.

The National Council for US–China Trade is our close partner in economic and trade exchange between China and the US private sector. Since its founding in 1973, the Council has hosted many Chinese delegations in the US and also organized many American delegations to visit China, playing an active role in enhancing the friendship and mutual understanding between our two peoples, and in promoting the economic and trade relations between our two countries. We greatly cherish the close cooperation and good relationship between our two organizations, and hope that both will make joint efforts to contribute more to the further development of Sino–American economic and trade relations.

Looking ahead we see broad prospects for China–US trade. So long as both sides abide by the Joint Communique's principles in the spirit of equality, mutual benefit, and mutual exchange of needed goods, China–US trade will make still greater progress.

王耀庭

Wang Yaoting
Chairman
CCPIT

COUNCIL HIGHLIGHTS

1973 May 31, 1973 marks the inaugural meeting of the National Council for US–China Trade. Christopher H. Phillips, deputy representative to the United Nations from 1969 to 1973, becomes Council president. In November the Council's board visits Beijing for the first discussions between American business leaders and Chinese officials in 24 years. PRC leaders designate the China Council for the Promotion of International Trade as the Council's counterpart organization.

China establishes a Liaison Office in Washington, DC. Huang Zhen, the PRC's former minister of culture and deputy of the Communist Party's Propaganda Department, is named chief of mission.

The Council establishes headquarters in Washington, DC to monitor legislative activities affecting China trade, work with the PRC Liaison Office, and serve as an information source. Member services focus on business advisory consultations, translation services, publications, and research on trade and political matters.

Chinese officials invite the Council to send a fulltime representative to the Guangzhou trade fair.

1974 The first issue of *The China Business Review* appears in January. In his introductory letter, President Phillips explains that the magazine's objective is to provide importers and exporters with "features of immediate practicality, broad articles on China's economy, and trade trends having bearing on the future of China's foreign trade . . ."

Secretary of State Henry Kissinger delivers the keynote address at the Council's first annual meeting on June 3, and reaffirms the administration's commitment to fostering bilateral relations with China. In September, Council members brief the new chief of the US Liaison Office in Beijing, George Bush.

The Council sponsors the first major US tours made by members of the PRC's Liaison Office in Washington, DC. Commercial officers meet executives from 41 member firms during three cross-country trips in August and September.

Member firm China Consultants International begins publishing *The American Industrial Report* in cooperation with the National Council.

The Importers Steering Committee is formed to help increase imports from the PRC.

National Council archives

Council officers meet with officials of the PRC's Liaison Office in Washington, DC, 1974. Pictured in front are Han Xu, acting chief of the Liaison Office (center), and Commercial Counselor Zhang Jianhua.

1975 Visits by the first major trade delegations from China, under Council auspices, spark new interest in trade with China and concern over legislative impediments to doing business.

In February the Council hosts a delegation from the China National Textiles Import and Export Corporation, here to investigate marketing opportunities with member firms. The textiles subcommittee of the Importers' Committee stages a major presentation in China to introduce the US textiles market to China.

The Trade Act of 1974, the United States' first major piece of trade legislation in a dozen years, takes effect January 3, and opens the way for the government to grant China Most-Favored-Nation status. President Phillips testifies numerous times on MFN, and on the need to resolve the frozen claims and assets problem as well as pass a bilateral trade agreement with China.

The Council sponsors a day-long seminar in cooperation with its New York members, and another in cooperation with the Port of Seattle, on doing business with China.

1976 The Council this year places special emphasis on identifying key industrial sectors with China business potential, and on facilitating members' increased travel to the PRC.

In March it announces plans to form export-related committees to concentrate on 18 industrial sectors. The committees soon become the principal channels for market research, industry exchanges and exhibitions, and for business promotion in those sectors.

Also in March the Council opens a Hong Kong office, headed by John T. Kamm, to facilitate travel and business arrangements for the increasing number of members going to China. The first Midwest representative, Thomas H. Miner, is appointed in July, with responsibility for arranging conferences and trade seminars, handling Chinese delegations in the Chicago area, and consulting with members in the Midwest. Arne J. deKeijzer handles similar responsibilities as the Council's New York representative.

The Council sponsors a China Agricultural Conference in St. Louis to focus on the sector that had already generated $1.4 billion in US sales. Agriculture Committee Chairman Earl Morgan of FMC Corporation leads a delegation of agrichemicals experts to China in November—the Council's first export mission to the PRC. A Council-sponsored Petroleum Confer-

ence is attended by more than 200 petroleum equipment manufacturers and related firms.

1977 Council delegations open several important business areas between the Chinese and member firms. In June the first American food-processing and packaging delegation visits China under Council auspices. The July visit of the Mining Industry Committee marks the opening of technical exchanges with China in this field. A Chinese petroleum equipment delegation makes its first visit to the US, and in the fall the Council's Petroleum Equipment Committee sends its first delegation to China.

In April the Importers' Steering Committee visits China to discuss US importing standards and regulations. SINOCHEM, the China National Chemicals Import and Export Corporation, agrees in principle to test and label pharmaceuticals according to US standards.

Discussions initiated by the Council lead to a landmark settlement of the first joint conciliation case between the US and the PRC. Terms were worked out by the CCPIT's Foreign Trade Arbitration Commission and the American Arbitration Association. The Council's general counsel, Walter Sterling Surrey, acts as conciliator for the AAA.

Three conferences for member firms describe sales prospects in petroleum, agriculture, and mining equipment.

1978 China tells Department of Agriculture officials that it will begin taking about 60 percent of its grain imports from the US. China signs its first letters of intent for joint equity ventures with US firms, and in an unprecedented move asks the United Nations Development Fund for $100 million in foreign assistance. Coca-Cola signs a distribution deal that comes to symbolize America's new presence in China.

The US government gives the go-ahead on the sale of an advanced telecommunications system to China. The Council holds a conference for members on selling technology and licensing to China.

The Council spins off its translation department into an independent company, CHINATRANS. Also it forms a Department of Delegations to coordinate trade missions to and from China, which increase steadily as the US moves toward normalization of relations in December.

National Council archives

President Phillips discusses China's new joint venture law with Rong Yiren, head of the China International Trust and Investment Corporation, during his 1979 trip.

1979 January 1 marks the official beginning of normalized relations between the US and PRC. Vice-Premier Deng Xiaoping arrives in Washington on January 29. The Council sponsors, and President Carter hosts, an evening of entertainment at the Kennedy Center, following a state dinner at the White House. Some 800 representatives of Council firms attend the celebration.

Chai Zemin, formerly chief of the Liaison Office in Washington, DC, is appointed ambassador to Washington in March. Leonard Woodcock is sworn in as the American ambassador to China.

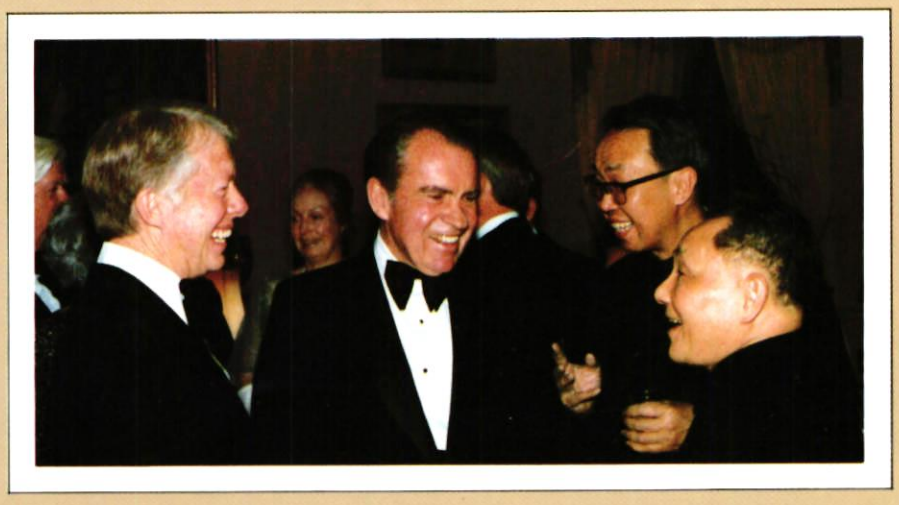
Council members are invited to a high-level State Department briefing on the new trade relationship. Topics include US–Taiwan relations, export controls, Most-Favored-Nation status, and financing. While visiting Beijing, Vice-President Walter Mondale pledges to extend up to $2 billion in Exim Bank credits to China.

The Council's board of directors delegation to China meets with Deng Xiaoping in June, and discusses growth of bilateral trade with Minister of Foreign Trade Li Qiang.

In March a Chinese Petroleum delegation to the US meets with the Atlantic Richfield Corporation (Arco), and signs the first agreement with a US firm for an offshore seismic survey.

The Council also hosts a State Economic Commission delegation led by Vice-Chairman Yuan Baohua, here to investigate US enterprise management. Numerous member firms host the group during its month-long stay.

Phillips testifies on the Hill to urge passage of the US–China Trade Agreement and emphasizes the need to grant Most-Favored-Nation status and Exim Bank credits to China.



Presidents Richard M. Nixon and Jimmy Carter welcome Vice-Premier Deng Xiaoping to a celebration at the start of his January 1979 visit to the US.

In November the Council stations its first Beijing representative in Suite 1105 of the Beijing Hotel. In December, China and Japan enter into joint agreement to develop the Bohai Gulf, prompting tremendous interest by foreign oil companies.

1980 On January 24, passage of the US–China Trade Agreement Act grants MFN and opens the way for Exim Bank credits to China. Several months later China assumes the China seat in the IMF and World Bank. In June, Bank of China Chairman and President Bu Ming visits the US under Council auspices for China's first formal meeting with World Bank, IMF, and Exim officials.

China opens consular offices in Houston and San Francisco, and the US establishes consulates in Guangzhou and Shanghai.

Defense Secretary Harold Brown announces that the US will now approve items in selected categories of non-lethal equipment on the munitions control list for sale to China on a case-by-case basis. He also gives the go-ahead for sale of a $10 million ground station to receive information from the US Landsat D satellite developed by General Electric. Amendments to the Export Administration Regulations remove China from the category including the Soviet Union, and place it in Group P. But China is still not included in the group of "friendly" nations.

The Council hosts the highest-ranking delegation in its history in September, when Vice-Premier Bo Yibo arrives in Washington to co-chair the first meeting of the US–China Joint Economic Commission. Bo and President Carter sign long-awaited agreements in textiles, civil aviation, shipping, and the consular convention. US and China now have agreed-on routes and schedules for direct air service, and each country's flag vessels are guaranteed port access and at least one-third of bilateral cargo.

Bo inaugurates China's three-city national exhibition in San Francisco. The Council operates booths in New York and San Francisco to assist firms interested in doing business with China. President Phillips flies to Beijing with Undersecretary of Commerce Robert Herzstein in November to open the United States' first national exhibition in China.

US and China sign an agreement permitting the Overseas Private Investment Corporation to offer long-term political risk insurance on China investments.

The US Exim Bank makes its first preliminary commitment on a sale to China, for American technology to be used at the Baoshan Steel Works.

China's readjustment program hits hard in December. Officials postpone Phase II of Baoshan and suspend a number of metallurgical projects, along with negotiations on virtually all the major steel plants. On December 30, China informs NASA that it has postponed purchase of the US broadcasting and satellite communications system for "several years."

1981 President Reagan, in a letter to Board Chairman David S. Tappan, Jr., states that the new administration is "prepared to work with the National Council to improve prospects for the development of trade with the People's Republic of China so that America can compete effectively in that important market." The board of directors carry Reagan's message to high-level Chinese officials in March.

Board members meet and brief Commerce Secretary Malcolm Baldrige, Treasury Secretary Donald Regan, and other officials just prior to the board delegation to China. Topics include the need to expedite export licensing procedures and to treat China both as an entity separate from the USSR, and as a "friendly" nation.

At a July meeting of the Council's working group on export controls, the administration announces a relaxation of export controls to China, in some cases doubling the allowed processing data rate for US computers. In August the Commerce Department announces that all US companies participating in longterm China projects may apply for a single project license. The State Department at year-end removes China from the list of prohibited destinations for items on the munitions control list.

The first Exim Bank loan to assist a US export sale to China is signed in October. The loan facilitates Combustion Engineering's sale of $37.9 million worth of power-generation equipment and services. Exim also makes a $28 million direct loan to support a companion sale by Westinghouse in November. Readjustment is still the watchword, however, as China orders a halt to work on four petrochemicals plants and on part of the Baoshan steel mill.

The Council introduces *China Market Intelligence*, a confidential, members-only newsletter that focuses on business opportunities and news of immediate interest to member firms. Arthur Hummil becomes the US ambassador to China.

Member firms are assigned a "Council contact," as part of a new program to provide companies with the individual services of an account representative. The contacts keep members informed of trade and political developments, as well as business opportunities in their particular areas.

The Council inaugurates a new program of Washington briefings for member firms, with its briefing on China's energy development priorities.

Phillips takes part in the opening ceremonies of the first US national exhibition in Beijing. The Council endorses the first US telecommunications show in China, "China Comm 81," staged in November by Clapp & Poliak.

1982 Petroleum is the big news of the year. China takes the first step in opening up what may be the world's largest area of untapped offshore oil reserves by inviting bids from 40 companies. Member firm Arco breaks new ground by signing the first offshore operating contract in September.

The Council's role as facilitator of US–China trade is acknowl-

---

For the 12 months ending December 31, 1982, Council revenues totaled $1,991,500. Expenses for the year were $1,935,000, yielding a surplus of $56,500. An audited financial report prepared for the Council by Arthur Andersen & Company is available to members.

edged at the highest levels of China's government. Premier Zhao Ziyang and State Councilor Gu Mu meet with President Phillips and Board Chairman Tappan in April. Through the Council, Zhao sends word that China would hope to maintain trade with the US even if political relations sour over Taiwan. On August 19 the US and China sign a joint communique on Taiwan arms sales.

China announces 130 projects worth $1.6 billion that are open for foreign investment. The World Bank allocates $260 million for two China projects, and the Council starts a series of special reports to apprise members of upcoming World Bank projects.

To increase export opportunities for member firms, the Council helps the US government's Trade and Development Program identify projects in China that can generate US export sales. In October the Council wins a TDP grant to organize a metallurgical delegation to China to assess three non-ferrous metal projects seeking government aid.

The Council steps up its activity on export controls. A July meeting with representatives from the Defense, Commerce, and State departments helps clarify the guidelines announced by the administration one year earlier. In November Council Executive Vice-President Roger Sullivan convenes an Export Controls Working Group to discuss problems among member firms. The group drafts a memorandum on the Council's position to be presented to Secretary of State George Shultz.

Members, board officers, and staff successfully challenge a petition to tighten quotas on US canned mushroom imports from China. The Council's longstanding support of the Export Trading Company Act pays off with the bill's October passage. Staffers keep member firms informed about the status of the ongoing bilateral textile talks, which at year-end result in unilateral quotas being imposed by the US side.

Four US-sponsored exhibitions take place in China: "China Comm 82," the follow-up to the 1981 telecommunications show (both of them endorsed by the Council), the Commerce Department's light industrial show, an electronics and semiconductors exhibition, and a petroleum equipment and technology exhibition.

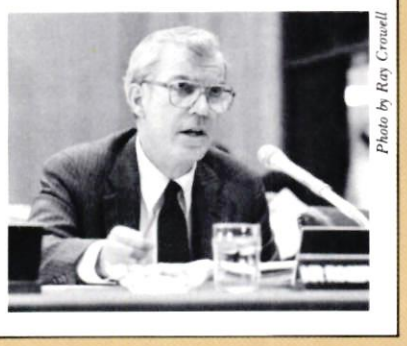


Photo by Ray Crowell

Executive Vice-President Roger W. Sullivan testifies before the Senate Subcommittee on East Asian and Pacific Affairs in April 1982.

Photo courtesy Xinhua News Agency

Deng Xiaoping meets with the Council's board of directors delegation in the Great Hall of the People, June 1979. Walter S. Surrey (left), the Council's current chairman, led the delegation.

1983 Trade and business prospects with China remain good during the first quarter of 1983, despite diplomatic disputes that put some strain on bilateral relations. The only real shock to the business community—China's January announcement that it would sign no new contracts this year for US cotton, soybeans, and synthetic fibers—causes no serious disruptions in bilateral trade. In March, Council member Occidental Petroleum and the Ministry of Coal formalize the largest Sino–American joint venture deal to date: the $500-million Pingshuo open-pit coal mine.

Meanwhile a Council delegation in China explores the feasibility and business potential of one of China's top-priority coal slurry pipelines. The trade mission, funded by the US government's Trade and Development Program, determines that the proposed Yangzi River pipeline could generate up to $250 million worth of sales for US firms.

Northwest Airlines is awarded the second air route to China. After serving China as a cargo carrier this calendar year, Northwest may inaugurate direct passenger service to Shanghai and Guangzhou at the beginning of 1984.

Council executives brief Secretary of State Shultz prior to his trip to China. Recommendations from the Export Controls Working Group are delivered to the secretary. Executive Vice-President Sullivan testifies on the Hill in support of "removing China from the category of exports which are controlled for national security reasons."

May 22 marks the first meeting of the US–China Joint Committee on Commerce and Trade, in Beijing.

The Council's new Vice-President for China Operations, William Clarke, assumes responsibility for the four-member Beijing office.

China's new ambassador to the US, Zhang Wenjin, arrives in Washington, DC.

The National Council wishes to thank Kim Risedorph for her help in compiling the Council Highlights section.

TEN-YEAR ANNIVERSARY

庆祝十周年

MEMBER FIRMS DESCRIBE THEIR ACHIEVEMENTS AND FUTURE PLANS

ALLIS-CHALMERS

In April, Allis-Chalmers engineers left for China to install the company's ball mills and auxiliary equipment at the Yongping mine in Jiangxi Province. That contract with the Ministry of Metallurgical Industries was the latest in a number of major China deals in the areas of metallurgy, energy, and agricultural machinery.

In October 1980, Allis-Chalmers signed long-term agreements in hydroelectric power with the Ministry of Machine Building. Those agreements were the basis for the transfer of equipment and technology to China, and the exchange of personnel. In the agricultural sector, the company's machinery is now in use on the vast state farms of Heilongjiang Province.

BILL YEE ASSOCIATES

William and Katherine Yee, owners and managers of Bill Yee Associates, didn't expect to celebrate their eleventh year in the China trade this year. Back in 1974 the giftware importers were about to give up on China, when a suggestion from a Chinese trade official set them on the track toward becoming one of the more successful China importers.

The company's new strategy was to concentrate on a single product line from a particular province, rather than various imports. Its choice in 1975 was the Wheat Stalk product line from the Shanton region, which since then has become one of the basic export lines of the China National Arts and Crafts Import and Export Corporation (ARTCHINA). Bill Yee Associates held an exclusive distributorship in the US until 1980, and continues to develop specialty items constructed with Wheat Stalk, as well as feather products, antique reproductions, and blue-white porcelains.

BOEING AIRCRAFT

Boeing Commercial Aircraft recently sold ten 737s to China, some of which are already in flight on domestic routes. It has just taken its first delivery of parts manufactured in Xi'an for Boeing airplanes, and it is now training 15 Chinese engineers in Seattle under an agreement with the China National Aero-Technology Import-Export Corporation (CATIC).

This high pitch of China activity is the culmination of a marketing effort that began in 1972. In that year, Boeing made its first sale of ten Boeing 707s to China. The planes were delivered in 1973 and 1974, and went into service on major international and domestic trunk routes.

In 1978, CAAC chose Boeing to supply a new generation of aircraft—the very long-range 747 SP (special performance) Jumbo jets. The three 747s purchased in that deal were delivered in 1980, and pioneered the new trans-Pacific San Francisco–Shanghai–Beijing route.

The largest and most recent sale of Boeing airplanes to China, the ten 737s ordered in November of last year, came about a year after a unique demonstration of the planes. In September 1981, Boeing demonstrated the suitability of the plane to the unique conditions of Chinese airports by flying the versatile little twinjet to Beijing, Wuhan, Chengdu, Lhasa, Shanghai, Guangzhou, and Zhanjiang. The 737 became the first jet ever to land at Wuhan's Manhu Airport and the first twinjet to operate from Lhasa's 11,600-foot high airport.

This demonstration was not the only sign of Boeing's imaginative approach to the China market. Under a current agreement with CATIC, the US company is training 15 engineers in design and manufacture of aircraft. Boeing has also entered into a compensation trade agreement with CATIC and the Xi'an Aircraft Company. The first delivery of machine parts for Boeing 737s and 747s took place in March. Under the cooperative agreement, the Chinese are to supply a total of some 4,900 machine parts to the Seattle company.

BUCYRUS-ERIE

The Bucyrus-Erie Company was among the first US firms to be invited to China following the reopening of US–China trade relations. The visit reestablished a relationship that went back to the 1920s, when Bucyrus' early electric mining shovels were first used in China.

After lengthy negotiations, B-E secured orders for 7 electric mining shovels and 35 blast hole drills in December 1973. In 1978, B-E received an order for an additional 10

blast hole drills for use in China's iron and copper mines. One electric mining shovel of B-E design, manufactured by a Japanese firm, Komatsu, Ltd., is at work in a coal mine at Fushun.

B-E has remained active in its relations with China over the last ten years through numerous visits to Beijing and to China's copper, iron, and coal mines; sales seminars on its mining and construction products; by participation in a mining mission to China in 1980; and by hosting and holding discussions with numerous Chinese delegations visiting the US.

CELANESE CORPORATION

By the early 1980s, Celanese Corporation's sales to the PRC already had exceeded $100 million annually, most of it from the firm's US operations. Celanese's success in the China market began in 1972 when the company began marketing polyester staple to the China National Textiles Import–Export Corporation (CHINATEX). In the mid-1970s, the China product area expanded to include sales of other man-made fibers to CHINATEX and chemical and plastic resins to the China National Chemicals Import and Export Corporation (SINOCHEM). Later, Celanese developed relationships with the Light Industrial Products Import and Export Corporation and the China National Seed Corporation, as well.

In addition to straight sales, Celanese has become involved in joint product development and technology transfer. The company assisted the predecessor of the current China Tobacco Corporation in the development of modern acetate cigarette filters for China's tobacco industry. Technical exchanges have been arranged with the Ministry of Textiles, China National Seed Corporation, and plastic fabrication and molding factories. Exchanges have also taken place with the newly formed China Silk Corporation on processing man-made fibers.

CHASE MANHATTAN BANK

When David Rockefeller, former chairman of Chase Manhattan Bank, met with Zhou Enlai in June 1973, it marked the bank's second beginning in China. Chase opened its first China office in Shanghai in 1919, followed by a second branch in Tianjin. One month after the Zhou meeting, and 20 years after the closing of the bank's China branches in the early 1950s, Chase became the first US bank to establish a limited correspondent relationship with the Bank of China. Since then, the Chase China Division has grown into what may represent the largest China division of any US bank.

In 1975, Chase Pacific Trade Advisors (now CTAS—China Trade Advisory Service) began assisting corporations with China trade and investment decisions. Then, shortly following normalization, Chase and the Bank of China upgraded their banking relationship to full correspondent status. Finally, in June 1981, Chairman Bill Butcher presided over the official opening of Chase's Beijing representative office.

The Chase China Division, with offices in New York, Beijing, and Hong Kong, now offers a variety of services including letters of credit, money transfers, loans to join ventures and Chinese entities, and CTAS advisory services.

CHEMICAL BANK

Less than a year after Chemical Bank established its China Group in 1978, a number of strong business relationships had been formed with the Chinese.

Following Chairman Donald Platten's first visit to China the next year, Chemical Bank established account relationships, credit facilities, and business cooperation agreements with the Bank of China, the China International Trust and Investment Corporation, various shipping entities, and local trust and investment corporations in Guangdong, Fujian, Shanghai, and Tianjin. Chemical Bank provides full correspondent banking services to the Bank of China worldwide, and acts as a liaison between customers and Chinese agencies and enterprises.

Chemical Bank recently received approval to open its representative office in Beijing. The office will offer assistance in collecting trade proceeds; identifying Chinese suppliers for US companies on a contract, flexible trade, or joint venture basis, and developing contacts for trade and investment in general. China group officers in Beijing, Hong Kong, and New York coordinate information flow, negotiation assistance, and financing worldwide.

DIAMOND SHAMROCK

Diamond Shamrock signed its first contract in 1978 as the result of a contact made through the National Council for US–China Trade. That $1 million sale of sodium bichromate was the beginning of a diverse and highly successful market development. Since then, Diamond Shamrock has sold to China an average of $15 million worth of chemicals a year. In 1983 it plans to double its chemical sales. But the company's China activities are not limited to straight sales. Diamond Shamrock has become a major purchaser of Chinese bulk chemicals, with orders of several million dollars per year, and it has signed a technology licensing agreement for a factory in Shandong.

In the late 1970s, Diamond Shamrock's sales (primarily to SINOCHEM) consisted mostly of commodity chemicals such as anhydrous caustic soda, chrome chemicals, and sodium bichromate. The US company pioneered marketing specialty chemicals in China in 1980. It now supplies approximately 65 specialty products that serve the Chinese textile, plastics, paint, paper, and basic chemical industries. It is in these product areas that Diamond Shamrock expects its greatest sales growth in China. The company's imports from China consist chiefly of bulk chemicals for use in manufacturing animal health and agricultural chemicals at Diamond Shamrock plants in the US and Southeast Asia.

The first foreign company to open a Guangzhou office in 1979, Diamond Shamrock now has a subsidiary, Diamond Shamrock China, Ltd., with offices in Hong Kong, Guangzhou, and Shanghai. For the future, the company is interested in a China joint venture, such as a production arrangement at a fabrication plant. As a company with a growing emphasis on energy, Diamond Shamrock also sees opportunities for investment in China's expanding oil, gas, and coal future.

DRESSER INDUSTRIES

China's industrialization plan places its highest priorities on the coal, electric power, and oil and gas industries—all major markets for Dresser operating units. One dramatic example of the company's energy activities in China is the 50 percent joint venture signed on January 1,1982 between the Dresser Atlas Division and the China Petroleum Corporation to provide offshore logging services. Atlas engineeers are already stationed at the support bases of Zhanjiang, on the South China Sea, and the port of Tanggu on the Yellow Sea.

Energy is not the only sector in which Dresser is active. The Magcobar Minerals Division, for instance, recently signed an agreement to purchase crude barite from the PRC over a period of several years.

Dresser's China operations date back to 1972, following the Nixon-Kissinger negotiations, when the company sent a team of representatives to the Guangzhou Fair to discuss the possibility of licensing technology for building compressors. In 1973, Dresser received orders for Clark compressors through the M.W. Kellogg organization. Also in 1973, the Dresser Atlas Division sent over a team of technical representatives to explore the possible sale of oil well logging equipment. Contracts for that equipment were eventually signed in 1975, and delivered to China in 1977.

ERNST & WHINNEY

Ernst & Whinney in 1981 had the distinction of becoming the first international accounting firm authorized by China to maintain a resident representative in Beijing. Last August it was granted resident office status.

During the course of its China involvement, Ernst & Whinney has offered training and consultations to Chinese industry managers and economic supervisors. In 1981, for instance, the firm initiated a program to train Chinese accountants in the US on an ongoing basis. Ernst & Whinney also was consulted by the Ministry of Finance for suggestions and comments on the drafting of the Foreign Enterprise Income Tax Law. In October 1982, the firm entered into a cooperative agreement with China Consultants of Accounting and Financial Management, Ltd. This was the first agreement of its kind between an international public accounting firm and a Chinese accounting and consulting company.

FIRST NATIONAL BANK OF CHICAGO

In January 1978, First Chicago became the first US-owned bank to establish a correspondent banking relationship with the Bank of China, and in October 1980 also became the first US bank to open a representative office in Beijing. Since then, First Chicago has participated in major trade finance activities between China, the United States, and other countries, and has been active in China's regional economic development.

In April 1980, First Chicago established CCIC Finance, Ltd., a joint venture merchant bank in Hong Kong, with the Bank of China, the Industrial Bank of Japan, Ltd., and the China Resources Company. In July 1982, CCIC Finance, Ltd. was appointed financial consultant to the China National Offshore Oil Corporation (CNOOC). In this unique role, CCIC advises CNOOC on the most efficient way to structure joint venture subsidiaries and on financing China's offshore oil industry. Among the services provided are counseling on international finance and project finance techniques. In addition, CCIC assists CNOOC in developing relationships with energy companies throughout the world.

FLUOR CORPORATION

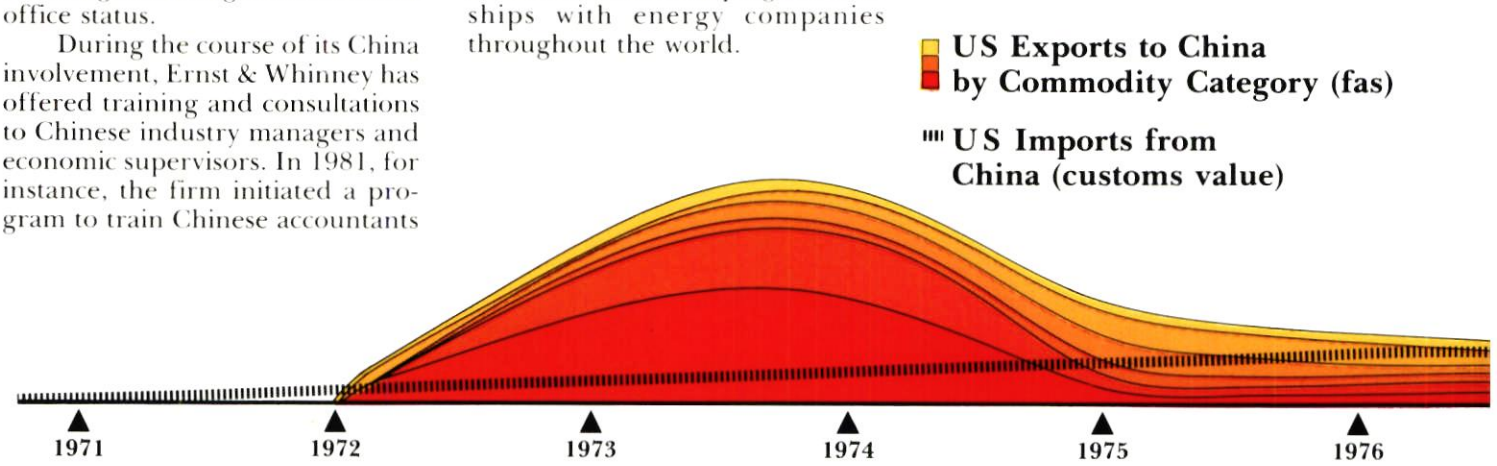
Fluor's first project in China was centered at the world's largest copper mine and mill facility at Dexing in Jiangxi Province. The company's Mining and Metals Division completed the project's conceptual and basic engineering in cooperation with the Ministry of Metallurgical Industries, and its contracting entity, the China National Technical Import Corporation (TECHIMPORT). However, China's economic readjustment policies caused the project to be suspended in early 1981.

Concurrently, in 1979, TECHIMPORT also selected Fluor's Mining & Metals unit to study the feasibility of raising overseas financing for a 400,000 ton-per-year copper complex, which included the Dexing mine, a new smelter, and six other smaller mine and mill developments. Fluor completed this study in 1980.

Meanwhile, the company's largest engineering office, the Southern California Division in Irvine, California, began in 1979 to perform work in the petroleum refining field.

For the Research Institute of Petroleum Processing, a subsidiary of the Ministry of Petroleum Industry, Fluor is currently completing the engineering, procurement, and startup for a project involving numerous hydrocarbon pilot plants and test engines in Beijing and Fushun.

That same year, the Houston Division of Fluor Engineers, Inc., began engineering, procurement, and construction advisory services for Fluor's second petroleum project in the Daqing oil field. The



project, involving three crude stabilization and six hydrocarbon vapor recovery units, was completed in 1982 with Fluor's assistance in the startup. These units recover liquified petroleum gas for use as petrochemical feedstock.

The Mining and Metals Division's 1982 contract to modernize the Fushun West open pit mine in Liaoning Province, the largest and most well-known open-pit mine in China, will increase production to 5 million tons-per-year of coal and 8 million tons-per-year of oil shale.

Fluor entered China to offer technical engineering and project management services. To help achieve this goal, Fluor China, Inc., a wholly owned subsidiary, was formed in 1981 to coordinate activities by different divisions. In addition, Fluor provides on-the-job training exposure for many Chinese engineers who have been assigned to projects in Fluor's engineering and mining units.

GANES CHEMICAL

Ganes Chemicals, Inc. began purchasing chemicals from the PRC in 1977, when an executive of Siegfried Ltd., Ganes' parent company, signed a contract on behalf of Ganes for 10,000 tons of ephedrine. Since then Ganes has made more than $5 million worth of purchases from SINOCHEM, the China National Chemicals Import and Export Corporation, and will continue to make purchases at the rate of $2 million annually.

GENERAL ELECTRIC

The General Electric Company returned to China in 1973, more than 20 years after the company's properties were nationalized by the new PRC government. But it wasn't until normalization in 1979 that GE started doing China business in earnest. Since then, the General Electric (USA) China Company has been registered under China's new foreign enterprise registration statute, and every sector of the company has become involved in business with China.

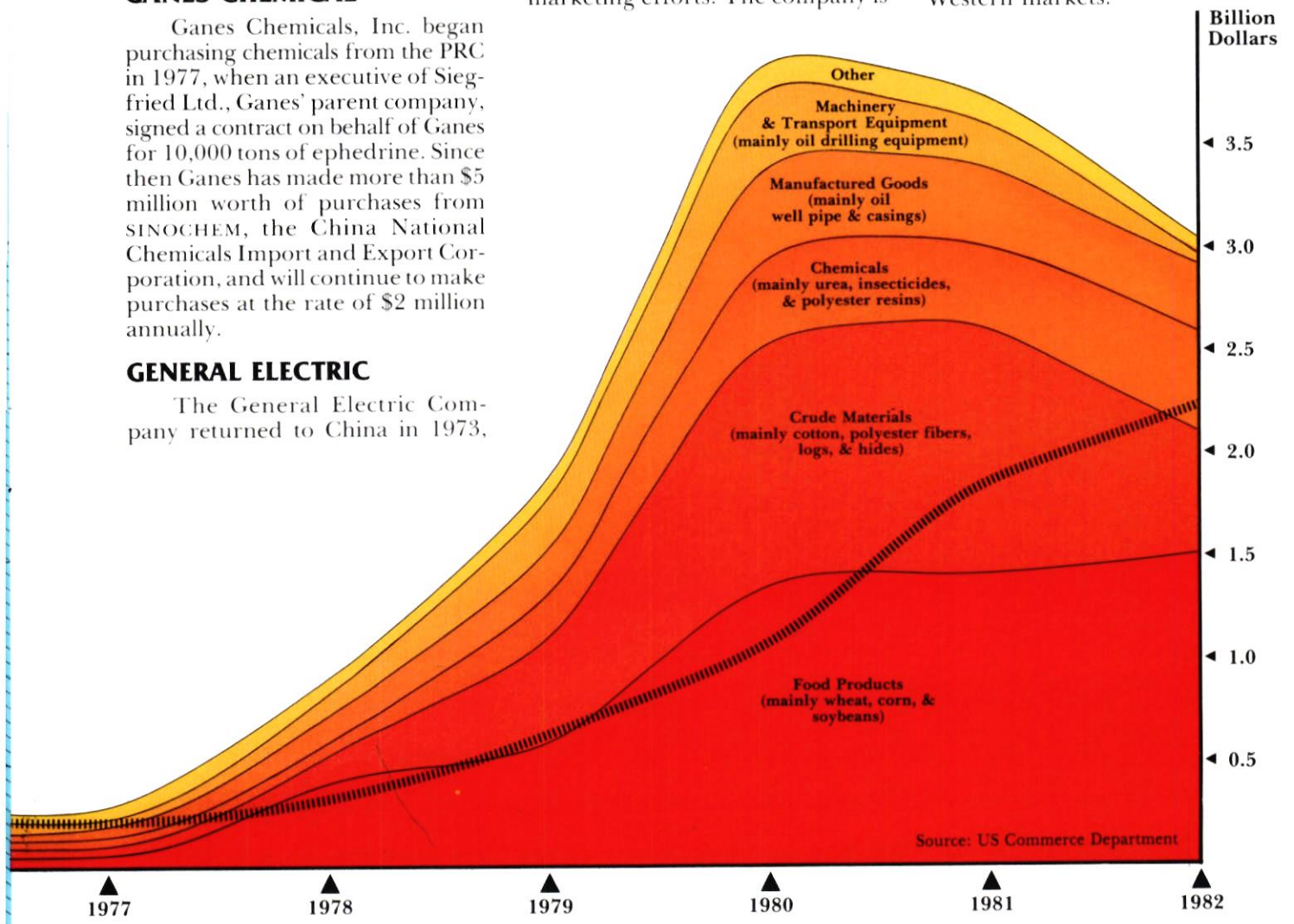
GE activities in the PRC include direct product sales, technology transfer, coproduction, and components sourcing. GE's product areas for China business include gas turbines, aircraft engines, medical products, locomotives, oilwell drilling equipment, power transmission and distribution products, consumer products, communication products, and mining products.

Because of the readjustment period initiated by China in late 1979, GE's China revenues have been modest in proportion to its marketing efforts. The company is optimistic about future China trade on the basis of the new five-year-plan, the increasing emphasis on energy and transportation, China's healthy balance of trade, and its ample foreign currency reserves.

LUBMAN AND COMPANY

Lubman and Company began doing business with China when Judith and Stanley Lubman made their first visit to the Guangzhou Trade Fair in 1972. Since then the company has done business with almost every foreign trade corporation under the Ministry of Foreign Economic Relations and Trade.

Among the high-quality products handled by Lubman are leather and ready-to-wear goods, home furnishings, glassware and tabletop accessories, foodstuffs and canned goods, machine tools, computers, and medical and scientific instruments. Lubman works closely with a number of Chinese factories and local foreign trade branches to design or tailor products to suit Western markets.



MANUFACTURERS HANOVER TRUST

In February 1983, Manufacturers Hanover Trust Company opened a representative office in Beijing. The bank opened correspondent relations with the Bank of China in November 1978.

MHT's most dramatic deal was a $51 million contract signed in October 1980 between its leasing affiliate and China's airline, CAAC, for a 15-year lease on a Boeing 747.

C. MELCHERS & COMPANY

Melchers is a large international trading firm headquartered in Bremen, West Germany. It inaugurated trade with China when it opened its Hong Kong office in 1866. Today, its trade volume with China is $60 million and growing.

Melchers sells China a wide variety of technical products such as instrumentation, heavy machinery, equipment, and chemical fibers. It is also active in marketing Chinese handicrafts in Europe. Besides its representative offices in Beijing, Shanghai, a branch in Hong Kong, and eight other offices in the Far East, Melchers' latest addition is its San Francisco office under the direction of Hellmuth Starnitzky. This office offers US exporters to China such services as shipping, documentation, and trade financing.

MERRILL LYNCH

Merrill Lynch has been doing business with China since the early 1970s. It began by establishing a small China trading company in Hong Kong and by sending Chinese-speaking representatives to the Guangzhou Trade Fair to assist its clients. During the mid-1970s, the firm established contact with several Chinese ministries in connection with commodity trading. In late 1978, Merrill Lynch's former chairman, Donald T. Regan, and former Secretary of State Rogers, a member of the firm's board of directors, visited China and established high-level contact with key economic and banking officials in China.

Since then, Merrill Lynch has signed business cooperation agreements with the Bank of China, the Shanghai Investment and Trust Corporation, and the Zhejiang International Trust and Investment Corporation. Merrill Lynch's main business has been in the commodity area, but the firm is currently considering several major project financings.

In mid-1982, Merrill Lynch acquired a substantial minority interest in Sun Hung Kai, a leading securities and financial group in Hong Kong. It expects that most of its future business in China will be carried out in connection with Sun Hung Kai whose chairman, Fung Hing Hey, is well known in Hong Kong and in China.

MOTORS TRADING

The Motors Trading Corporation, a subsidiary of the General Motors Corporation, and the China National Machinery and Equipment Import and Export Corporation signed an evidence account protocol in late 1981. The counterpurchase agreeement provides the guidelines for both parties to buy from each other and to balance trade over time. The Bank of China acts as an intermediary and records each transaction.

Under the terms of the protocol, EQUIMPEX purchased about $800,000 worth of diesel engines, and Motors Trading initiated the purchase of cutting tools. Since that time, trade has expanded and similar counterpurchase agreements, involving a wide range of products, have been reached with other Chinese entities.

MONSANTO

Monsanto Company's relationship with China started in 1923 when Monsanto exported saccharin and followed with aspirin. Since the normalization of relations between China and the US, the company's business has expanded into trade and cooperation in a number of areas.

Chairman of the Board and Chief Executive Officer John W. Hanley played an important role in strengthening overall US-China trade relations during the formative years. A charter member and past vice-chairman of the National Council, Hanley led a delegation of businessmen to China in 1976 at the request of President Ford.

Monsanto reestablished trade relations with China in the early 1970s and began to sell textile fibers and rubber chemicals. The company's trade with China has since then broadened into agricultural chemicals, rubber instruments, plastics, detergent raw materials, and industrial gas separation using PRISM® separators. The company continues to sell acrylic and textile fibers to China, and it is expanding into new areas of business. At present, Monsanto is discussing technology licenses that involve herbicides, industrial chemicals, and plastics.

The company has already been active in conducting technical exchanges and cooperative herbicide field trials with China. Among the Monsanto products shown to be effective for farm crops in China were MACHETE®, LASSO®, and AVADEX® BW herbicides.

NATURE'S FARM

Nature's Farm Products, Inc. now purchases 60 percent of the canned mushrooms imported into the US from China. The company began doing business in China in 1979 through the China National Cereals, Oils, and Foodstuffs Import and Export Corp., Fujian Branch. In 1981, it was appointed exclusive distributor for the major brand of canned Chinese mushrooms, Narcissus Brand. In addition, Nature's Farm has begun to cooperate on a 10,000-acre farm project in Fujian Province to produce such crops as oranges, grapes, and lemons. Other Fujian joint ventures are under discussion.

PHILLIPS PETROLEUM

Phillips' negotiations with the PRC cover exploration and production activities as well as chemical activities.

In mid-1978, Phillips, together with three other major US oil companies, was invited to visit and discuss the possible exploration for petroleum resources off China's coast. At the invitation of the China Council for the Promotion of International Trade, the Phillips delegation visited China from August 10 to September 10, 1978, to discuss exploration and development of the PRC's offshore oil and gas.

A year later, under a Geophysical Survey Contract, Phillips and 30 other companies participated in seismic work in 4 blocks covering the Pearl River Basin in

the South China Sea. Phillips was the operator in the Shantou Block on the eastern side of the basin. Seismic operations began in August 1979 and were completed in April 1980. In 1981, the results of this survey—amounting to 42,500 miles of seismic data—were presented to the Petroleum Corporation of the PRC.

In May 1982, the China National Offshore Oil Company (CNOOC) issued a call for bids (with an August 17 deadline) on 22 offshore areas in the Pearl River Mouth Basin, Gulf of Beibu, and South Yellow Sea.

Phillips, Cities Service, and Pecten formed a bid group to participate in the call for tenders issued on May 10, 1982. On July 15, 1982, representatives of the three companies met with Hu Zhidao, deputy manager of CNOOC's Financial Department in Beijing, for clarification of outstanding contractual matters.

On August 2, 1982, Phillips received authority from its executive committee to join Cities Service Orient and Pecten Orient in filing a bid for the PRC's offshore blocks in the Pearl River Mouth Basin, with Phillips to operate, and in the Beibu Wan Basin (offshore Hainan Island), with Cities Service to operate. Phillips et. al. duly filed their tenders with appropriate PRC authorities on August 17, 1982, in Beijing.

Cities Service Orient withdrew from the PRC Participation Agreements, and the bids submitted to CNOOC pursuant thereto on October 11, 1982. Phillips and Pecten notified CNOOC that they would equally assume the interest formerly held by Cities, and then met with CNOOC on November 19–22, 1982. These meetings were general in nature and designed to discuss all facets of the Phillips–Pecten bid.

Phillips chemical activities began with a plastics resins sales program in the mid-1970s. Early on, this program resulted in a modest amount of sales. In 1982, however, sales of resins increased significantly, and Phillips expanded its program to include a number of specialty chemicals. It is forecast that there will be increased sales of plastics resins and additional specialty chemical products. In addition, license agreements are currently being negotiated between Phillips and the PRC for carbon black and HF alkylation technology for a carbon black plant in Tianjin and a refinery in Shanghai.

Phillips future plans involving exploration and production and chemical activities depend on future developments of applications made to the PRC.

ROCKWELL INTERNATIONAL

Rockwell International's activities with China began in earnest in 1975 with its participation in the first Electronic Industries Association delegation to Beijing. Many business discussions have since taken place with various ministries and corporations at both state and provincial levels, including the Ministry of Electronic Industries, third and fourth ministries of machine building, TECHIMPORT, MACHIMPEX, EQUIMPEX, INSTRIMPEX, CATIC, CAAC, and the China Academy of Space Technology.

Rockwell's Graphic Systems Division supplied and installed China's first modern web offset printing press system last year. This system is now printing the Beijing edition of *The People's Daily* and the English-language *China Daily*. Other Rockwell divisions have supplied avionics equipment to China's national airline, valves for the petrochemical industry, axles for trucks, industrial sewing machines for the garment industry, and microprocessors for educational purposes in universities.

S. SHAMASH & SONS

S. Shamash & Sons has been traveling China's Silk Road now for over 100 years. In 1875 Saleh Shamash, grandfather of current president Jack Shamash, began representing E.D. Sassoon of England and India, one of the clipper ship traders then dealing in Chinese silk. Within 30 years, S. Shamash & Sons had incorporated in the United States and begun developing into one of the most important American silk dealers.

Today the New York company handles about 85 percent of the Chinese silk imported by the US. And it expects to expand the Far East silk trade even further through a new cooperative venture formed

Chiefs of American and Chinese Diplomatic Missions

Heads of US Liaison Office, Beijing

David K. E. Bruce
(May 1973–September 1974)
George H. W. Bush
(October 1974–December 1975)
Thomas S. Gates
(May 1976–May 1977)
Leonard Woodcock
(July 1977–February 1979)

Ambassadors to Beijing

Leonard Woodcock
(March 1979–February 1981)
Arthur W. Hummel
(September 1981–Present)

Heads of PRC Liaison Office, Washington

Huang Zhen
(May 1973–November 1977)
Han Xu
Acting chief of mission
(November 1977–August 1978)
Chai Zemin
(August 1978–February 1979)

Ambassadors to Washington

Chai Zemin
(March 1979–December 1982)
Zhang Wenjin
(March 1983–Present)

Chairmen of the National Council for US–China Trade

Donald C. Burnham
Westinghouse Electric Corporation
(May 1973–June 1975)
William A. Hewitt
Deere & Company
(June 1975–June 1978)
John C. Brizendine
Douglas Aircraft Company
(June 1978–June 1980)
David S. Tappan, Jr.
Fluor Corporation
(June 1980–June 1982)
Walter S. Surrey
Surrey & Morse
(June 1982–Present)

with Jardine, Matheson, & Company. Jardine-Shamash, Ltd. will bring Chinese silk into Hong Kong to be processed for sale in the US and Europe. The joint company intends to cooperate with foreign firms doing business with China by using silk as a barter trade commodity.

Jardine-Shamash also will invest in China through the China Silk Corporation to improve dyeing, finishing, and printing techniques.

SCHENKERS INTERNATIONAL FORWARDERS

Schenkers International, one of the world's oldest and largest freight forwarding firms, has forged a number of productive partnerships with China over the past few years. Last August President Gerhard Stebich officially opened Schenkers' representative office in Beijing, and at the same time signed an Airfreight Agency Agreement with the China National Foreign Trade Transportation Corporation (SINOTRANS). Under the pact, Schenkers will provide scheduled, consolidated air freight services to US shippers and China's foreign trade corporations between New York and San Francisco, and Beijing and Shanghai. SINOTRANS will assist in customs formalities and onforwarding from the ports to interior destinations.

Schenkers has been the official freight forwarder for PRC exhibitors at major trade shows in the US, including the three-city PRC National Exhibition in 1980. The company also has provided exhibition services for trade shows in China, including the "International Exhibition of New Sources of Energy, Environmental Protection Systems, and Related Products," and the "China '82 Manufacturing, Processing, and New Technology Exhibition."

In April 1981 Schenkers signed a cargo sales agency agreement with China's airline, CAAC, and named CAAC as Schenker's breakbulk services agent in China.

SURREY & MORSE

Surrey & Morse's ties with the PRC date back to the earliest days of the National Council, when current Council Board Chairman Walter Sterling Surrey accompanied the first board of directors delegation to China in 1973. That year Surrey, as board member counsel, opened talks with China that led eventually to China's agreement to permit the registration of foreign trademarks.

Since then the international law firm has advised US companies on legal aspects of the China trade and has accompanied clients to China for negotiations on joint ventures, cooperation agreements, and sales and purchasing contracts.

TRANS-OCEAN IMPORT COMPANY

Nearly 11 years in the China trade have turned Trans-Ocean Import Company into a major purchaser from the PRC and perhaps the largest importer of Chinese carpets and rugs in the United States. President Charles I. Rostov first visited the minister of foreign trade in Beijing in September 1972. Today, the company maintains several exclusive arrangements with the Chinese, and does its own designing and coloring. In addition, Trans-Ocean has worked closely with the Chinese to help them develop new products that have substantially increased their exports to the United States.

WICKLAND OIL

Since 1980 Wickland Oil, one of the West Coast's largest independent marketers of foreign and domestic petroleum products, has become a major buyer of Chinese gasoline. Wickland that year entered into the first of three term contracts with the China National Chemical Import and Export Corporation (SINOCHEM) for the purchase of leaded motor gasoline. In 1982 alone Wickland's imports from China exceeded $110 million.

The China product is used primarily to supply nearly 100 "Regal" service stations that Wickland owns and operates in California, Oregon, and Nevada.

The CBR *wishes to thank the many Council members who responded to our announcement in the February* China Market Intelligence *soliciting company stories. We regret the few omissions of material required due to the lack of space.*

MAGAZINE STAFF

James B. Stepanek
editor

Carol S. Goldsmith
managing editor

Chris Brown
Martin Weil
associate editors

Elizabeth A. Mueller
copyeditor / production coordinator

Christopher M. Clarke
political analyst

Jennifer Little
research assistant

Judy Bourke
manager, publications sales

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed, double-spaced, and normally may not exceed 5,000 words. They should be sent to the editor, *The China Business Review*, Suite 350, 1050 17th St., NW, Washington, DC 20036, USA (telephone 202–429–0340). The National Council for US–China Trade retains all rights to articles and artwork published in *The China Business Review*.

Articles or artwork published in *The China Business Review* may be reprinted in non-National Council publications or reproduced only with the written permission of the National Council for US–China Trade.

The China Business Review is published bimonthly by the National Council for US–China Trade, a nonprofit organization incorporated under the laws of the District of Columbia. Controlled circulation postage is paid in Washington, DC. Articles in *The CBR* do not reflect Council policy, unless indicated. The Council is grateful to His Excellency Huang Zhen, former minister of culture, for the calligraphy on the front cover, and to I-Chuan Chen of the National Council for the calligraphy used for the magazine's departments.

Our Beijing office opens the world of China to you.

This newest link in our global banking network is of great importance to you. Now your business with the People's Republic of China can be carried out in a personal and supportive way.

Manufacturers Hanover, a major international bank, has years of experience doing business with China. And now our Representative is on-the-spot in Beijing, assisting you through his deep understanding of this subtle and complex country.

Finally, our Beijing Representative Office is pledged to uphold our worldwide standards of consistency and dependability. Contact us, and watch China unfold for you.

For more information, contact Peter R. Lighte, Representative, Manufacturers Hanover. Jianguo Hotel, Room 114. Jianguo Men Wai Da Jie, Beijing. Tel: 595261, Telex: 22439 JGHBJ CN.

MANUFACTURERS HANOVER
The banking source. Worldwide.

Headquarters: 270 Park Avenue, New York, N.Y.

Member FDIC

Encouraged by the results of early discoveries, US oil firms begin negotiating the final contracts.

The Drilling Begins

Kim Woodard

If this is the Year of the Pig by the Chinese calendar, it is also the Year of the Contract by the reckoning of the oil companies strenuously engaged in bidding for exploration rights on China's continental shelf. Following the submission last August of 102 bids by 20 consortia and individual companies on 43 contract areas, and an extended period of evaluation and mutual explanations, hard negotiations are finally underway. Five contract areas totaling some 50,000 square kilometers are already under exploration, based on contracts awarded between 1980 and 1982 to Elf Aquitaine, Total, Arco, and the Japan National Oil Corporation (with two areas). But the big wave of contract-signing lies ahead.

Based on invitations to negotiate issued in February and March of this year by the China National Offshore Oil Corporation (CNOOC), the Chinese intend to grant a dominant role to the major oil companies. "Competitive discussions" over key terms, such as the vital "x-factor," or crude split, are underway with the BP group (BP, Ranger, Petrocanada, Petrobras, and BHP), Exxon/Royal Dutch Shell, Mobil/Union, Chevron/Texaco, Amoco, and the Getty group (Getty, Sun, and Texas Eastern) among other companies. CNOOC needs contracts with virtually all of the bidding companies to explore even half of the areas up for bid. So far the majors and large independents are ahead in competition for the ten most attractive contract areas in the Pearl River Basin south of Hong Kong.

High-level Chinese officials, including CNOOC President Qin Wencai, are projecting a very rapid pace of negotiations and contract signings, lasting perhaps no more than a few months. But oil company executives are wary of such predictions. The $5 drop in the price of OPEC marker crude, and the general recession in the petroleum industry, may harden company negotiating positions. With future crude oil prices uncertain and tight exploration budgets forecast for the next several years, the oil companies are unlikely to show much flexibility on their original x-factor bids or drilling commitments. This leaves CNOOC an unpleasant choice between extending the negotiations, or giving in on the basic terms.

Despite these difficulties, most companies expect to sign contracts before the end of 1983, and to initiate operations in the first quarter of 1984. Beijing is carefully shielding the offshore oil projects from the vagaries of political and trade relations with the US; oil companies, for example, are generally spared lectures on the Taiwan problem, and China's retaliation for US import quotas on textiles carefully excludes the petroleum sector. The Chinese government is committed at the highest levels to the success of the offshore projects as a symbol of the "four modernizations," and the government's commitment to expanding trade with the West.

Early Offshore Discoveries

The level of drilling activity, measured in terms of number of wells per year or number of active rigs, is usually taken as a key market indicator for a wide array of ancillary petroleum services. During 1982, China drilled about 2,900 oil wells on land, and just 20 wells offshore, of which 16 were exploratory and 4 development. But the importance of the offshore wells far outweighs their limited number. Each offshore well is more costly, involves the use of a far broader range of ancillary equipment and services, and is more carefully targeted than comparable wells on land. In addition, offshore exploration is in its earliest phase of growth. The results of early offshore wildcats are watched intently by the entire industry; early success will multiply the rate of offshore drilling activity, while early failure naturally will dampen enthusiasm at the negotiating table.

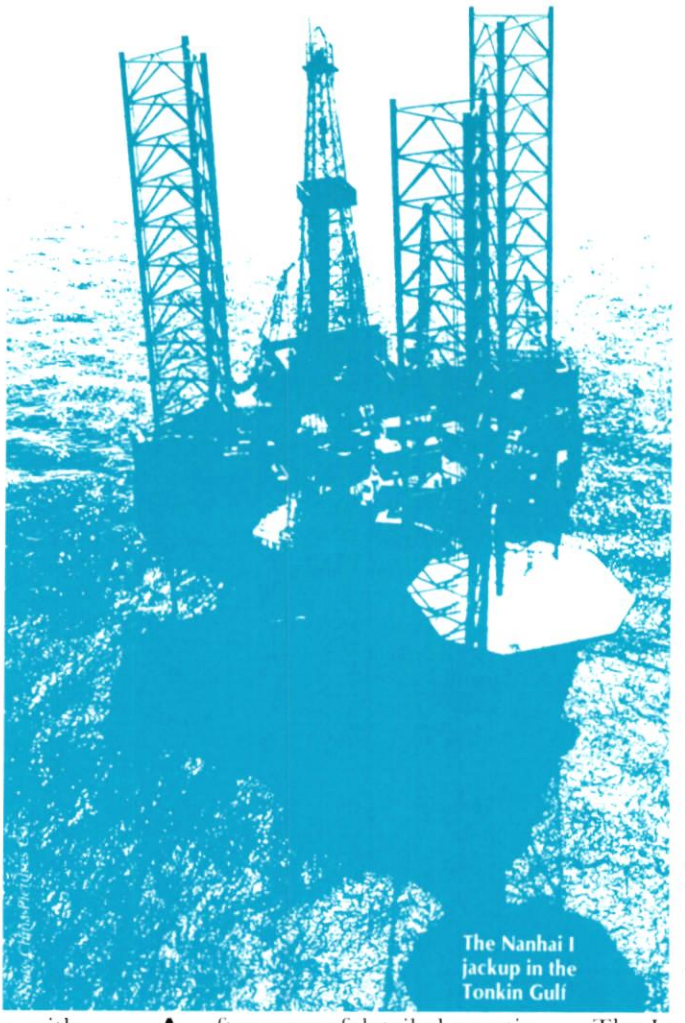
Drilling is currently underway on five contract areas, three in the Bohai Gulf at the northern end of the shelf, and two in the Tonkin Gulf at the southwestern end of the shelf. In addition, both the Ministry of Petroleum Industry (MOPI) and the Ministry of Geology (MOG) are conducting independent drilling programs in the East China Sea. The success ratio achieved in these early drilling programs has been impressive by industry standards. The Japan National Oil Company (JNOC), working through a joint entity called the Japan–China Oil Development Corporation, has hit commercial oil (testing at more than 1,800 barrels per day) on five of eight exploratory wells. The first JNOC well struck 7,300 bopd (barrels of oil per day) of 39° API crude, 21.2 mmcfd (million cubic feet per day) of natural gas, and 365 bopd of condensate, ranking it as a major discovery. Since then it has been confirmed by two delineation wells on the same structure. The Japanese are also drilling the first of 56 development wells from two platforms that are under construction on the Chengbei field in the Bohai Gulf, a structure lying at 6,000 feet that was discovered by Chinese drilling programs during the 1970s. As a result of these preliminary successes, the JNOC's Bohai capital budget

through May 1987 has been tripled to some $600 million.

Elf Aquitaine holds a single contract area in the central portion of the Bohai Gulf. Elf drilled just two wells on this area during 1981; both were dry. Following a year of inactivity, Elf is scheduled to complete its 1983 drilling program with another two-well series, the minimum drilling required under its contract. The Elf project has been hampered by morale and operational problems on its Chinese-owned rig (Bohai X), as well as by disappointing drilling results.

Total Chine, a subsidiary of CFP, has also had operational problems in its huge contract area in the northern Tonkin Gulf, where it uses two Chinese rigs, Nanhai III and IV (*see* page 34). But the results of initial exploratory drilling have been excellent. Total, like JNOC, hit what looked like a big discovery on its first well down, with test yields of 4,672 bopd. But subsequent delineation wells on the same structure were disappointing, indicating a small, high-pressure pocket rather than a large field. A second major discovery in late 1982 (5,010 bopd crude, and 10.6 mmcfd of natural gas) was followed by the recent announcement of test yields of some 8,554 bopd of 37–39° API crude from a delineation well on the same structure, indicating a field with good commercial potential. This Total discovery is relatively shallow (with water depth of 125 feet, and drilling depth of 7,500 feet), but lies on the western edge of the contract area, near a portion of the Tonkin Gulf that is in dispute with Vietnam.

Despite these successes, there have been reports that Total is concerned about the high front-end cost of drilling operations, logistics, housing, and labor in China, where the company has already invested some $100 million. A 10 percent interest in the project has been farmed out to a new firm, China Beibu Oil Development Company, headed by JNOC. In return, the new participants will spend $50 million for additional drilling over the next two years.



The Nanhai I jackup in the Tonkin Gulf

After years of detailed negotiations, Arco signed a production-sharing contract last August for the exploration of a 9,000-square-kilometer area southwest of Hainan island. The first well on an initial seven-well drilling program was spudded January 9 by the Glomar Java Sea, a US-owned and operated drillship. The first well was targeted to 14,000 feet in 263 feet of water in the center of a large structure in the Yinggehai Basin. A Chinese rig had previously discovered subcommercial oil deposits on the "feather edge" of the same structure. Results from the first well were disappointing and a second well is now being drilled near the center of the contract area.

Aside from testing the buried reef structures typical of the shelf south of Hainan, the Arco project will set a number of important precedents for other American oil companies in China. The "model contract" under discussion at the current round of bids resembles the Arco contract in a number of ways. Arco is using the first foreign drilling vessel to be introduced to Chinese waters. The crew of the drillship is about half Chinese and half expatriate. Arco's traditional equipment and service subcontractors have been introduced along with the rig. Perhaps most importantly, Arco has chosen a very lean operating style in the early phases of exploration, holding the number of shore-based expatriates to about 15, far fewer than the 50–60 personnel stationed by Total in Zhanjiang.

China's Ministry of Petroleum Industry and Ministry of Geology and Minerals have been conducting their own independent drilling operations in the East China Sea since March 1981. Using two Chinese-owned and operated jackup rigs (Bohai IV and Kantan II), they have drilled three wells in the "Longjing" area (code name for a series of wells) right next to the Japan–Korea Joint Development Zone, and the first well of the "Donghai" series. Longjing 1 tested at 2,628 bopd of crude oil, and Longjing 2 was listed as a gas discovery. The Longjing series is being drilled on one of four giant structures in the "Taiwan–Sinzi Folded Zone," a potentially rich belt of sediments running from the northern tip of Taiwan to the southern tip of Korea. The area is the subject of a protracted jurisdictional dispute between China, Japan, Korea, and Taiwan (*see* page 52), making the participation by foreign oil companies impractical for the present. The Chinese drilling program serves to plant the flag in the contested area, as well as to test the hydrocarbon content of the sediments. This year, the Ministry of Geology and Minerals will complete the Longjing series and begin drilling on the "Pinghu" series about 100 kilometers further south.

The overall success ratio of recent drilling along the Chinese continental shelf is very encouraging. Of 25 exploratory wells drilled since late 1980, nine could be ranked as discoveries with commercial potential. Test yields have included a substantial quantity of associated natural gas from several wells, and a few discoveries have been predominantly gas rather than crude oil. Delineation wells on oil-bearing structures indicate fields of moderate size, though

none in the "giant" category so far. Producing zones vary in depth from 6,000 feet to 12,000 feet and are located in moderate water depths, well within the reach of available technology.

Projected Drilling Activity

In view of the projected 1983 drilling activity in the five existing contract areas and the East China Sea, it appears that the total number of exploration and development wells drilled during 1983 will be at least double the number drilled last year. The calculation reflects the increased drilling planned for the two JNOC areas, the continuing drilling activity in the Total and Elf areas and East China Sea, and the addition of new drilling activity in the Arco area. With one or two possible exceptions, drilling operations probably will not begin on the new contract areas currently under bid until early 1984. Completion of the two production platforms on the Chengbei field in the Bohai will be particularly important in accelerating the total level of drilling activity.

While it is theoretically possible that CNOOC could sign contracts for all of the 43 new contract areas in the next 12 months, it is unlikely. The CNOOC office in Beijing has a limited professional staff, despite recent additions, and probably cannot negotiate more than four or five contracts simultaneously. Based on water depth, geological potential, and other criteria, about 10–15 of the contract areas being offered are considered the most attractive, and will come under heavy competitive negotiation this year. Unless CNOOC can successfully cluster several contract areas into a single negotiation, talks on the less attractive areas will be deferred to a second round of negotiations. The sheer logistics involved in drilling operations, and the limitations on supply base facilities, will preclude a sudden acceleration of drilling activity even if contracts are signed quickly for all 43 areas.

Looking forward to drilling activity in 1984 and 1985, any projection must be based on the following cautious assumptions:

▶ continuation of 1983 levels of exploratory drilling on the five existing contract areas, and a modest pace of commercial discoveries on these areas;

▶ initiation of drilling operations on 5–10 new contract areas during 1984, and another 5 areas during 1985;

▶ a minimum drilling program of 3–7 exploratory wells per contract area;

▶ an average cost of $10 million per 10,000-foot exploration well, and $5 million per development well.

Although the total number of rigs operating offshore China is still quite modest, the rate of increase in offshore drilling activity is very high. According to the best available estimates, the level of drilling activity approximately doubled each year between 1981 and 1983 and will double again over 1983 levels by the end of 1985. This rapid growth will continue to place heavy stress on the transportation, communication, and supply base infrastructure for the foreseeable future, causing delays and logistical problems and outstripping the capacity of indigenous Chinese enterprises to provide the needed support services. The market for offshore equipment and services will expand at a commensurate speed, doubling every year or two and requiring substantial inputs from foreign equipment manufacturers and service subcontractors. Such expansion can be seen to occur even when one makes conservative assumptions regarding the timetable for negotiations, contract signings, and the initiation of operations.

If near-term offshore drilling projections for China are hazardous, longer-term forecasts must be regarded as pure speculation. Much will depend on the success or failure of exploratory drilling between now and 1985. A run of bad luck in early drilling, particularly in the Pearl River Basin area, would reduce drilling programs to the minimum called for under each contract, and would dampen enthusiasm for additional contracts on smaller structures or deep-water areas. But assuming a continuing 36 percent success rate (of discoveries to total wells drilled), an expansion of exploration and development drilling can be expected in the 1986–1990 period. Given such an assumption, one can envisage the following modest scenario:

▶ 15–25 additional contract areas will be signed, bringing the total number of areas under exploration by 1990 to 35–45;

▶ the total number of exploration wells each year will rise to double the 1985 level, or 80–120 wells, by 1990;

▶ development will accelerate in the JNOC, Total, and possibly the Arco areas, increasing the drilling of development wells to perhaps 30–60 per year by 1990;

▶ the total number of active rigs, including development rigs on production platforms, will increase to 30–40 by 1990;

▶ annual drilling expenditures will rise to $1.0–1.5 billion by 1990.

These are rough figures, contingent on many factors, but they do

Projected Drilling Activity In 1983

Exploratory wells have found oil-bearing structures, but so far no fields in the "giant" category.

Theater	Contractor	Exploration Wells	Development Wells	Active Rigs	Rig-Months per Year[3]
Bohai	JNOC[1]	12–13	15–20	5–6[2]	70
Bohai	ELF	2	0	0–1	8
Tonkin	TOTAL	4–6	0	2–3	16
Tonkin	ARCO	3–4	0	1	12
East China Sea	MOGM/MOPI	2–3	0	1–2	12
Summary		23–28	15–20	9–13	118

[1] Two areas. [2] Includes two production platforms. [3] *Rig-Months per Year* is a measure of the utilization of active rigs, equal to the number of rigs times the number of months per year in service. This measure is important in the China theater, where rigs allocated to a given project may lie idle for several months each year for repairs and typhoons. SOURCE: China Energy Ventures, Inc.

provide a general framework for projecting the market for petroleum equipment and services offshore China through the end of the decade. As a yardstick for comparison, foreign companies spent $1.1 billion in Indonesia to drill 285 wells on land and offshore during 1982, plus another $3 billion in development and project-related costs.

Marketing Equipment and Services

The rapid acceleration of drilling activity projected for the 1983–90 period has forced petroleum equipment manufacturers and service subcontractors to begin exploring their market prospects. They face a classic Hobson's choice. If they enter the market early to serve the limited drilling activities underway on the five existing contract areas, the size of the market will not pay for the cost of warehouse space, offices, and specialized technical personnel inside China. This means taking the risk of becoming sacrificial loss-leaders for a few years, in the hopes of obtaining a sufficient market share to justify the front-end investments. An office in Beijing costs at least a quarter-million dollars a year. A warehouse operation in Zhanjiang might cost ten times this figure. Joint ventures may pose administrative headaches associated with profit-sharing, not to mention management-sharing. The barriers to early entry are substantial and only a few companies—Dresser Atlas, Christensen, NL, Geco, Brown and Root, Halliburton, Hughes Tool, and Schlumberger, to name a few—have chosen to jump into full-scale operations inside China. A number of important offshore equipment and service companies that have been active in the North Sea and other theaters are holding back, working from their regional facilities in Singapore and hoping to ride into China on the coattails of their traditional oil company clients.

The cautious alternative of holding out until drilling increases is also hazardous. The domestic US oil industry is in its worst slump in many years, with the Hughes rig index running about 2,000, or half of the peak level of just two years ago. The drop in world crude oil prices may put further downward pressure on exploration. The effect on equipment manufacturers and service subcontractors has been disastrous. A number of blue-ribbon companies have laid off 35–50 percent of their work force. Orders for one tubulars company for the first quarter of 1983 are only a fifth of last year's, and the company has been forced to lay off 75 percent of its workers. The unemployment rate in Houston has tripled in the past year, and many companies are operating in a "survival mode," waiting for the next upturn. In such a depressed environment the offshore theater in China looms even larger, and is understandably viewed by many as the most promising international market on the horizon.

The recession in the oil industry will affect the marketing strategy of each supplier differently, depending on the type of equipment or service in question. Drilling companies are rushing to get on the bandwagon through joint ventures for drilling services with CNOOC, or complex lease-purchase deals that would utilize current rig capacity. The impact on heavy equipment manufacturers (of blowout preventers, mud pumps, and cranes), is just the opposite. They fear that the introduction of foreign rigs into China will reduce rig construction in Chinese shipyards, and the market for their equipment. Companies that specialize in heavy capital equipment are, therefore, relatively pessimistic about the offshore China market during the exploration phase, and are angling for a share of the far larger development and production market for such big-sticker items as production platforms, subsea pipelines, and wellheads, which will materialize toward the end of the decade.

Companies that produce expendables—tubulars, specialized bits, packers, muds, cement, chemicals, testing equipment, and the services related to use of this gear—are in a far better market position in the exploration phase. China cannot yet produce these materials or services in sufficient quantity, or to rigorous industry quality standards. JNOC, Total, and Arco have already begun using their traditional suppliers and service companies, despite the oft-stated preference for Chinese vendors. Joint venture subcontractors that have set up shop in Zhanjiang or Tanggu are doing business, but have not been granted exclusivity.

China's main target is the market for expendable types of equipment and related services, which rely on fairly standard technologies that have been available for years. With a bit of technical updating and rational management, Chinese factories should be able to produce such expendables within a few years. By setting up coproduction or licensing arrangements with foreign firms, China could eventually supplant foreign imports. In the case of coproduction contracts, the Chinese version of the product may then enter the international market in direct competition with the product lines of the licensing company. Entry into the expendable petroleum equipment market in China, therefore, is not entirely without risk.

The best submarkets for foreign equipment and service companies may be in high-tech areas involving advanced electronics and data processing. The Chinese have had some experience in offshore seismic surveys, but have had difficulty dealing with the complexities of computer-

Current and Projected Drilling Activity

The level of drilling activity roughly doubled each year between 1981 and 1983, and will double again by the end of 1985

	Exploration Wells	Development Wells	Active Rigs*	Rig-Months per Year	Drilling Cost *(Estimate in mil. $)*
1981	9	0	5	40	$100
1982	16	4	9	70	$200
1983	23–28	15–20	11	120	$300–350
1984	35–40	20–30	16–22	140–160	$400–500
1985	50–70	20–40	22–31	200–300	$600–800

*Includes production platforms. SOURCE: China Energy Ventures, Inc.

ized seismic data analysis, downhole wireline surveys, well-logging, positioning, and advanced telecommunications. The development phase will increase demand for a second wave of high-tech electronic equipment and for reservoir engineering, systems design, and production engineering services. The model contract calls for rapid transfer of such technologies to the Chinese side, but implementation of this requirement will take years, if not decades, given the state of China's own educational system and the language barrier. A number of foreign subcontractors have already begun to move into the high-tech service market through joint venture agreements with CNOOC, notably Geco, Dresser Atlas, Halliburton, and Schlumberger.

In the area of general services, however, the preference clause gives Chinese service companies a distinct advantage in the provision of housing, catering, transportation, office and warehouse space, diving, and support base management. Helicopter services are a case in point. CAAC, the Chinese airline, already offers offshore helicopter services through subsidiaries based in Zhanjiang and Tanggu. Among the foreign helicopter operators in China is Aero Asahi, which flies and maintains two helicopters for service to JNOC rigs in the Bohai. One of the two helicopters in service to the Glomar Java Sea was leased by Arco from Air Logistics. The pilots are Chinese in these operations, but the service crews, management, and aircraft belong to the foreign partner. CAAC, the Ministry of Aviation, and Nanhai Joint Petroleum Service Company are now engaged in a three-way struggle over control of future expansion in helicopter services. But the oil companies are sufficiently concerned over the safety and maintenance standards in existing Chinese services that a role for foreign helicopter operators is assured.

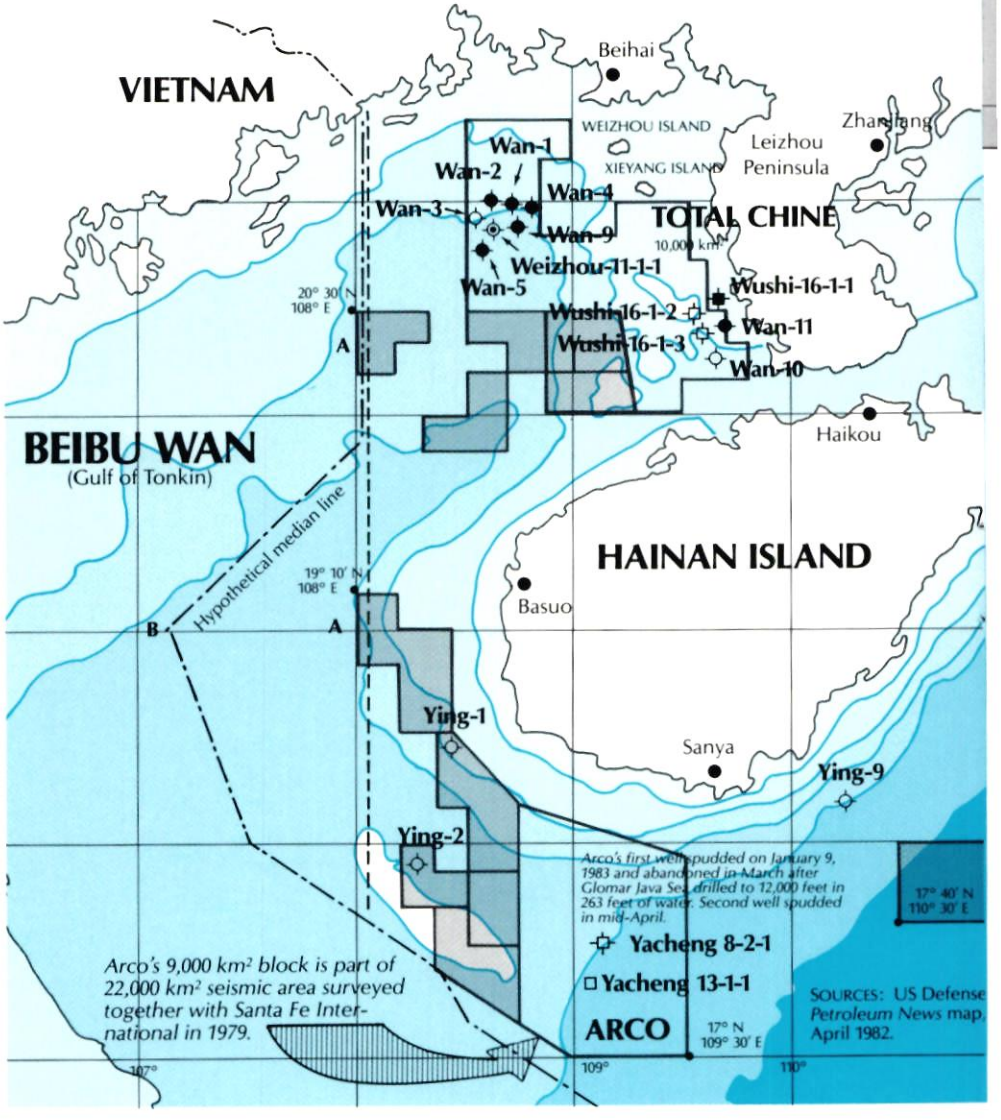
The list of companies furnishing general services is growing: Hong Kong Refrigeration and the Jardine Matheson–NJPSC–Dairy Farm joint venture (both for catering and food services); Santa Fe Transportation Co. (food transport); Zhong–Chang Service Co., formed by NJPSC, Wah Chang of Singapore, and Sea Horse of the US (supply boat services); and Ocean Engineering of the US and Taylor Diving of the UK (diving training and services).

In such a competitive environment it is not surprising that agents promising easy, even exclusive, access to the petroleum equipment and service market have proliferated both inside and outside of China. MACHIMPEX, a trading subsidiary of the Ministry of Foreign Economic Relations and Trade, has set up a network of trading companies in Hong Kong, London, New York, and Houston under the control of a parent company, MACVIN, based in Beijing. EQUIMPEX, representing the Chinese machine-building and ship-building industries, has also been pushing hard for a middleman role in the offshore equipment market. Meanwhile, Beijing and Hong Kong are spawning legions of back-scratchers with high-level Chinese contacts in the State Council and Ministry of Petroleum Industry.

Despite the claims and counter-claims of these many agents, the Nanhai Joint Petroleum Service Company, CNOOC, South Sea Branch, and other Chinese organizations repeatedly state a preference for direct company-to-company contacts. High-level contacts must be combined with direct approaches to the end-user in the field. Any approach, in order to be successful, requires patience and will probably be expensive. One fact stands out in contrast to other oil-producing Third World countries: Personal graft and corruption seldom surface and are severely punished.

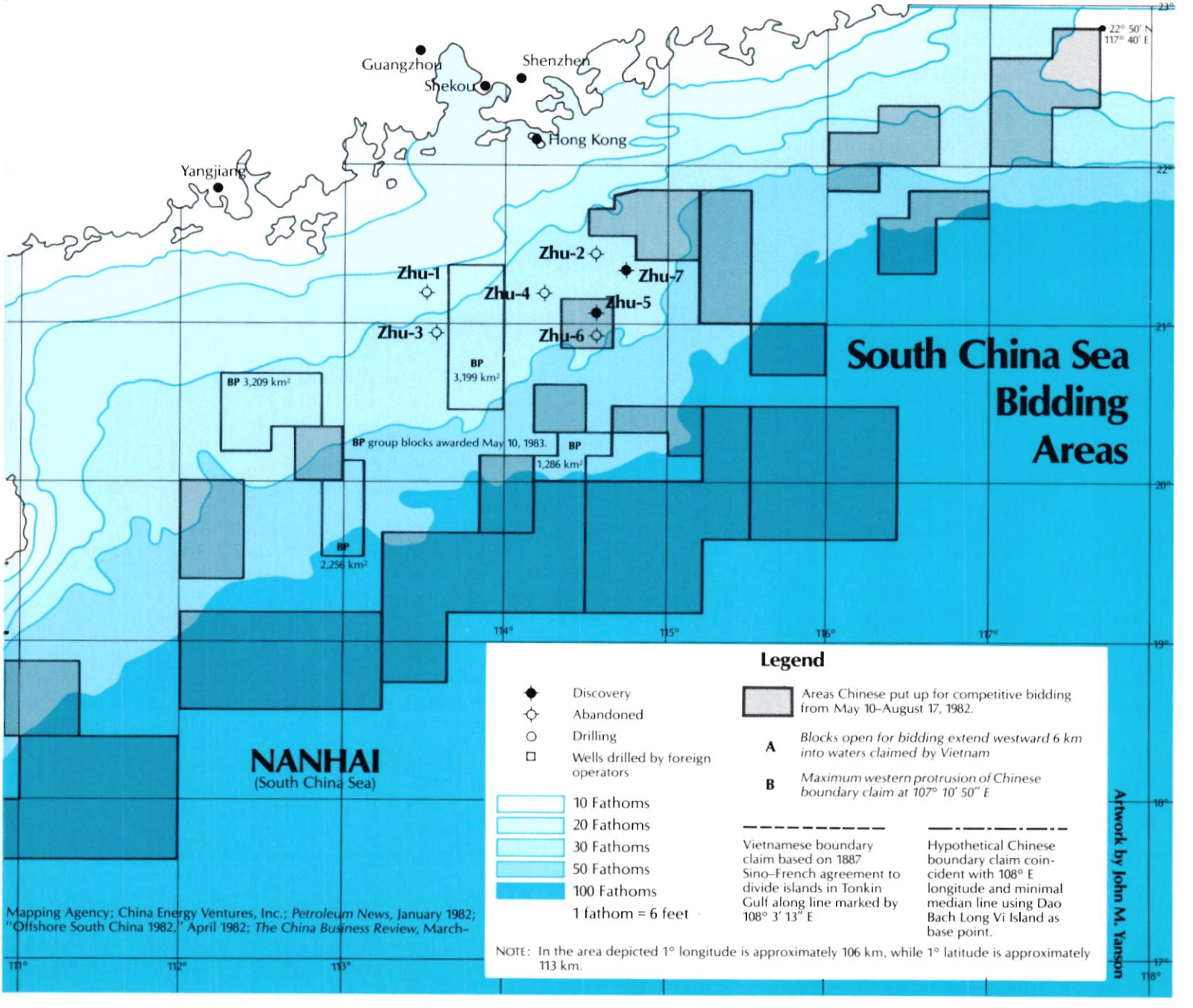
OPERATIONS AND LOGISTICS

Negotiating a viable service or equipment supply contract is less than half the battle. Profit margins, narrow to begin with, may be whittled away by project delays or high front-end costs. The oil and service companies that have already set up



shop in Zhanjiang or Tanggu complain privately about the extraction of abnormally high rents and fees for local services. A single telephone instrument in Zhanjiang (not the line) goes for $1,000. Rents for expatriates range from the modest $20 per night at the SSB Hotel for a single room, and higher $5,000 per month rates for a single family residence at the Haibin Hotel, to astronomical rents in Total Village. Helicopter service charges are so high that the exploration companies could pay for a new helicopter every few months at the same rate. The high front-end cost of operating from a Chinese supply base is causing some companies to keep their China operation based in Singapore for as long as possible. Small companies could be shut out completely.

Labor costs are also a serious concern. Under various clauses in the Offshore Regulations and model contract, foreign companies must maximize the use of indigenous labor in all phases of their projects. Total, JNOC, and Elf are using Chinese jackup rigs, staffed predominantly with Chinese crew and rig hands. About half of the personnel on the Glomar Java Sea are Chinese and half are expatriates. As foreign drilling vessels are introduced into Chinese waters, expatriates will be used in key positions to ensure safe and efficient operation, while Chinese hands are gradually trained through the ranks. It normally takes 10 years to train a rig hand from roughneck to driller, but the Chinese want to move into the key positions more rapidly through apprentice programs and horizontal displacement. "Wages" paid for Chinese rig hands are more than double the going rates in Southeast Asia. Less than 10 percent goes



Mapping Agency; China Energy Ventures, Inc.; *Petroleum News*, January 1982; "Offshore South China 1982," April 1982; *The China Business Review*, March–

to the worker. The SSB, as labor contractor, garners the rest. The bottom line for SSB negotiators is obvious.

High wage rates are also the rule onshore at supply bases for stevedors, drivers, secretaries, and other positions. Most companies would willingly pay high wages if the number of personnel could be held to efficient levels. But a more realistic prospect for the near term is that many positions will have to be double-staffed with Chinese and expatriate personnel. This is particularly true where language skills are important, as with secretaries and bookkeepers.

Annex IV of the model contract places broad responsibility for training Chinese personnel on the foreign contractor. Similar training provisions will be expected of equipment and service subcontractors. Training requirements extend from practical on-the-job training for rig hands, to scientific training for geologists and managerial training for project supervisors. There is no doubt that these training provisions will prove expensive. Several proposals have been floated with CNOOC for a combined training institute, based in southern China and utilizing a staff of as many as 100 foreign faculty and trainers. Such an institute could cost $15–20 million per year to operate, an expense that would be passed along to the oil companies. This could be a cost-effective alternative to individual company training programs. Even if the institute concept is implemented, specialized Chinese teams will have to be brought to the US to learn how to operate certain equipment.

The use of expatriate personnel in China is also expensive. Shore-based personnel must be housed, fed, educated, doctored, and entertained in something like the manner to which they are accustomed. Expatriate rig hands are often paid a "hardship bonus" for locations on the other side of the world, and must be flown back to the US on rotation every 28 days, at a cost of about $100,000 per rig per month in air tickets. Crew changes on rigs offshore China have been difficult, with the travel time required to fly chartered aircraft and helicopter shuttles on the Hong Kong–Guangzhou–Zhanjiang run (with more stops for Arco), averaging about 10 hours in each direction.

OFFSHORE PETROLEUM EXHIBITIONS

Three major exhibitions are scheduled this fall in Tianjin, Shanghai, and Guangzhou. All have strong support within China. China Oil '83 has the official endorsement from a regional branch of CNOOC, and will be attended by South Sea Branch representatives from Zhanjiang, but its Tianjin location suggests an orientation more toward the Bohai and onshore fields in China's northeast corridor. Marintec China '83 will concentrate on shipbuilding rather than offshore oil. Offshore China '83 is a follow-up to a similar conference in November 1981. Its Guangzhou location is excellent, but Guangdong provincial interests seem to dominate this exhibition; CNOOC and the South Sea Branch are noticeably absent from its list of sponsors. The three shows:

▶***China Oil '83*** September 17–23 in Tianjin, organized by Look Ease Enterprises and Adsale, and sponsored by CNOOC's Bohai offshore branch;

▶***Marintec China '83*** October 25–31 in Shanghai, organized by the Shanghai Society of Naval Architecture and Marine Engineering;

▶***Offshore China '83*** November 22–26, in Guangzhou, organized by Wah-Chang and CCPIT, and sponsored by the Nanhai Joint Petroleum Service Company, Ministry of Geology and Minerals, and several Guangdong maritime organizations.

Coastal shipping for heavy equipment, on the other hand, does not present a serious problem. Zhanjiang, Guangzhou, Shanghai, and Tianjin enjoy existing international port facilities. Experienced shipping agents are available both in Hong Kong and inside China. Delays may be expected at most Chinese ports, but will be less serious for petroleum equipment shipments than for bulk or container shipments, since the supply bases have their own dock facilities. Chinese customs officials handle petroleum equipment shipments on a priority basis, although establishing *which* customs office has authority for a given rig location can be problematic. Petroleum equipment is supposed to be imported customs free, although food, office equipment, and other supplies are subject to the usual tariffs. One company was charged a stiff import tariff on the shipping crates containing petroleum equipment. The wood, the customs agent explained, was not grown in China.

Companies operating out of Zhanjiang and other coastal locations will also need to establish accounts at local branches of the Bank of China. Hard currency payment in US dollars is required for all contract services such as labor costs. Local currency is needed for noncontract services and local purchases. Thus separate bank accounts are needed, with a $500 minimum deposit per account. Money can be cabled or sent in by bank draft from Hong Kong accounts, although the Bank of China in Zhanjiang prefers direct transfers from US banks, since this usually requires holding a larger balance in the local accounts. There is a separate cash window in Zhanjiang's SSB office complex available for company use.

Hong Kong's role in offshore logistics and operations has become more clearly defined than was the case a year ago. While refusing to permit direct service to the rigs from Hong Kong, or even direct communication and flights out of Hong Kong, China appears willing to accept Hong Kong's role as the principal international link for the offshore projects. Crew change, shipping, banking, and international telecommunications mainly operate through Hong Kong. Hong Kong companies are being encouraged to compete in the market for general services to the offshore projects. CNOOC has opened its own office in Hong Kong to help straighten out the organizational and communications morass facing their foreign partners. In order to reassure firms about Hong Kong's future status, China has been anxious to draw the colony more deeply into the offshore petroleum projects.

In the last analysis, the extent to which petroleum equipment and service companies participate in China's offshore oil projects will be determined by the balance of market opportunities and operational costs.

There is little question that there will be a significant market offshore China for most types of equipment and service subcontractors. But the industry maintains a healthy skepticism about the lure of this new market. The reason can best be summed up by recounting the recent experience of an American company in obtaining a post office box in Zhanjiang. A box and box number could be provided the next day, the postmaster promised, for the modest fee of ¥24 a year, or about $1 per month. Upon emerging from this meeting, one of the company's hosts muttered to a colleague, "That is too cheap for a post office box." "Yes," he replied. "We will have to do something about that." The next day, no post office box.

There will be a persistent temptation for the South Sea Branch, and other Chinese organizations offering support services, to overcharge the oil companies and foreign subcontractors. This is an effort to extract a sufficient "profit" up front to pay for the operating costs of the Chinese side, regardless of whether or not oil is discovered. But the American companies want to minimize front-end risks, preferring the lean Arco approach to the Total or JNOC models. "The key point," a US oil executive explained at the negotiating table, "is to find oil. Both sides want to discover oil as quickly as possible." At $30 per barrel, the return to China of an efficient, cost-effective exploration effort will be many times the return that can be generated from front-end services. ₹

Kim Woodard is president of China Energy Ventures, Inc., the author of The International Energy Relations of China *(Stanford, 1980), and a frequent visitor to Zhanjiang and other South China Sea offshore supply bases. Woodard's firm provides consulting services to oil and energy companies doing business in China on such matters as equipment sales; operations and logistics; legislative, tax, and contract issues; and joint ventures and coproduction.*

Selling offshore services and equipment to China means working with a maze of organizations.

The Quest for Control

David L. Denny

"The Chinese have looked at the experience of other Third World countries where oil was developed with little of either the money or the technology left behind," a Western European oil executive said, "and they want to ensure they get some of both . . ." The Los Angeles Times, September 21, 1982.

The need for oil to fuel its energy-short economy is the most important reason China has turned to foreign companies to explore and develop its coastal hydro-carbon resources. In addition to finding oil, however, Chinese officials hope to achieve three other important goals. They want to control offshore exploration and production (E&P). Secondly, they seek substantial technology transfer and training in order to develop their own resources in the future. Finally, they desire to earn substantial amounts of foreign exchange by selling equipment and services to foreign companies that win offshore E&P contracts. These goals are so fundamental that the basic law on petroleum exploitation mandates that preference be given to Chinese suppliers of services and equipment to be used in offshore oil E&P activities.

These goals are not unique to China. They have been sought by most oil-exporting countries in the last two decades. The Chinese have analyzed these experiences, visited other countries, entertained numerous oil conferences (including some sponsored by the United Nations), and have hired consultants from the Norwegian National Oil Company, STATOIL. For historical and ideological reasons, China will be far tougher in its demands for control, technology transfer, and profits for E&P activities than other under-developed, oil-rich countries.

The Chinese insistence upon control, technology transfer, and profit has not diminished foreign oil company interest in obtaining offshore concessions. These demands, however, have increased the complexity of the negotiations, raised doubts about the total costs of the E&P program, and forced companies to respond to new ideas about collaboration with the host country. Drawn-out negotiations have been frustrating and occasionally acrimonious. Oil company executives have lamented openly that the Chinese have too many diverse goals and that, at times, finding oil seems secondary.

Even by conservative estimates, China's program will be substantial. If negotiations are satisfactory and a reasonable number of successful finds are made in the first year or two, the needs for services and equipment will be very large. For example, a senior Chinese official has estimated that 30 to 40 supply vessels and 18 to 20 helicopters will be necessary to support activities in the South China Sea.

The Major Players

The Chinese have not wanted, or been able, to appoint one super-organization to control all activities related to offshore development. Instead, a number of organizations will be involved. For each stage of activity, foreign firms will find themselves dealing with three centers of power: ▶ the Ministry of Petroleum Industry (MOPI) and its subsidiary organization, China National Offshore Oil Corporation (CNOOC), ▶ regional authorities such as provincial governments, and ▶ other ministries or organizations that control the production or provision of needed equipment.

CNOOC and its subordinate organizations within the Ministry of Petroleum Industries have been assigned the key responsibility of managing the offshore activities of foreign companies. CNOOC representatives will sign contracts with foreign com-

panies and will provide the Chinese representatives on the Joint Management Committees (JMC), which will govern the joint ventures with foreign companies.

MOPI and CNOOC will be responsible for running the support bases which will be the lifeline for the day-to-day drilling activities. They and their subordinate organizations also will be responsible for providing equipment and services, such as diving and well-logging, directly related to drilling activities.

The second major group of Chinese organizations is controlled in part by local governments. In some cases, these organizations cooperate with MOPI and CNOOC, but in other cases they appear to be establishing their own competing organizations. The most important such organization is the China Nanhai Joint Oil Service Company (JOSC).

The primary role of this second group of organizations is to provide equipment and services that support the offshore activity. In general, they are excluded from direct drilling activities. Examples of support activities include transport services, telecommunications, food catering, and provision of general labor. Of course, these organizations will have to compete with the services offered by ministries other than MOPI, the third major center of power.

The CNOOC

On behalf of the Ministry of Petroleum, CNOOC signs contracts with, and oversees, foreign oil companies engaged in offshore drilling. There is no doubt about CNOOC's authority to undertake such obligations; that is spelled out in China's petroleum law. What is less clear is its ability to implement agreements, since it is not known if CNOOC has sufficient clout to guarantee the performance of other Chinese organizations.

CNOOC itself is actually a very small organization that will draw on its own subordinate units such as the South Sea Branch and other units of MOPI for specialized services and workers as needed (*see* chart).

CNOOC will exert its control over the activities of foreign oil companies through two primary channels. Important policy questions, implementation of the work programs, and all significant expenditures will be overseen by the Joint Management Committees. Day-to-day drilling operations will be supported by CNOOC's subordinate branches and supply bases.

The Joint Management Committee

The model contract requires both CNOOC and the foreign company to appoint representatives to a JMC which will have a permanent secretarial staff of two people and a CNOOC-appointed chairperson. It has also been reported that each JMC will have specialized subcommittees for finance, supply, and operations. The committee will meet at least once every quarter, and more often if requested by either party.

The JMC reviews and approves the work program and makes all major decisions. These include determining whether oil fields are commercially viable, approving major expenditures, and appointing expert groups to observe and investigate exploration operations.

The JMC structure gives CNOOC and the Ministry of Petroleum the authority to approve major policy and procurement decisions. The fact that the JMC can be convened at any time, at the request of either party, effectively gives the Chinese the ability to become involved in all decisions of consequence.

The model contract also allows CNOOC to have professional representatives at the site of operations, to keep it informed of all aspects of the drilling operations. On procurement matters, CNOOC specialists have the power to review items to be purchased, draw up lists of potential Chinese suppliers, and take part in evaluating and awarding contracts.

Operating Companies and Branches

Within the Ministry of Petroleum, CNOOC appears to have control over all offshore oil exploration. China National Oil and Gas Exploration and Development Corporation (CNOGEDC), which previously controlled all land and offshore oil exploration, now focuses on exploration activities onshore. As a result, the operating companies or branches involved in exploring for offshore oil have come under CNOOC control.

CNOOC will control and supply the foreign oil company activities through three large, powerful, and preexisting subordinate branches or companies: the South Sea Branch, the South Yellow Sea Oil Corporation, and the Bohai Sea Oil Company.

Typical of these branches is the SSB, headquartered in Zhanjiang, the major support base of South Sea activities. The SSB is already a large organization (*see* chart) capable of undertaking its own offshore oil drilling program. In fact, before signing a contract for offshore drilling with Total, the SSB was already utilizing four drilling rigs and reportedly had already made several successful finds.

The SSB is reported to have in excess of 10,000 employees. As would be expected of a company already engaged in offshore drilling, its organization contains most of the units needed to support such an effort: several drilling companies, and mud-logging and electric well-logging companies, as well as many other specialized organizations.

SSB will support the drilling activities of foreign oil companies in two ways. First, the base at Zhanjiang will be used as the headquarters for Arco and for all future operators in areas around Hainan Island, west of a north–south line drawn from the western border of Yangjiang county in Guangdong (approximate longitude 112°).

More importantly, however, the SSB will compete to provide equipment and services for activities directly related to drilling, such as well-logging and cementing. This is not to say that all such services will be provided by SSB. The foreign companies will provide many of these services themselves or sub-contract them out to other foreign companies. But, as a general principle, when Chinese goods and services are to be used in drilling activities, the SSB will be well placed to provide them.

Finally, the SSB will control supply bases at Zhanjiang, Chiwan, Sanya, and Shantou. These supply bases will have inventories of drilling pipe and other necessary equipment.

Since the summer of 1982, MOPI and CNOOC officials have been considering splitting the SSB into two separate operating companies: the Eastern District and Western District oil companies. The fact that the formal division has not taken place may reflect the power of the SSB in maintaining control over its resources and relative independence from Beijing. But it may also reflect the simple fact

that, until there are contracts in the Pearl River Basin, such a division is unnecessary.

Oil company officials visiting China in the first few months of 1983 have been told that a *de facto* division already exists between SSB-West and SSB-East. In the view of one company executive with access to key Chinese officials, SSB-West seems to have retained most of the resources of the original SSB. It will be headquartered in Zhanjiang and will largely manage E&P activities in the western section of the Pearl River Basin in addition to the areas around Hainan Island.

By contrast, SSB-East is still a thin, "paper organization" that will start largely from scratch. It is presently headquartered in Guangzhou, but will move to the new Chiwan supply base which is being readied for the start of exploration activities in the Pearl River estuary, probably beginning in early 1984.

Because of its lack of expertise, resources, and experience, SSB-East is expected to ally itself closely with the Nanhai Joint Oil Service Corporation and its subordinate entities described below. On the other hand, SSB-West, with its greater resources, may attempt to compete with JOSC for some of the support activities in the Western sector.

CNOOC's Foreign Joint Ventures

In addition to its own operating companies such as SSB, CNOOC has begun to form joint ventures with foreign companies. These joint ventures qualify for "preference" granted to Chinese organizations seeking to sell services and equipment to offshore drilling entities. So far two have been formed:

▶ ***China Petroleum Logging–Dresser Atlas Cooperation Services Company.*** The joint venture between the Dresser Atlas Company of Houston and the Ministry of Petroleum Industry was established in the spring of 1982 to provide wireline logging services for offshore oil drilling. The company already has received contracts for work in the Bohai, the Beibu Gulf (for Total Chine), and the South Yellow Sea (for BP).

▶ ***China–Geco Geophysical Company.*** Set up in September 1982, the joint venture between CNOOC and the Geophysical Company of Norway AS will operate three seismic survey

ORGANIZATION OF THE CNOOC

AND SOUTH SEA BRANCH OIL COMPANY

MINISTRY OF PETROLEUM INDUSTRY
Minister: Tang Ke
Vice-Ministers: Li Jing, Li Tianxiang, Zhao Zongnai

CHINA NATIONAL OFFSHORE OIL CORPORATION
President: Qin Wencai
Vice-Presidents: You Dehua, Liu Dongming, Zhao Shengzhen

Subordinate departments

- Production Operation Department (Production aspects of contracts, environmental protection, and safety) Director: Zheng Weitian
- Marketing Department (Marketing, procurement, and purchase of crude) Director: Qian Liangtan
- Engineering Department (Design, manufacture, and installation of platforms) Director: Hu Niankui
- Cooperation Department (Contract negotiation, execution, and legal matters) Director: Tang Changxu Deputy: Sun Shujun
- Liaison Department (Liaison with foreign oil companies and foreign experts in China) Director: Chen Bingqian Deputies: Li Yonggeng, Zeng Qinghong
- Planning Department (Long-term plans) Director: Zhang Mingzhi
- General Office Director: Bai Dongliang
- Hong Kong Office Director: He Yuanqing
- Personnel Department Director: Li Yigui
- Education Department Director: Cheng Shouli
- Exploration and Development Department (Technical exploration) Director: Xiao Yukun
- Service Department (Meals and vehicles) Director: Zhang Rong
- Financial Department (Accounting, auditing, and finance) Director: Xu Huixiang

Subsidiaries and branches

- Drilling Service Company
- Logging Company of China
- Cementing Company
- Tianjin Bureau
- South Yellow Sea Corporation
- Geology Research and Development Center (Zuoxian, Hebei)
- South Sea Branch Oil Company (Zhanjiang) Director: Ma Wenbin
- Oilfield Offshore Design and Engineering Corporation

Guangzhou liaison office

- Seismic Data Processing Center
- Computer Evaluation Center
- Navigation and Positioning Company
- Construction and Building Company
- Mud-Logging Company
- Well-Drilling Company
- Cementing Company
- Well-Testing Company

Suboffice for eastern area, (Guangzhou)

- Marine Services Company
- Base Services Company
- Telecommunications Company
- Electric Logging Company
- Mud Company
- Well-Logging Company

SOURCES: US Consulate in Hong Kong, and National Council petroleum files. Charts prepared by Christopher M. Clarke and David Denny.

vessels (two Chinese and one Norwegian) and bid for seismic survey contracts.

Currently, active discussions are going on between CNOOC and foreign firms for additional joint ventures for activities directly related to exploratory drilling. It is clear that CNOOC would like many more such joint ventures. However, in the words of one informed industry observer, "they have moved fairly slowly to date." Part of the reason appears to be internal CNOOC organizational problems, but another important factor is that CNOOC appears to be waiting to see the outcome of its negotiations with the oil companies. In any event, within the next year additional CNOOC–foreign company ventures are likely to be established for mud-logging and cementing. Further down the road, the whole range of specialized drilling services such as directional drilling techniques will be candidates for CNOOC–foreign joint ventures.

In addition, foreign companies have employed other forms of cooperation with MOPI to provide such services as well. It has been reported that Geomex and SSB jointly won a contract to carry out a site-positioning survey for Arco's first well. This kind of joint industrial cooperation undoubtedly qualified for "preferential" treatment.

The key question is whether joint ventures or other forms of cooperation have a significant advantage in bidding on offshore contracts. That is the primary—if not sole—motivation for forming such organizations. It is clear that many foreign companies are betting that such organizations will have a big advantage. As the managing director of Geco has said:

"There is no doubt that we will have a very distinct advantage . . . our joint venture will be a Chinese firm but, in fact, we will be offering service of the highest international standards. For us, this was an obvious attraction in such a joint venture arrangement." (*LA Times*, Sept. 21).

But it is still unclear what kind of preferential treatment will be accorded foreign joint ventures. Geco has already lost one open tender bid to a foreign company with no China ties. Arco is not only using a US-owned rig, but also has won CNOOC approval to use a foreign diving company and well-logging company because the equipment was already on board the rig.

Whatever "preferential" treatment implies, it clearly does not confer exclusivity. In a recent meeting in Beijing, the president of CNOOC, Qin Wencai, forcefully told National Council President Christopher Phillips that "Chinese equipment must be equal in price, quality, and delivery time . . . invitations to bid will be offered simultaneously to Chinese and foreign suppliers." Qin went on to state that CNOOC was involved in establishing an additional helicopter service "in order to increase competition." A similar point was made by another senior Chinese petroleum executive in discussions with a US oil company. The latter individual stated, "We do not want monopolies; in each sector it is our intention to have two, three, or even more firms competing."

The JOSC

President and Chairman of the Board: Yang Guoqing*
Vice-Chairman of the Board and General Manager: Chen Lizhong
Vice-Chairman: Zhang Zhiyou
Directors of the Board and Deputy General Manager: Zhou Guan, Xie Guangxun
Deputy General Manager: Li Youyuan, Li Fei
Address: 4th floor; Baiyun Binguan (White Cloud Hotel) Huanshi Donglu; Guangzhou, China
Telephone: 83751; 89822 Ext. 4304

Three Wholly-Owned and Managed Subsidiaries

Daily Needs, Food and Lodging Service Company
Labor Affairs Company
Material Supplies Company

Six Joint Ventures between JOSC and Other Chinese Units

Helicopter Service Company
Ships and Vessel Company
Diving and Guard Vessel Company
Telecommunications Company
Weather Company
Equipment Maintenance and Manufacture Company

Three Base Companies in which JOSC holds Majority Share

Guangzhou Base Company
Zhanjiang Base Company
Chiwan Base Company

*Formerly chairman of Guangdong Provincial Construction Commission

SOURCES: David Hughes, Y. Price, US Consulate Reports; China Economic News; and National Council files.

China Nanhai Joint Oil Service Company

The Chinese economy is very compartmentalized, and there are intense rivalries among Chinese organizations. Generally speaking, MOPI has responsibility and authority only to explore, develop, and process oil. It would be impossible for MOPI and CNOOC to provide all of the necessary ancillary services such as supply boats and food supplies. As one knowledgeable observer recently noticed, when activities go beyond oil drilling, most projects "need approval by bodies other than the Ministry of Petroleum."

Confusion has often resulted. One observer recently stated: "Sometimes even the most well-informed people can't predict which competing organization in China will prevail." Yet another individual who has visited China many times to discuss helicopter services describes the web of organizations involved in this sector as a "bewildering maze."

In this situation, MOPI and CNOOC have found it necessary to sign joint venture agreements with Chinese organizations as well as with foreign companies. The first such agreement was signed between CNOOC and Guangdong Province to establish the China Nanhai Joint Oil Service Company (JOSC), which has been active since early summer 1982. Its charter was formally published in October. JOSC will attempt to coordinate many of the necessary offshore support activities.

In concept, JOSC combines many of the political and bureaucratic interests necessary to coordinate activities. CNOOC is concerned with finding oil, while Guangdong provincial officials have direct control over local support activities. Central government ministries are also involved because their subordinate units in Guangdong Province are responsible for activities such as telecommunications, air services, and transportation.

Nevertheless, JOSC is an organization with few resources of its own and no track record. The SSB, central government ministries, and other entities may prefer to deal directly with foreign oil companies. As a result, JOSC needs strong support, not only from Guangdong Province and MOPI, but also from higher Chinese authorities who will have to referee

inter-ministerial conflicts.

JOSC, headquartered in Guangzhou, is headed by Yang Guoqing, a former official of Guangdong Province. In its brief existence, it already has formed a number of subordinate companies, some of which are actively negotiating with foreign companies.

To date, JOSC has served two primary functions. It has mobilized Guangdong Province's existing resources in support of offshore oil development. More importantly, JOSC acts as middleman to bring Chinese organizations together with foreign companies to form joint ventures or other forms of cooperative agreements. JOSC's contracts and agreements reported to date:

▶ ***Zhong-Chang Offshore Services Company.*** JOSC has 51 percent of the equity in this joint venture with the Sin-Hai Offshore Service Company (SINOCO). Sin-Hai in turn is a 50-50 joint venture between the Wah-Chang International Group of Singapore and Seahorse, Inc. of the US. Zhong-Chang will own and operate 5,000–7,000 horsepower supply vessels to support rigs drilling in the Pearl River Basin. Seahorse will provide the supply vessels, and SINOCO will charter and manage the vessels as well as train the Chinese crews. Eventually Zhong-Chang may build its own supply vessels.

▶ ***Nan Lian Food Company, Ltd.*** Consolidated Catering Service (China) Ltd., a joint venture between Jardine Matheson and Dairy Farm (HK) formed this joint venture with JOSC to provide catering services and food supplies in support of offshore oil exploration. Nan Lian will be based at Chiwan, which will be the major rear supply base for drilling activities in the Pearl River Basin.

▶ ***China Nanhai Oil Telecommunication Service.*** A letter of intent has been signed by JOSC, the Guangdong Port and Telecommunication Administrative Bureau, and Cable and Wireless PLC (HK), to provide telecommunication services for offshore drilling activities.

▶ ***Zhongxing Offshore Marine Service Company, Ltd.*** Zhongxing is "jointly operated" by JOCS's subsidiary shipping company and Yuet Shun Shipping and Offshore Service, Ltd. Yuet Shun in turn is a joint venture between two Hong Kong companies and two Norwegian companies. Zhongxing will be based in the Chiwan supply base and will have a fleet of ten supply vessels. Xinhua news reports the "cooperative agreement" will run for 10 years, and the activities of Zhongxing will include anchoring, weighing anchor, and trailing and transporting of drilling platforms.

▶ ***Zhongji Ships and Vessels Company.*** JOSC owns 51 percent of Zhongji. 49 percent is held by three foreign companies (Ji Kai of Hong Kong, Kanematsugosho of Japan, and a West German company).

Other Central Ministries

China's many ministries are understandably eager to win some of the offshore business, and if need be, compete with JOSC and MOPI's other agencies for the provision of these services.

The Ministry of Communications has taken the lead in the formation of the Nanshan Development Corporation, which was set up to develop SSB-East's Chiwan rear supply base. CNOOC also is playing a role in Nanshan, but it is not clear whether the Nanshan Development Corporation and JOSC's Chiwan Base Company will cooperate or compete in the construction of the base.

Another example of competition among ministries is in the area of diving services. The China Ocean Engineering Service Company (COESC), under the Ministry of Communications, reports to have subcontracted for work in the South China Sea. COESC has an agreement with the Nautilus Environmental Company of Houston to supply a system capable of supporting divers working in depths in excess of 300 meters. Nautilus's contract with COESC runs for five years and may result in other agreements to manufacture equipment in China. In addition, Taylor Diving Company of the UK has a contract with COESC to provide diving services and complete training programs for Chinese divers. If COESC operates in the South China Sea, it will be in direct competition with the Deepwater Diving and Engineering Service Company under JOSC and its arrangement with Oceaneering International, Inc.

A final example of inter-ministerial competition involves the supply of helicopter services. So far, two companies have been set up to provide helicopter services in the South China Sea. The Helicopter Service Company (HSC) is a joint venture between JOSC and the General Administration of Civil Aviation of China (CAAC), while the China Offshore Helicopter Service Corporation (COHSC) is a joint venture involving the Chinese navy (under the People's Liberation Army), the Ministry of Petroleum Industry, the Ministry of Aviation Industry (MOAI), and the Development Company of Shenzhen SEZ. Although MOPI and CNOOC are involved in both companies, this should not obscure the fundamental clash of interests between the key players: CAAC and the Ministry of Aviation Industry.

Previously CAAC, either acting directly through the Guangdong Regional Aviation Administration or through CHS, had provided helicopter services for offshore drilling in the South China Sea. It had been using its own fleet of helicopters, primarily Bell 212s. Last December, CAAC's China Aviation Supplies Corporation added to its fleet by leasing additional Bell helicopters and support crews from Asahi of Japan and Air Logistics of Louisiana.

The COHSC arrangement, on the other hand, will be influenced by the Ministry of Aviation Industry's contract with two French firms to build Dauphin helicopters in Liaoning. Industry observers do not believe that COHSC will restrict its fleet to any particular helicopter, and in April 1983 there were reports that COHSC had leased Bell 412s from Air Trust of Singapore. Nevertheless, the "preference clause" and MOAI's own interest clearly favor the Dauphin.

This competition will be particularly interesting to watch because it mirrors the divergent views of CAAC and MOAI on the use of foreign fixed-wing aircraft versus those produced in China. The bad blood between CAAC and MOAI could not have been improved when the announcement of COHSC's formation stated somewhat provacatively that COHSC was designed to reduce the load on the overburdened CAAC. It is unlikely that CAAC appreciates the implication that they could not handle the job themselves.

The Hong Kong Connection

Adding to the multiplicity of organizations involved are a number of Hong Kong branches of PRC organizations. To a certain extent, their involvement adds to the complexity,

First Chicago: China's first.

We were the first U.S. owned bank to set up a full correspondent banking relationship in China. The first to open a Representative Office in Beijing. The first to join with the Bank of China in forming a joint venture merchant bank in Hong Kong, CCIC Finance Ltd.

Supported by First Chicago's energy project finance capabilities, CCIC Finance Ltd., was awarded the first consulting contract by China National Offshore Oil Corporation (CNOOC). And our expertise in trade finance led us to make the first U.S. Export-Import Bank loan to China.

You might say, we know how to speak their language.

So if you want things to start working for you in China, get our China Team's Teamwork—backed by a $36 billion financial force—working for you in Chicago.

Call Wally Anker, Chicago at (312) 732-8513. Or Fong Chi, Beijing at 55-7266. Or Shaw Tao, Hong Kong 22-6040.

Before you do anything else, that's the first thing you should do.

FIRST CHICAGO
The First National Bank of Chicago

First Chicago Worldwide

Atlanta — Baltimore — Boston — Chicago — Cleveland — Dallas — Denver — Houston — Los Angeles — Miami — New York — San Francisco — Washington, D.C. — Abu Dhabi — Athens — Barcelona — Beijing — Buenos Aires — Cairo — Calgary — Caracas — Cardiff — Dubai — Dublin — Düsseldorf — Edinburgh — Frankfurt — Geneva — Guernsey — Hong Kong — Jakarta — Kano — Kingston — Lagos — London — Madrid — Manila — Mexico City — Milan — Munich — Nairobi — Panama City — Paris — Port Harcourt — Rome — Santiago — São Paulo — Seoul — Sharjah — Singapore — Stockholm — Sydney — Tokyo — Toronto — Warsaw — Zurich

FIRST TEAMWORK WORKS

but one hopes they may also guide foreign firms to their correct Chinese counterparts.

Hong Kong is already playing an important liaison role between foreign companies and Chinese organizations. Many foreign companies have offices in Hong Kong. Its communication facilities are excellent, and the atmosphere is more amenable to wheeling and dealing and to cutting through the interminable red tape of negotiations in China.

Despite these advantages, the head offices of Chinese organizations are keeping their Hong Kong outposts on a rather tight leash. The outposts are small, skeleton organizations whose primary responsibility is to begin preliminary discussions and guide foreign companies to the proper authorities in China. Except for well-defined tasks, they do not appear designed or equipped to carry through significant negotiations themselves.

The most significant office is a Hong Kong branch of CNOOC recently opened by its director, Ho Yuanqing. In some respects, assigning Ho to Hong Kong is a more significant step than opening the office itself. Ho was the chief negotiator of the Arco contract, and is well-versed in both Chinese and foreign contract demands and negotiating strategies. Ho Yuanqing has been a key CNOOC official, involved in purchasing goods and services. He is listed on the Board of Directors of the Dresser Atlas logging venture and may be on the board of other joint ventures.

Mr. Ho and the CNOOC office will play a key role in advising foreign business people on China's probable equipment and service needs. But Chinese officials have made it clear that this office will not be empowered to negotiate with foreign oil companies, and that its primary role is that of "liaison" with foreign companies.

Moreover, Ho and the CNOOC branch office will work closely with China Ocean Oilfield Services, Inc. In fact, CNOOC is a part owner of COOS (with the Bank of China, China Resources Company, China Merchant Steam Navigation Company, and JOSC), and shares offices with COOS. COOS was set up in the summer of 1982 as the Hong Kong "trade agent" for CNOOC and JOSC. It has very limited personnel, and has maintained a low profile. Since the opening of the CNOOC office, however, COOS officials have hinted that they will become more active, and are now encouraging foreign companies to meet with them.

In addition to these two new organizations, established specifically to coordinate CNOOC and JOSC offshore oil activities in Hong Kong, there is a large number of other Hong Kong offices that will be involved. The most important is China Resources Company. It houses the foreign trade corporations which, according to one report, remain responsible for procuring equipment for onshore operations. Another important organization is the China Merchant Steam Navigation Company, the Hong Kong representative of the Ministry of Communications. CMSNC can be expected to be an important liaison office for all marine activities, such as supply boats and diving services. CMSNC is also deeply involved in the development of the Chiwan support base through its equity in the Nanshan Development Company.

Dave Denny advises Council members on trade and investment opportunities in China's energy sector. Prior to joining the Council in 1982 as an assistant director of the Council's Business Advisory Services department, Denny served as the commercial attache at the US Embassy in Beijing, and as an international trade specialist on the China desk at the Commerce Department.

Foreign technology and expertise are being assimilated at a rapid pace.

China's Rig Industry

Richard S. Ondrik

The Baker Marine official was impressed: "Our previous estimation and ideas were proved too conservative," he told a Chinese reporter late last year. "The quality of the platforms is superior to that of those built in Europe or the United States." He was referring to the two Baker-designed Bigfoot III jackup rigs built for Baker at the Dalian Shipyard, which had just received the A-1 American Bureau of Shipping classification and the US Coast Guard seal-of-approval.

China is making significant effort to become a major rig-builder and exporter, despite the current worldwide glut of offshore rigs. The primary motivation, of course, is to provide rigs for the development of China's offshore oil resources. An added incentive is the so-called "preference clause" stipulated in the government's model contract, which requires that Chinese, not foreign, equipment be used by foreign operators if it is of comparable price and quality. This provision, Beijing realizes, permits the country to earn valuable foreign exchange while strengthening the rig-building industry.

MEETING WORLD STANDARDS
The ABS gives its stamp of approval

To develop the industry, the Chinese have dredged their harbors, constructed new docks and slipways, and reoriented entire shipyards around rig-building. In February 1982 an agreement was reached between the China State Shipbuilding Corporation and the American Bureau of Shipping to station ABS surveyors at major Chinese shipyards to conduct on-site inspection. Then in May 1982 Beijing approved export financing for the first time to the Norwegian buyers of four Chinese-built supply boats. Though no rig-financing deal has yet been struck, it is likely that favorable export financ-

Zhang Ping, New China Pictures Co.

The Kantan III, China's first semisubmersible, is one of five offshore rigs under construction in Chinese yards.

ing terms will be authorized for rig construction as well.

The Chinese are eager to show that their workers are capable of producing products to the standards of foreign yards. This was borne out by the x-ray tests conducted by ABS surveyors on the two Baker rigs in Dalian, which showed that over 99 percent of the welded joints were up to specification on each rig, a "very good" result one ABS official told *The CBR*. The Wah–Hai I built at Guangzhou also received the ABS nod of approval, while several of Guangzhou's ABS-certified welders were contracted out to do final fabrication work on Euroasia's Marathon Le Tourneau jackups being built at Tsing Yi in Hong Kong.

The other classification societies now conducting inspection in China include Bureau Veritas, Nippon Kaiji Kyokai, Norske Veritas, Germanischer Lloyd, and of course Lloyd's Register of Shipping, which reached an agreement with the PRC Register of Shipping in November 1977, covering the reciprocal acceptance of surveys and the training of 10 Chinese surveyors in the UK and Japan. Lloyd's has completed 11 Chinese ships and is currently surveying another 25 under construction at Dalian, Shanghai, and Guangzhou, a Lloyd's official told *The CBR*.

In order to more rapidly assimilate foreign technology and expertise, China has signed an impressive array of cooperation, licensing, coproduction, and joint venture agreements with multinational rig-builders and outfitters, such as Baker Marine, Ingalls Shipbuilding, Bethlehem Steel, and Brown & Root, all of the US, Blohm & Voess of West Germany, Aker of Norway, and France's Union Industrielle et d'Entreprise. Negotiations are underway with many others. A recent agreement signed between the China State Shipbuilding Corporation and the nationalized British enterprise, British Shipbuilders, permits China to share Britain's experience in the management and financing of a nationwide, industry-oriented conglomerate. More importantly, however, the technology-transfer part of the agreement gives the Chinese access to the offshore platform design and construction expertise derived from Britain's North Sea experience.

THE CSSC

Integrating the entire industry

The creation on May 4, 1982 of the China State Shipbuilding Corporation launched a thorough reorganization of China's shipbuilding industry.

Formed out of the former Sixth Ministry of Machine Building, China Corporation of Shipbuilding Industry, now also defunct, and several units formerly reporting to the Ministry of Communications, CSSC integrates the entire industry under a single, unified shipbuilding administration with near-ministry-level authority. Its main subordinate entities:

▶ ***China Offshore Platform Engineering Corporation.*** Formed in September 1982, COPEC is CSSC's national subsidiary in charge of overseeing and coordinating offshore rig production.

It is essentially a general contractor responsible for the design, manufacture, and repair of rigs, production platforms, single-point mooring systems, and auxiliary service and supply boats. COPEC immediately assumed overall responsibility for all repairs and work in progress: the nine jackups (two for Baker Marine at Dalian, one for Wah–Chang International at Guangzhou, and six for the Ministry of Petroleum Industry), the Kantan III semisubmersible (owned by the Ministry of Geology and Minerals), as well as repairs of Topper I and the Nanhai II. The main problem COPEC faces in its short half-year existence is securing markets for its products. Even as CNOOC is shopping for offshore rigs to add to its fleet, three new Chinese-built rigs sit idle in Chinese dockyards—the Wah–Hai I and two Bigfoot IIIs. "Chinese-built," COPEC is quickly learning, does not necessarily mean "Chinese-bought."

▶ ***China Offshore Platform Engineering Design Corporation.*** A COPEC subsidiary, COPEDC was set up in late 1982 to handle research, design, and printwork. A sister organization, the China Brown & Root Marine Engineering and Construction Co., Ltd, was established this January by COPEC and Brown & Root, Inc, a Halliburton subsidiary. The joint venture specializes in complete systems engineering, project management, and building offshore production platforms. It is currently preparing a bid for two Chinese-built platforms to be used in the western Bohai by the Chengbei Oil Development Corporation.

Neither COPEC nor its affiliates have a monopoly in rig design or engineering, however. Numbered among its competitors, apart from foreign firms, is the Ministry of Communication's China Ocean Engineering Services Corporation, and CNOOC's own subsidiary, the China Offshore Design and Engineering Corporation. COESC offers complete platform design and installation services, while the latter specializes in production (oil gathering) systems, and storage facilities.

▶ ***China Ship Scientific Research Center.*** The CSSRC conducts wind,

vibration, icing, wave, pressure, and cavitation simulation tests on behalf of CSSC and COPEDC. The research institute, once a small operation at the Jiangnan Shipyard in Shanghai, now has a staff of 1,400 technical personnel and modern computer facilities to test ship and rig designs. The CSSRC has established relations with over 100 scientific establishments in foreign countries, and is affiliated with several international testing organizations. The center was responsible for investigating the Bohai II disaster of November 25, 1979.

▶ ***Marine Design and Research Institute of China.*** Another important research institute under CSSC, MARIC was created in the early 1950s and known as the Shanghai Ship Design and Research Institute until 1981. With nearly 1,200 engineers and technicians in its 1,700-member work force, it has designed over 500 types of vessels, and claims business ties with more than 30 countries. MARIC is the premier institution in China for the design and development of shipping and marine engineering projects. Its Third Department, established in 1961, designed China's first drillship, the Kantan I, a catamaran vessel launched from the Hudong Shipyard in 1970. Working with the aid of Japanese-supplied blueprints, the Third Department also designed China's first hydraulic self-elevating jackup, the Bohai I. MARIC is the lead designer for the Bohai III, V, VII, IX, and XI, all built or currently under construction at Dalian, as well as the first Chinese semisubmersible, the Kantan III, due to be launched from the Shanghai Shipyard in July 1983.

THE RIG-BUILDING YARDS
Awash with foreign contracts

Most of the licensing or coproduction agreements signed by foreign firms are with individual shipyards, not COPEC, though the latter is China's official contract agent with ultimate responsibility for contract fulfillment. The most important yards are under the three shipbuilding corporations at Dalian, Shanghai, and Guangzhou. The fourth corporation at Tianjin has produced steel jackets for fixed production platforms, but does not have adequate facilities to complete entire rigs. Each of the semi-autonomous regional CSSC subsidiaries is empowered to conduct negotiations and sign binding contracts with foreign and domestic firms. The regional corporations not only have a higher degree of autonomy under CSSC, but are encouraged to compete amongst themselves for contracts. The shipyards reportedly are run on a profit-and-loss basis by technically qualified personnel, with little interference by party cadres. The corporations direct and finance all activities of their component shipyard and shiprepair facilities.

▶ ***Dalian Shipyard.*** China's foremost rig-builder and exporter, the Dalian shipyard has produced the Chinese-designed jackups Bohai I, III, and V, with the Bohai VII, IX, and XI due for delivery in the first quarter of 1983. Dalian has also built several fixed drilling and production platforms for the Chengbei Oil Development Corporation. The first, Platform B, is now drilling its fourth production well in the Chengbei field near the Yellow River delta. Platform A was loaded-out in November and should be installed and drilling by April of this year.

Dalian's first two jackups built for export, the R.N. Haskin and R.M. Womack, both Bigfoot III designs, were delivered to Magnum Marine, a Baker Marine subsidiary, in September 1982. The contract specified that Baker would provide the detailed design specifications, jacking systems, and other main equipment, while China provided steel materials and labor. The two rigs met all contract terms, including US Coastguard and ABS specifications, and were delivered on schedule. Dalian also fulfilled its contract obligations to repair and refit Topper I, Baker's Zapata jackup salvaged from the Gulf of Mexico and towed to Dalian.

Dalian is now licensed to build two Freide & Goldman L-780 Model II jackups. CSSC signed a contract in July 1982 with Ingalls Shipbuilding of Litton Industries for the necessary technical data and detailed blueprints. Ingalls also will procure and deliver equipment, and provide on-site management and technical assistance throughout construction. According to one source, much of the technical data supplied will be used to improve the design of Bohai IX and XI (Bohai VII is virtually complete), prior to building the L-780s. A similar agreement was struck with Aker Engineering AS of Norway for coproduction of Aker H-3 semisub-

OFFSHORE OIL RIGS IN CHINA

24 rigs are currently stationed in Chinese waters or shipyards, of which 10 are active, 9 are idle, and 5 are under construction

Name *Type*	Owner *Operator/ manager*	Location *Deployment status*	Con-struction *Delivery*	Max. depth water (meters)	Max. depth drilling (meters)	Living quarters (persons)	Rig equipment
Bohai Bay active rigs: 5							
Bohai IV Formerly "Edinara," then "JU5" *J-up, Hitachi*	CNOOC *BOHAI & JCODC*	Western Bohai *Drilling*	Hitachi Zosen, Japan, *1977*	90	6,100	108	Drawworks: 2 NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: 5 CAT D399TA; Cranes: 2 NAT N5, 1 LeTourneau PCM 80; Derrick: 147′ Pyramid; Jacking equipment: NAT; Storage: bulk 6,000 cf; liquid mud 2,200 bbl; fuel 5,000 bbl; drill water 5,200 bbl; potable water 1,200 bbl
Bohai V *J-up Chinese design*	CNOOC *BOHAI & JCODC*	Western Bohai *Drilling*	Dalian Shipyard, *1982*	40	6,100	NA	Drawworks: NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: CAT; Cranes: 2 NAT OS-105; *SER system:* GE
Bohai VI *J-up, Bethlehem JU250MS*	CNOOC *BOHAI*	Western Bohai *Needs repair*	Bethlehem Shipyard, Singapore, *1979*	60	6,100	93	Drawworks: 1 NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: 4 CAT D399TA; Cranes: 2 NAT OS-105; Derrick: 147′, 1,392,000 lbs.; Storage: bulk 6,600 cf & 3,000 sacks; liquid mud 2,200 bbl; fuel 1,800 bbl; drill water 4,700 bbl; potable water 450 bbl
Bohai VIII *J-up, Marathon 82-SD-S self-elevating*	CNOOC *BOHAI & JCODC*	Western Bohai *Drilling*	Marathon LeTourneau, Singapore, *1980*	75	6,100	90	Cranes: 3 LeTourneau PCM-120AS with 100′ boom & 50 ton lift; Drawworks: NAT 1320 UE, with 4 GE alternators, 1 GE generator; Pumps: NAT 10-P-130 Triplex; Prime movers: 4 CAT D399TA; Drive System: Ross Hill SCR
Bohai X *J-up, Marathon 82-SD-C cantilever*	CNOOC *BOHAI & JCODC*	Western Bohai *Drilling*	Marathon LeTourneau, Singapore, *1980*	75	6,100	90	Cranes: 3 LeTourneau PCM-120AS with 100′ boom & 50 ton lift; Drawworks: NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: 4 CAT D399TA
Idle Rigs: 6							
Bohai I	CNOOC *BOHAI*	Tanggu, Tianjin *Decommis-sioned*	Dalian Shipyard, *1972*	30	5,500	78	BOP: NL Shaffer, Stewart & Stevenson Koomey BOP Control System; Remaining equipment Chinese
Bohai II Formerly "Fuji" *J-up, Mitsubishi*	CNOOC *BOHAI*	Sunk 11/25/79; salvaged 7/15/82; Tanggu, Tianjin *Decommis-sioned*	Mitsubishi, Japan, *1969*	55	4,600	79	Drawworks: EMS C3 Type II; Pumps: 2 EMS F-1600; Prime movers: 3 EMD 16-645E-1 (6,000 hp); Derrick: 147′ Pyramid; Cranes: 3 LeTourneau; Jacking equipment: Delong; Storage: bulk 2,700 cf; liquid mud 1,700 bbl; fuel 5,886 bbl; drill water 1,948 bbl; potable water 888 bbl
Bohai III *J-up, Chinese design*	CNOOC *BOHAI*	Converted for accommo-dation services at Tanggu, Tianjin	Dalian Shipyard, *1982*	40	6,100	80	Drawworks: 200 ton Chinese; Pumps: 3 Chinese-built; Prime movers: 4 DC (600 hp); 3 AC (500 hp) Chinese-built; Cranes: P&H Kobe; BOP: NL Shaffer; Testing equipment: Flopetrole (Fr); Japanese seawater pumps

Robert N. Haskin *J-up, Big Foot III BMC*	Magnum Marine (Baker)	New rig *Available* at Dalian	Dalian Shipyard, *1982*	40	6,100	NA	Both Big Foot III rigs contain: Jacking equipment: BMC rack & pinion; Crown block: Dreco 760 ton with 8 60″ OD sheaves for 1⅜″ wireline; Traveling block: GD model 55T660; Derrick: Dreco 20 beam leg, 147′ with 100 kip capacity; Drawworks: Double Drum with 2 1,000 hp motors; Pumps: 7
Robert M. Womak *J-up, Big Foot III BMC*	Magnum Marine (Baker)	New rig *Available* at Dalian	Dalian Shipyard, *1982*	40	6,100	NA	Centrifugal mud pumps; BOP: 1 13⅝ single ram 10,000 wp; 1 13⅝ double ram 10,000 wp manifold; 1 13⅝ 5,000 psi annular; Storage: bulk 6,600 cf & 10,000 sacks; liquid mud 1,500 bbl; fuel 1,964 bbl; drill water 6,000 bbl; potable water 1,140 bbl; pipe rack 700,000 lbs.
Topper I *J-up, Zapata*	Magnum Marine, (Baker)	*Available* at Dalian	Marathon LeTourneau, *1967*; refitted at Dalian, *1982*	40	3,700	33	Drawworks: NAT 80-B; Pumps: 2 NAT 9-P-100 Triplex; Prime movers: CAT D-397; Derrick: 140′; Cranes: 2 LeTourneau 25T@30′; Storage: bulk 2,460 cf & 2,460 sacks; liquid mud 720 bbl; fuel 600 bbl; drill water 1,311 bbl; potable water 731 bbl
Under Construction: 3							
Bohai VII *J-up, Chinese design*	CNOOC *BOHAI*	Dalian	Dalian Shipyard; due 1Q/1983	40	6,100	NA	Drawworks: EMS C2; Pumps: 2 EMS F-1600; Prime movers: CAT; Jacking equipment: EMS; SER system: GE
Bohai IX *J-up, Chinese design*	CNOOC *BOHAI*	Dalian	Dalian Shipyard; due 1Q/1983	40	6,100	NA	Drawworks: EMS C2; Pumps: 2 EMS F-1600; Prime movers: CAT; Jacking equipment: EMS
Bohai XI *J-up, Chinese design*	CNOOC *BOHAI*	Dalian	Dalian Shipyard; due 1Q/1983	40	6,100	NA	Drawworks: EMS C2; Pumps: 2 EMS F-1600; Prime movers: CAT; Cranes: Marathon LeTourneau; Jacking equipment: EMS

East China Sea active rigs: 2

Kantan I *Drill Catamaran, Chinese design*	MOGM *CNGEC*	East China Sea, *Rig may have been decommissioned and scrapped by MOGM*	Shanghai Hudong Shipyard, PRC, *1975*	75	2,000	NA	Built by joining two old freighters with drilling deck and derrick spanning hulls; all equipment Chinese; Drill rig built by Lanzhou Petroleum & Chemical Machinery Works, Gansu
Kantan II Formerly "JU III" *J-up, Robin Loh*	MOGM *CNGEC*	East China Sea Longjiang #3 (well) *Drilling*	Robin Loh, Singapore, *1976*	90	7,600	106	Drawworks: NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: 5 CAT D399TA; BOP: 10,000 PSI Stack; Derrick: Pyramid, 147′ 1,392,000 lbs capacity; Storage: bulk 5,800 cf; liquid mud 1,800 bbl; fuel 4,996 bbl; drill water 5,512 bbl; potable water 2,588 bbl
Under Construction: 2							
Kantan III *Semi, reportedly AKER H-3 design modified by MARIC*	MOGM *CNGEC*	Shanghai	Shanghai Shipyard; due 7/1983	200	6.000	NA	Prime movers: 7 engines: CAT D399 & 3406 EMS Fittings; Mud system: Geosource; Well fix equipment: Haliburton; Oil testing equipment: Otis; Gas Sample System: Salwico SW-2000; BOP: NL Shaffer 18¾″, 10,000 PSI; Drill system: Vetco Offshorer including dual-cylinder motion compensator, a riser and guideline tensioner system, and 18¾″ SG-5 wellhead system, a 21″ marine riser system and choke & kill manifold
Unnamed construction pending, *Semi BMC-1600*	Nanhai-Baker *JFP Well Services*	Shanghai	Jiangnan Shipyard; due 1985	NA	NA	NA	To be outfitted by Baker Marine

South China Sea active rigs: 3

Nanhai III *J-up, Hitachi*	CNOOC *NANHAI/ Total Chine*	East portion of Beibu Gulf Wushi 16-1-4 (Well) *Drilling*	Hitachi Zosen, Japan, *1980*	90	7,600	108	Drawworks: NAT 1320 UE (25,000 hp); Pumps: 2 NAT 10-P-130 Triplex; Prime movers: 2 GM 16-645 E9, 1 GM 12-645 E9 & SCR System; Rotary table: NAT C-375; Cranes: 2 NAT OS-105 37T@20′ & 1 LeTourneau PCM-80 AS 25T@20′; Storage: bulk 168 cm × 4; liquid mud 169 cm × 4; fuel 885 cm; drill water 874 cm; potable water 508 cm
Nanhai IV *J-up, Hitachi*	CNOOC *NANHAI/ Total Chine*	West portion of Beibu Gulf Weizhou 12-3-3 (Well) *Drilling*	Hitachi Zosen, Japan, *1980*	90	7,600	108	Same as Nanhai III (above)
Glomar Java Sea *drillship*	Global Marine *NANHAI/ ARCO*	Yingge Hai Basin, Yacheng 8-2-1 (Well) *Drilling*	Levingston Shipyard, *1975*	300	9,100	84	Drawworks: NAT 1625 DE; Pumps: 2 NAT N1300 Duplex; Prime Movers: 8 CAT D-398; Derrick: 142′; BOP: Cameron 13⅝″ double ram 10,000 & Hydril 18¾″ annular 10,000; 12 pt. mooring system; auto pipe rack system; Storage: bulk 6,590 cf & 12,000 sacks; liquid mud 3,000 bbl; potable water 510 bbl

Idle rigs: 3

Nanhai I *J-up, Hitachi*	CNOOC *NANHAI*	Stacked at Beihai, Guangxi in Tonkin Gulf (needs repair) *Stacked*	Hitachi Zosen, Japan; Robin Loh, Singapore, *1976*	90	7,600	108	Drawworks: NAT 1320 UE; Pumps: NAT 10-P-130 Triplex; Prime movers: 5 CAT D-399TA; Cranes: 2 NAT H65A; Derrick: Pyramid 147′, 1,392,000 lbs capacity; Storage: bulk 5,800 cf; liquid mud 1,800 bbl; fuel 5,088 bbl, drill water 6,498 bbl; potable water 1,294 bbl
Nanhai II Formerly "Borgny Dolphin," then "Bai Long" *Semi, Aker H-3*	CNOOC *NANHAI*	Under repair by Huangpu Shipyard at Humen Dahushan *Under repair*	Aker, Norway, *1974*	300	9,100	78	Drawworks: EMS C-3 (3,000 hp); Pumps: EMS FA-1600; Prime movers: 4 Bergen Type PVGB 12@2200 hp; Cranes: 2 Aker with 128′ booms; Derrick: 160′, 1 million lb hook capacity; BOP: Cameron; Storage: bulk 18,00 cf & 4,000 sacks; liquid mud 1,600 bbl; fuel 16,900 bbl; drill water 14,000 bbl; potable water 340 bbl
Wah-Hai I *Bethlehem J-up, JU200*	Wah-Chang Int'l. & National Supply *Asia-Pacific Drilling*	New rig at Guangzhou *Available*	Huangpu Shipyard, GSC, *1982*	61	6,700	80	Drawworks: NAT 1320 UE; Crown Block: NAT 760FA; Hook: NAT 660-G-500; Swivel: NAT P-500; Pumps: 2 NAT 12-P-160 Triplex; Prime Movers: 2 EMD 16E8G & 1 EMD 8E8G; Rotary Table: NAT C-375; Cranes: 2 NAT OS-105; Derrick: 147′ up to 1,300,000 lbs; Mud System: Hutchison Hayes & Swaco; SER system: GE; BOP: 3 Cameron 13⅝″ (single ram 10,000, double ram 10,000, annular 5,000), 1 NL Shaffer 21¼″ spherical 2,000, with Koomey T20180-3S control; Storage: bulk 6,000 cf & 3,000 sacks; liquid mud 1500 bbl; fuel 1800 bbl; drill water 5,900 bbl; potable water 1,000 bbl; pipe rack 3,000 sq ft.

BOHAI Bohai branch of CNOOC
CNGEC China National Geological Exploration Corporation (MOGM)
CNOOC China National Offshore Oil Corporation (MOPI)
JCODC Japan-China Oil Development Corporation
MARIC Marine Design and Research Institute of China
MOGM Ministry of Geology and Minerals
MOPI Ministry of Petroleum Industry
NANHAI Nanhai branch of CNOOC
NANHAI-BAKER China NANHAI-BAKER Drilling Corporation
NAT National Supply
CAT Caterpillar
EMS Continental EMSCO
GM General Motors
GE General Electric
EMD Electric Motors Division (GM)
cf Cubic feet
cm Cubic meters
bbl Barrel
BOP Blowout preventer

NOTE: Table does not include fixed drilling rigs or production platforms, or rigs operated by Hong Kong or Taiwan.
SOURCE: National Council Petroleum files. Table prepared by Richard Ondrik

mersibles. To date, however, Dalian has failed to interest CNOOC or a foreign firm in buying either Aker H-3 or an Ingalls L-780.

Finally, Dalian is the proposed construction site for two more production platforms for the Chengbei field, if the Chengbei Oil Development Corporation awards the contract to the China Brown & Root Marine Engineering and Construction Company, Ltd. The contract could result in the building of two platforms, and the development of an assembly-line type of production platform facility to ensure a continuous supply of fixed drilling platforms.

▶ ***Jiangnan Shipyard.*** One of China's oldest and largest, Jiangnan is one of ten shipyards under the administration of the Shanghai Shipbuilding Corporation. It is the location of the China Ship Scientific Research Center, and the Shanghai Design Research Institute.

The shipyard is presently under a $100 million contract with Baker Marine to coproduce a BMC-1600 semisubmersible. Baker is providing the basic design, equipment, and materials; Jiangnan the labor, fabrication, and assembly; MARIC the detailed design and construction plans; CSSRC simulation testing; while COPEC is in charge of overall supervision and coordination. The rig will be owned by the China Nanhai–Baker Drilling Corporation, a Baker Marine–CNOOC joint venture established in March 1983 that intends to build offshore oil rigs for sale or lease to companies operating both within and outside Chinese waters. The profits, and risks, will be shared equally. Although rig builders normally avoid getting involved in operating rigs, Nanhai–Baker also has decided to offer its services as a drilling contractor, operating rigs and leasing drilling services to CNOOC's subsidiaries and joint ventures. The BMC-1600, the first rig in its drilling fleet, will be managed by JFP Well Services, a Baker subsidiary. The Bank of China is expected to provide a $70 million loan to construct the semi. Delivery is scheduled for sometime in 1985.

▶ ***Shanghai Shipyard.*** Now China's third-largest shipyard, the Shanghai Shipyard has received the major share of SSC's capital investments. An integrated complex for both shipbuilding and repair, it also manufactures castings, shipping containers, and marine diesel engines for export. For the past three years the yard has been constructing the MARIC-designed semisubmersible, Kantan III. Very similar in design to an Aker H-3, and with a working displacement of over 20,000 tons, the rig is due for delivery to the China National Geological Exploration Corporation (under the Ministry of Geology and Minerals) in July 1983. Though no foreign firm is directly involved, much of the rigs's equipment comes from foreign suppliers, including Caterpillar diesel engines, EMSCO fittings, Geosource mud-purifying equipment, Halliburton well-fixing equipment, Otis oil-testing equipment, an NL Shaffer BOP, VETCO offshorer drill package, and a Salwico gas-sampling system.

▶ ***Shanghai Hudong Shipyard.*** Also under the SSC, this yard built the famous Kantan I in 1975, China's first offshore drillship. The vessel was constructed by joining together two vintage Chinese-owned British

New Orleans.
We wrote the book on service.

Service *(dictionary definition)* the occupation or function of serving. **Service** *(N.O. maritime community definition)*—useful labor that produces tangible savings in time and money. **Service** *(Port of New Orleans version)*—experienced trade developers ready to serve where *you* are—Chicago, New York, St. Louis, Munich, Panama, Tokyo, Hong Kong, Melbourne, New Orleans. Try us for quick, accurate service.

Contact: Port of New Orleans, P.O. Box 60046, New Orleans, La. 70160, U.S.A. (504) 522-2551; TELEX 587496 Cable—CENTROPORT. NEW YORK, Joseph E. Filoramo (212) 422-0786; CHICAGO, Paul Kreis (312) 939-0722; ST. LOUIS, Rolf Wisness (314) 241-6320; NEW ORLEANS, Wally Lagarde (504) 522-2551.

THE PORT OF NEW ORLEANS
THE TOTAL PORT

cargo ships with a drilling deck and derrick mounted between the two hulls. Only Chinese equipment was used, with the majority built in Gansu Province by the Lanzhou Petroleum Chemical and General Machinery Works. In addition, the shipyard has produced several of the Binhai-series double-hull drill barges now operated as fixed platforms in the Gulf of Bohai, as well as high-quality oceanographic research vessels. The latter are used extensively in geophysical prospecting, and for the study of sediment dynamics and bottom-layer oceanography, among many other data-gathering functions.

▶ ***Guangzhou Shipbuilding Corporation.*** While its Huangpu and Guangzhou shipyards are neither as large nor as modern as those in Dalian or Shanghai, GSC is making a strong push to become the foremost supplier of offshore rigs in the South China Sea theater. GSC is making a considerable investment in worker training programs, and plans to establish a new shipyard at the mouth of the Pearl River to specialize solely in rig fabrication.

A recent agreement with a French firm could make the Huangpu Shipyard the most modern and advanced rig-fabricating yard in China, and may well set a pattern for joint venture rig production to be followed by others in the future. The 15-year contract was signed in November 1982 between Union Industrielle et d'Entreprise and COPEC. It provides for the construction of an offshore platform production line and the coproduction of oil drilling and production platforms for use in the South China Sea and for export. The Chinese side will furnish land and labor, while UIE will provide designs and equipment. Profit will be split evenly. The $70 million production plant will be built by leveling a hill at the Huangpu Shipyard. The joint venture is scheduled to begin producing jackups, semisubmersibles, and production platforms in about two years.

The Huangpu Shipyard's premier accomplishment was building the Wah–Hai I, a Bethdrill JU 200 MC mat-cantilever jackup. The rig's financing and construction was handled by the Wah–Chang International Marine Industry Corporation, a joint venture between GSC and the Wah–Chang International Group of Singapore. Both the joint venture and Huangpu shipyard were licensed by Bethlehem to produce four jackups of the JU 200 designs, with GSC providing labor and basic materials; National Supply the drilling package and equipment; Bethlehem all designs, drawings, specifications, and prefabricated leg sections; and Wah–Chang its materials coordination and marketing expertise. The Wah–Hai I was an in-house placement, with the suppliers and Wah–Chang each taking a share of the rig: Bethlehem, $5 million; National Supply, $12 million; and Calbest Investments, Ltd., a Wah–Chang subsidiary, $21 million. Unfortunately, the completed rig has yet to be either leased or sold. The foreign partners reportedly are disappointed that top Chinese officials have offered less-than-enthusiastic assistance in marketing the Chinese-built jackup. It is well known that CNOOC and the Japan–China Oil Development Corporation are looking around for additional jackups to be used in the Gulf of Bohai, however no discernible pressure is being exerted by Chinese authorities to add the Wah–Hai I to their shopping list. Nor has the successful completion of the Wah–Hai I led to any orders from either CNOOC or foreign rig buyers. Despite these problems, the Wah–Chang International Marine Industry Corporation is still reportedly interested in building an $80 million Bethlehem-designed semi at the Huangpu shipyard.

The Huangpu Shipyard also won the contract, formerly held by a Japanese shipyard, to repair China's only semisubmersible, the Nanhai II. Repairs are virtually complete on the imported Aker H-3, which lacks only a blowout preventer stack. The rig is presently undergoing tests at Humen Dahushan, where the Pearl River widens into the estuary.

Four of the GSC's twelve yards have subcontracted their labor and services to the Hong Kong-based Euroasia Shipyard, Ltd., a member of the C.Y. Tung group. The Huangpu, Guangzhou, Wenchong, and Guijang Shipyard (in Guangxi Province but still under GSC) were contracted to do welding and prefabrication work on the platform and tubular lattice-work leg sections of Euroasia's Marathon Le Tourneau 82-SD-C and 116-C jackup rigs. Euroasia also imported ABS-certified welders from GSC to do the final fabrication work on the three jackups. In January, Gotaverken Arendal of Sweden licensed Euroasia to build its GVA 3000 design semi-submersible and stipulated in the agreement that major parts of the rig are to be built in China. It is expected that a joint venture drilling company, currently under negotiation between CNOOC and Houlder Offshore, another C.Y. Tung company, will contract Euroasia to build the rig, which will subcontract work to the four GSC shipyards.

China has taken significant steps to become a major force in the world of rig and production platform construction, nevertheless the domestic content of Chinese-built vessels is still a relatively small percentage of the overall product. China's petroleum equipment industry can produce very little of the sophisticated and high quality equipment needed for offshore vessels. China must still rely on foreign suppliers and imported equipment to produce world-class offshore rigs. This handicap gives the edge to foreign firms in the area of quality and reliability, which may explain why China's preference clause has failed to scare off foreign firms. Indeed, in January, Angle Dutch Offshore Concrete formed a joint venture with Obayashi Gumi and Toyo Construction both of Japan, for the sole purpose of manufacturing production platforms to be used in China's offshore fields. Although China cannot hope to build most, or even a majority, of the drilling vessels used by foreign operators in its offshore concessions, the country can still lay a solid groundwork for the self-reliant development of its offshore reserves that it so strongly desires.

Richard S. Ondrik received an MA from Indiana University in economics and Chinese, and is currently completing a major study for the Council on China's petroleum equipment industry. The study is based on questionnaires sent to the PRC's major petroleum equipment factories, and will be released to member companies in May.

請來電報・寫信・或打電話給我

WIRE ME • WRITE ME • CALL ME

Lomaz Financial Corporation

General Corporate Headquarters
Deerfield, Ohio 44411 U.S.A.
Dial International Operator, 216-584-7001

Importers of

Selling to

Discount Department Stores • Direct Mail
Premium Sales • Chain Stores
Mail Order Specialties

TELEX
986399

Modern Sales Offices
Birmingham, Alabama • Deerfield, Ohio
Naples, Florida • Mobile Alabama

China is building more rigs, but foreign companies might have to lease rigs from abroad if demand keeps rising.

Rig Leasing

Richard S. Ondrik

The current oil glut has created a worldwide flotilla of idle drilling vessels that might one day be leased to operators drilling in the South China Sea and other locations offshore China. Leasing and buy-back arrangements are increasingly viewed by Chinese as the only way to provide enough rigs to meet the country's growing needs.

The concept of leasing is no stranger to Chinese corporations. In the last two years, leasing arrangements have been concluded for fixed-wing aircraft, shipping containers, helicopters, computers, transport vehicles, and major pieces of machinery and other capital equipment for factories. It is estimated that a minimum of 30 offshore rigs will be needed in China in the next few years, or nearly triple the number currently engaged.

It is likely that several companies and joint ventures will be formed to specialize solely in leasing. Others already have been established to lease rigs in conjunction with other services. One such arrangement is the China Nanhai–Baker Drilling Corporation, that will build, lease, and operate offshore oil drilling vessels. At the March 16 signing ceremony that set up the $20 million 50-50 joint equity venture between CNOOC and Baker Marine of Ingleside, Texas, Baker Marine officials announced that the new company would eventually lease both Chinese-built and foreign drilling vessels. The venture now seeks financing to build a BMC–1600 semisubmersible at Shanghai's Jiangnan Shipyard. The semi will be owned by Nanhai–Baker, and managed by JFP Well Services, a Baker subsidiary.

Other drilling contractors, such as Reading & Bates, Sedco Drilling, Western Oceanic, and Houlder Offshore, are actively pursuing similar negotiations with CNOOC. Reading & Bates has already formed the Asia–Pacific Drilling Company in a joint venture with Wah Chang International, to lease the Chinese-built Bethlehem JU200 jackup, Wah–Hai I. These cooperative ventures, and the transfer of technology and management experience they facilitate, will vastly increase China's ability to build, lease, and operate offshore rigs.

All of the rigs currently leased in Chinese waters are owned by the Ministry of Petroleum Industry. The Bohai VIII was leased to British Petroleum for its 1980 stratigraphic drilling program in the Yellow Sea, while Elf Aquitaine leased the Bohai X for drilling in the central Bohai in 1981. Currently, the Bohai IV, V, VIII, and X are leased to the Japan–China Oil Development Corporation in the western Bohai. Total Chine has contracted China's two new Hitachi jackups, Nanhai III and IV, for drilling in their Beibu Gulf concession. The Chinese are pressuring Elf to use the soon-to-be-commissioned Dalian-built jackup, Bohai VII, in spite of protests by Elf that the rig is unsuited to the soft seabed conditions at the proposed drillsite. Elf drilled two dry wells in 1981, discontinued drilling in 1982, and intends to drill at least one new well in its concession in 1983.

The Ministry of Petroleum Industry's seven active rigs are contracted, supervised, and operated through CNOOC and its chief subsidiary oil companies in charge of the Bohai, Nanhai, and Huanghai (Yellow Sea) theater of operations. These companies are empowered to negotiate and implement detailed leasing arrangements, while CNOOC and the Petroleum Ministry must approve the contract terms.

The three rigs owned by the Ministry of Geology and Minerals (the Kantan I, II, and the Kantan III under construction) currently are not for lease. They are fully engaged in the East China Sea, which seems to have been set aside as MOGM's exclusive zone for drilling and exploration.

The extent of future leasing business of course depends on the pace of offshore drilling. The Ministry of Petroleum Industry and CNOOC want to have the most exploration wells drilled in the shortest possible time —they want the foreign contractors *drilling*, not waiting for Chinese-supplied equipment. The China State Shipbuilding Corporation and Ministry of Machine Building Industry, on the other hand, want to earn foreign exchange by supplying as much Chinese equipment as possible.

Another constraint is the inherent complexity of rig-leasing deals. It will take time for China's many new petroleum corporations to develop the financial sophistication needed to conclude large-scale leasing arrangements. Offshore rig leases generally involve many parties, and a complex web of responsibilities shared by owner, operators, contractors, and subcontractors. The agreements entail not only the equipment used, but labor, wages, and services. For example, a rig-owner can lease to an operator the rig only, the rig plus a skeleton crew, or the rig with a full complement of personnel. The operator may then contract drilling services to a third party, or lease the rig, with or without crew, to a drilling services contractor. Any or all services—labor, equipment, well-logging, towing, diving—may be subcontracted to other parties. Furthermore, the owner, operator, drilling services contractor, or subcontractor, may function in a combination of such roles, or may lease-back services from its own subcontractors. There is no generic procedure for a rig-leasing arrangement, and the obligations and rights of each party must be spelled out in their unique contractual agreements.

Perhaps the most difficult part of any leasing deal in China concerns personnel. Most Japan–China Offshore Development Corporation rigs, for example, have almost entirely Chinese crews, with just a few Japanese managerial and technical

personnel. CNOOC would prefer to use the French and Japanese agreements as a model to promote the use of as many Chinese nationals as possible, but the major foreign oil companies will most likely follow the Arco example. Arco is using the only foreign-owned vessel currently drilling on China's continental shelf, the Glomar Java Sea. The crew is composed mainly of expatriate personnel, drawn from the drillship's owner, Global Marine and Arco. The operating crew, however, includes Chinese roughnecks and apprentices drawn from the Nanhai branch of CNOOC.

CNOOC has also insisted on high wage rates for Chinese crew members, extensive training, and assurances that Chinese will replace expatriates within a designated time period.

Standard day rates for Chinese crew members will be high, in the $50–60 per head range, or three times the average ($15–18 per day) rate for Asian drilling operations in the industry.

Chinese workers will receive only about 10 percent of the total wages paid with the remainder representing front-end profits to CNOOC's subsidiaries to finance their own drilling operations. Once agreement has been reached and the Chinese have extracted the maximum possible wage rates, a reported negotiating tactic is to then demand that wages be paid for days-off as well as days-on the rig, a practice unheard of in the oil industry. In 1981, for example JFP Well Services signed a bareboat charter agreement with CNOOC's Nanhai branch for the jackup Nanhai I to drill outside Chinese waters. The contract stipulated a day rate of $22,000, which is about average in the industry, but the Nanhai I needed nearly three months of repairs costing about $500,000. Moreover, JFP had to maintain a 15-member Chinese crew at inflated rates, and was prohibited from operating within a 100-nautical-mile radius of the Paracel Islands. JFP was unable to contract its drilling services, and let its option on the Nanhai I lapse in August 1982.

The cost of Chinese personnel is a growing concern to foreign companies. Many of the pipefitters, welders, and other technical personnel assigned to Chinese rigs lack experience in the oil industry, and some have never been to sea. The unfamiliarity with equipment and procedures not only reduces productivity, but also creates severe safety and maintenance problems. The Dalian-built jackup Bohai III was delivered in 1979 and drilled only one test hole in the southern Bohai before it had to be permanently stacked at Tanggu.

Another case in point is the imported (Aker H-3) semisubmersible Nanhai II, which drilled only four wells in the South China Sea over a four-year period, before being rendered inoperable in 1981 because of lack of maintenance. (Comparable rigs with trained crew average 3–4 months per well under similar conditions.) During this period, the Chinese erected extra crew quarters on one end of the semi, which did not interfere with actual drilling operations, but did alter the semi's center of gravity, thus increasing the likelihood of its capsizing in heavy weather. Even when its extensive repairs by the Huangpu Shipyard are completed, it is doubtful that the American Bureau of Shipping will approve the vessel for use by international operators while its stability is in question. In addition, the Nanhai II's blowout preventer had to be completely stripped and rebuilt, though there was no blowout. The deterioration resulted entirely from poor maintenance.

Western observers aboard Chinese rigs have noted drill pipe and other supplies stacked haphazardly on deck, mud-encrusted seawater pumps, corroded cables and drawworks, and the lack of drilling mud solids control. Such conditions, if allowed to continue unchecked, can only discourage the use of Chinese equipment and enhance the attractiveness of leasing foreign rigs.

New regulations shed light on the issues of oil company profits and the status of subcontractors.

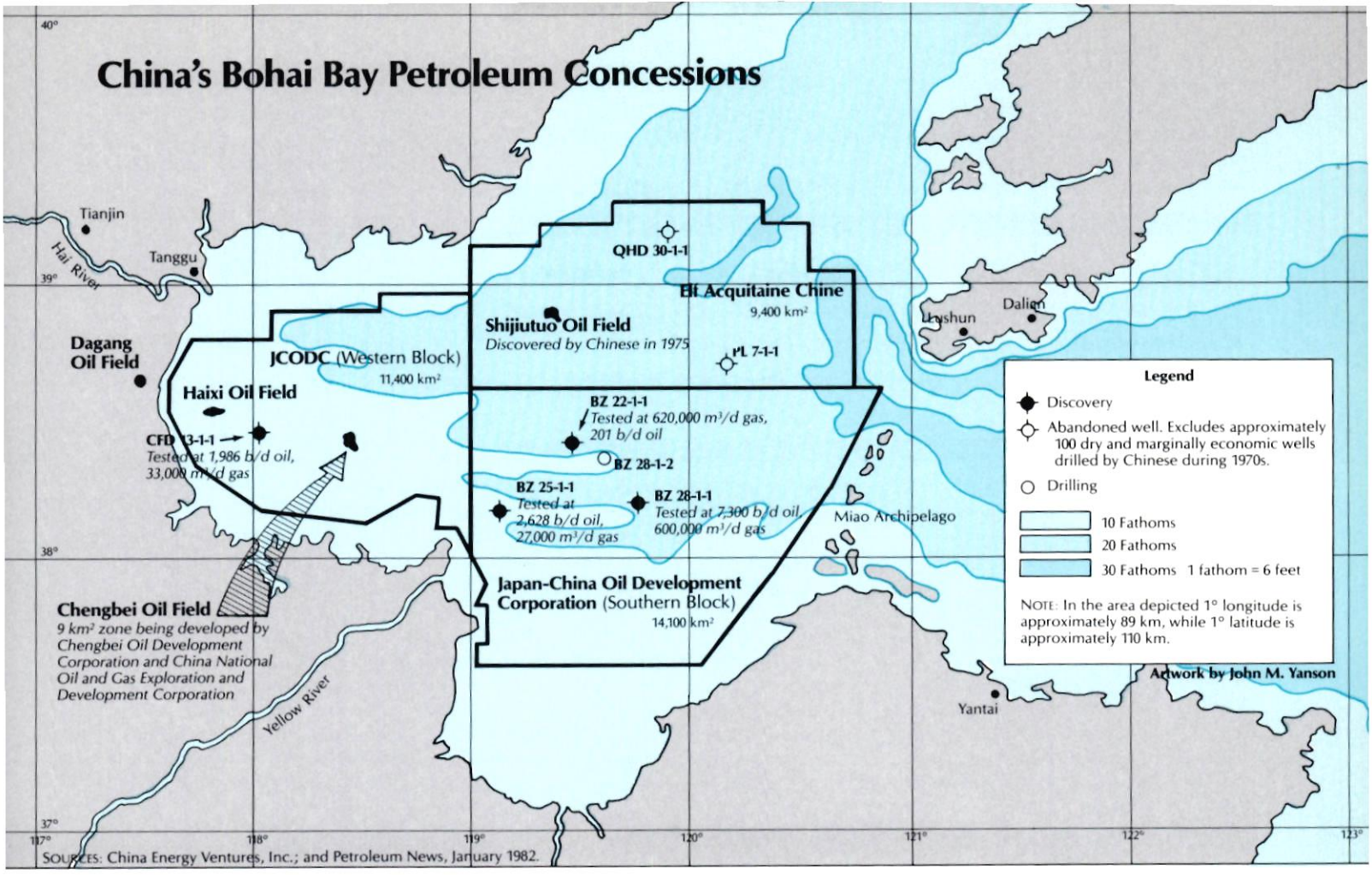
The Evolving Legal Framework

Robert C. Goodwin, Jr.

One of the basic questions facing a foreign party in dealing with China is the extent to which the country is likely to develop a sophisticated legal system or, more accurately, a predictable legal system. In a country where new constitutions appear every few years and legal principles are to serve the state and state plan, there is little likelihood of the development of a legal system on the US model. That does not mean, however, that the Chinese are not attempting to develop the legal framework to channel and shape certain types of decisions. In fact, the Chinese are making great efforts to foster a "law consciousness" among officials to increase the confidence of foreign traders and investors whose participation is required to help China achieve its modernization goals.

The promulgation of China's new constitution on December 4, 1982, which gives foreign investment a lawful status in China for the first time, is of great significance to all investors, including the oil companies. Unlike the 1978 constitution, which recognized only "socialist" and "collective" forms of ownership, the new constitution also recognizes individual businesses and foreign companies, and implies broad flexibility on the question of ownership by such entities. In addition, it attempts to clarify some basic legal questions involving the authority of various governmental bodies to issue regulations and interpretations.

Within the past year or so China



SOURCES: China Energy Ventures, Inc.; and Petroleum News, January 1982.

has also enacted many laws governing foreign investment, income taxes, offshore petroleum development, and office registration by foreign companies, to mention a few. Nevertheless, foreign business people still face uncertainty in understanding and applying Chinese laws. One significant problem is the Chinese tendency to treat the requirements of pending laws as if they had already been adopted without, in some cases, allowing the foreign party to see the draft law. Another is the reliance on unpublished regulations which are confidential or "internal," and which foreigners are not permitted to see.

Another problem is the lack of a body of official interpretation of the laws. In the US and most developed countries there is a recognized process for interpretation of the laws and regulations that are applicable, particularly in the area of economic regulation. At the other end of the spectrum is the situation that exists in many developing countries, where no such process exists and individual officials exercise considerable discretion in interpreting the general terms of the law. In China, it is still unclear at this stage which path will be followed. One encouraging sign has been the report by a recent legal delegation of the National Council that the China Council for the Promotion of International Trade (CCPIT) has established a "Legal Counsel's Office" to help provide clarification of Chinese law. A legal opinion issued by CCPIT has no binding effect on the Chinese government, but CCPIT will take responsibility for its opinions and will assist the foreign party in dealing with a ministry that might have a contrary view. In addition, the new constitution empowers the Standing Committee of the National People's Congress to issue official interpretations of laws enacted by the Congress. It is possible that these developments could be the first steps in the establishment of a jurisprudence that would lend considerably more certainty to the present incomplete body of Chinese law.

The Model Contract

The model contract promulgated by the Chinese National Offshore Oil Corporation represents an interesting example of a contract that has been used to fill the need for a basic legal framework. By virtue of its applicability to all of the companies that will be involved in offshore oil exploration, the contract has assumed a role similar to that of a legislative enactment.

Given the lack of detailed legislation relating to foreign investment, contracts have always played an important part of the Chinese legal framework for foreign companies, with the terms of the contract itself governing the legal relationship between the Chinese and foreign entity. For example, prior to the enactment of the laws on taxation of foreign companies, taxation issues had been addressed in contracts and some of these contracts still govern the level of taxation of particular companies even after the passage of the Foreign Enterprise Income Tax Law.

The model contract, issued on May 10, 1982, contains a total of 30 articles with 4 annexes. These set forth the rights and obligations of foreign oil companies in both the exploration and production phases of offshore oil development in China. In addition to the basic ques-

tion of how much oil a company may retain in profits, should commercial discoveries be made, the Chinese and foreign oil companies found it difficult in the preliminary discussions to agree on the exploration work program, the obligations for technology transfer, and a host of questions involving the operational flexibility that the companies will have.

Certain provisions of the model contract are forcing foreign oil companies and their suppliers to consider mechanisms for doing business which, in better times, would be of little interest.

It is useful to keep in mind that the model contract does not establish a new legal entity that will carry out exploration and production activities. The Joint Management Committee, to be composed of CNOOC representatives and the foreign company, will have control over all budgeting and planning. It is a joint decision-making body, not a contract-signing authority. Supply and service companies will still deal directly with the operator who, under supervision from CNOOC, will ultimately be responsible for ensuring that the model contract provisions are complied with. Thus, from the point of view of supply and service companies, it will be the operators who will be responsible for buying goods and services and fulfilling the other obligations of the purchaser under its contracts. Given the cooperative nature of the projects and the ultimate control exercised by CNOOC, supply and service companies may seek to have CNOOC guarantee undertakings by the operator—particularly where substantial amounts of money and long lead times are involved.

Taxation

No subject is fraught with more ambiguity than the issue of taxation. Both the Foreign Enterprise Income Tax Law (FEITL), enacted on December 13, 1981, and the Personal Income Tax Law, passed on September 10, 1980, contain a number of complex issues that can be interpreted in many ways.

The FEITL stipulates that a foreign enterprise with an establishment in China from which it derives income is subject to Chinese tax on net income. The top effective tax rate is just under 50 percent. Among the issues to be resolved are the allowable deductions, treatment of multiple activities of the same firm, including activities that might otherwise be subject to the withholding tax, and the issues of "deemed profit" treatment.

The question of deemed profit is of great interest to supply and equipment companies which, under the petroleum regulations, are classed as "subcontractors," and therefore must register in China and pay taxes there. Drilling contractors have explained to the Chinese that it was very difficult for them to compute income on a net income basis because of the huge capital costs of their equipment, and the associated difficulty of allocating depreciation and other deductions to the different countries where the equipment is used. In addition, since drillers often move on in a relatively short period of time, it is to the country's advantage to have tax issues settled up front, rather than subject drillers to the possibility of adjustments later when their returns are audited.

Article 24 of the detailed regulations issued under the FEITL on February 21, 1982, adds the clarification: "For engineering projects undertaken by foreign enterprises under contract for the exploration and exploitation of seabed oil resources, the profit rate and the taxable income amount shall be determined on the basis of the total income from the project undertaken." The notional profit level was originally set at 10 percent of gross revenue.

Some supply and equipment companies were taken aback to find that the regulation, which had been recommended to the Chinese by drilling contractors, would now be applied to all subcontractors. On a visit to the US in June of last year, PRC Tax Commissioner Liu Zhicheng indicated that subcontractors would have no choice but to be taxed on the notional basis. Since that time, however, there have been indications that the Chinese have adopted a more flexible attitude and will allow subcontractors to file returns and pay taxes on a net income basis.

Equally serious problems of definition surround the personal income tax. Foreign workers who move in and out of China on a regular basis are finding that the Chinese interpretation of what constitutes "residency" for tax purposes is not what they expected. Under China's personal income tax law, an individual becomes subject to tax on income earned for work "performed in China" if the individual has been resident for 90 consecutive days within China. PRC tax authorities have construed the holding of a six-month multiple entry visa as *prima facie* evidence of residency for that period, and also of evidence that the individual has presumptively been working in China as well, so as to make all income earned during the period subject to Chinese income tax, regardless of the total number of days actually spent in China. While it is still not clear what it might take to rebut these presumptions, the policy has already had its impact on frequent travellers who are now obtaining single entry visas rather than multiple-entry ones.

Another extraordinary development is the manner in which local Chinese workers are taxed. A company will be in for a surprise if it assumes, in agreeing to pay personal income taxes for its Chinese workers, that its tax burden will be based on the amount of money the local workers actually receive. More than one foreign company operating in China has had to pay Chinese income taxes for its workers based on the total amount paid to the Chinese government for the workers' services, rather than on the amount received by the workers (usually a small fraction of the sum received by the government). This requirement, in effect, acts as a surcharge on top of other labor expenses.

Reduced Withholding Tax

For companies with an "establishment" in China, the effective tax is either just under 50 percent of net income, as noted earlier, or a certain

percentage (probably 10 percent) of gross income for those companies using a deemed profit approach. The term "establishment" can include the activities of agents acting on behalf of a foreign company in China. The FEITL also provides for a 20 percent withholding tax on certain payments such as interest, dividends, rents, and royalties derived from China sources. The withholding tax has been perceived as a significant barrier in the financing area and foreign banks and others have attempted to convince the Chinese that the tax simply makes it more difficult for Chinese enterprises to borrow funds.

Two recent changes in the withholding tax affect financial institutions, supply and service companies, and other foreign entities without establishments in China. On December 13, 1982, the Ministry of Finance issued an interim regulation that effectively reduces the 20 percent withholding tax to 10 percent, or waives it entirely, in the case of fees for the use of certain technology. According to the regulation, the waiver would be possible where the technology is "advanced," or the terms preferential. Given the training obligations of the oil companies under the model contract (and likely similar obligations of supply and service companies), it is noteworthy that the fees covered by the reduction include "fees for personnel training related to the right of use of the transferred proprietary technology."

The second regulation, issued on January 7, 1983, reduces from 20 percent to 10 percent the withholding tax on interest from loans, advances, and deferred payments provided in contracts signed between 1983 and 1985. In addition, it waives the 20 percent withholding tax entirely on payments of "favorable" interest rates. The changes are effective January 1, 1983, and apply only to agreements entered into after that date. Thus, those with existing contracts will continue to pay a 20 percent withholding tax until the expiration of the contract.

Included in the second regulation reducing the interest withholding tax is a reduction of the same amount for certain leasing fees in cases involving lease financing. One of the problems in using lease financing techniques in China has been that the withholding tax was applicable to the entire rental payment, including the interest component. Under the new regulations, the withholding tax on lease payments is reduced to 10 percent "after deducting the equipment price" in the case of lease sale arrangements. In certain circumstances, the interest component can be factored out of lease financing payments, with the 10 percent withholding due on the remaining amount. Given the difficulties in sorting out finance leases from operating leases, and in determining how to impute an interest element in lease financing payments, it will take some time before the applicability of the new regulation is clearly understood.

Finally, some subcontractors have explored the possibility of establishing their offices in a special economic zone in order to be subject to the special tax rates of 15 percent rather than the near 50 percent rate applicable under the FEITL. Unfortunately, however, the Chinese have rejected such efforts, and have indicated that the purpose of the reduced tax rates in the special economic zones is to contribute to the development of those zones, not to

provide a tax haven for companies engaged in business elsewhere in China.

Registration

New "measures" dealing with the registration of Representative Offices of Foreign Enterprises were approved by the State Council on March 5, 1983, and promulgated by the General Administration for the Control of Industry and Commerce on March 15, 1983. The new measures supplement the Regulations Concerning the Control of Resident Offices of Foreign Enterprises promulgated on October 30, 1980.

The new measures make it clear that long-term representative offices must not engage in direct business activities. If an office engages in such operations, it will be ordered to cease operations and fined up to ¥20,000. Registration for the conduct of business activities is governed by the Regulations on Registration and Administration of Industrial and Commercial Enterprises, adopted by the State Council on July 7, 1982. Joint ventures are subject to a separate registration law.

Those companies that have been working in a representative capacity in Beijing and have not yet registered are subject to a specific fine. Article 16 states: "Foreign enterprises and other economic organizations that, without having received approval and registered, engage in the business activities of a long-term representative office of their own accord, are to be ordered to cease business activities and a fine of up to RMB 10,000 is to be imposed." A fine is also specified when an enterprise fails to update its registration as required and such failure is deemed "serious" by the administering agency, the State Administration of Industry and Commerce.

In addition to the fines, these measures provide a one-year time limit on registration certificates, and a requirement that a request for extension be accompanied by a report, in Chinese, of the circumstances of the year's business activities.

Environmental Law

One of the most recent Chinese laws that surely will affect offshore exploration is the Marine Environmental Protection Law, enacted in August 1982, and which became effective on March 1, 1983. Like other Chinese laws, it is relatively general and broad in its terms, and strives to provide a framework for all environmental issues related to seas under Chinese jurisdiction. One of its eight chapters covers the prevention of pollution of the marine environment by offshore oil exploration and development, while other chapters cover such matters as discharges by ships, pollution from land-based entities, and procedural issues.

One extraordinary development is the decision to tax the earnings of Chinese workers, not according to how much they are paid, but on the basis of how much their services cost the foreign oil companies.

The law requires an environmental impact statement, the strict control of discharges, and the maintenance of adequate equipment and procedures to prevent oil spills, but does not define what these requirements mean in terms of tolerable waste threshholds. Officials in Beijing and Guangdong charged with environmental protection have frequently referred to detailed "regulations" in discussions with US oil company officials. There is, for example, an unpublished list of standards that enumerates the specific criteria offshore exploration companies must meet. Whether these criteria will seriously burden the oil companies remains to be seen.

There is some indication that the Chinese intend to take advantage of the environmental regulations to provide an additional profit-making opportunity to local SSB enterprises. Under the environmental standards, for example, the Chinese will require that cuttings from drilling be hauled to the beach, thus creating an instant demand for boats and personnel to provide that service. Strict discharge requirements will require similar services for other materials that the Chinese will not allow to be dumped into the ocean.

In terms of liability for damages caused by blowouts, or other accidents resulting in pollution, the law holds the companies strictly liable, except for acts of war and a few other narrow exceptions. Such strict liability is par for the course in most parts of the world, although in some theaters, such as the North Sea, an overall limit of liability per occurrence exists. The Chinese law does not contain such a limit.

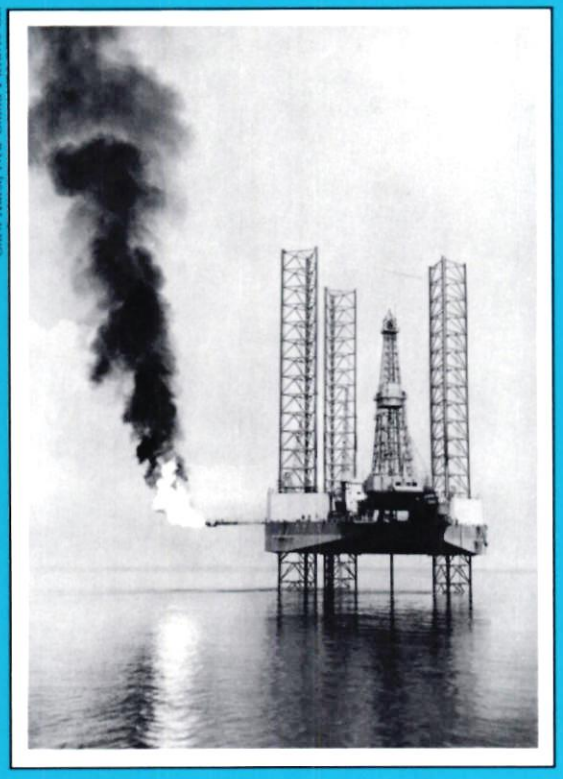
Pending Legislation

The coming year promises to be an important one in terms of new laws which are currently in the process of preparation, and which are likely to be adopted sometime during the year. Of major interest will be a statute governing contractual joint ventures between foreign companies and Chinese entities. The law will cover the varied arrangements, such as coproduction or licensing, which do not involve the creation of a new Chinese entity as defined by China's July 8, 1979 Joint Venture Law. At the present time there is no Chinese law clarifying what the contracts of such arrangements should or should not say. The flexibility that has hitherto characterized such deals could be reduced when new regulations are issued.

A related law that may not be promulgated until next year would govern the entire range of economic contracts between foreigners and Chinese entities. It could be quite similar to the Economic Contract Law, adopted on December 13, 1981, which applies to contracts between Chinese entities, and which suggests the type of approach the Chinese are likely to take in their new law on economic contracts with foreigners. As applied to relationships between Chinese entities, the 1981 law represents a definite step forward for the role of law in the Chinese economy. The use of the contract system to regulate the relationships among state enterprises is a major structural change in how Chinese organizations deal with one another. The Foreign Economic Contract Law will probably follow the same approach in specifying and allocating between the parties the rights, obligations, and risks under economic contracts, while addressing such issues as assignment, termination, and arbitration.

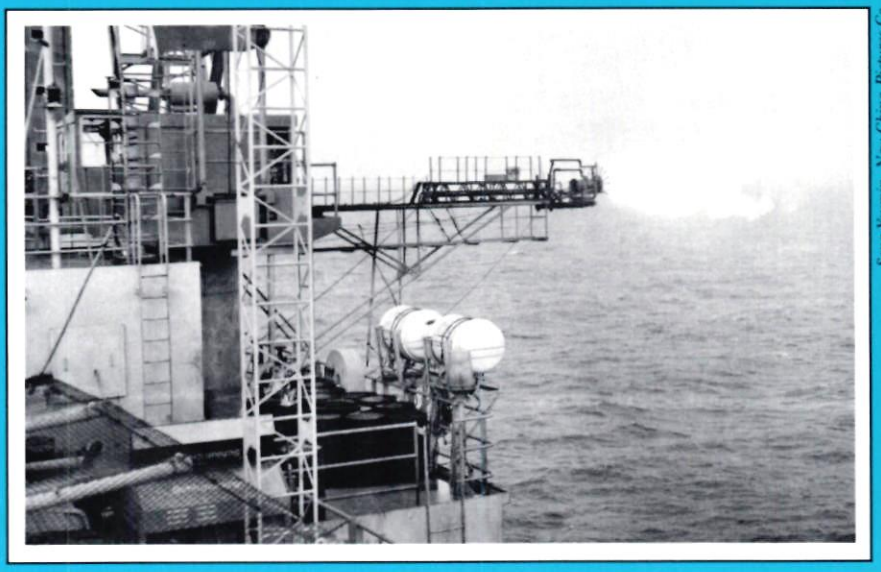
Also possible for promulgation this

The Nanhai III, a hitachi-built jackup, discovers a high-yield exploratory oil and gas well 2,457 meters below the seabed of the Beibu Gulf.

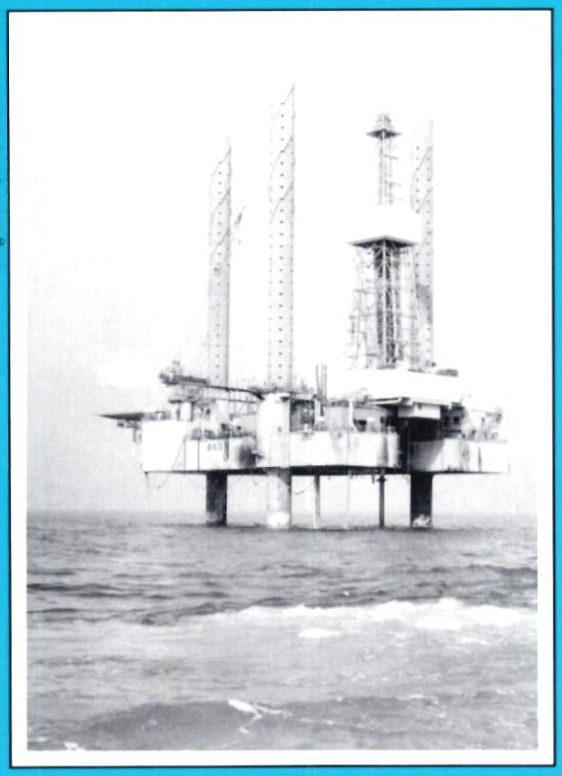


Chen Xuesi, New China Pictures Co.

The Bohai VI, here testing a recent oil and gas discovery, takes credit for China's largest discovery to date: well BZ 28-1-1 that tested out at 7,300 barrels per day of 39° API crude and 21 million cubic feet per day of natural gas. It was drilled in late 1980 and early 1981 to a depth of 3,346 meters by the Japan–China Oil Development Corporation. So far JCODC has hit commercial oil (testing at more than 1,800 barrels per day) on 5 of 8 exploratory wells.



Song Youmin, New China Pictures Co.



Song Youmin, New China Pictures Co.

The Bohai VI, constructed in Bethlehem's Singapore shipyard, conducting tests of a new oil well in Bohai Bay.

Yang Zhenhe, New China Pictures Co.

Chinese roughnecks aboard the Nanhai III in the the Beibu Gulf. Chinese regulations require foreign companies to maximize the use of indigenous labor in all phases of their operations. Wages paid to Chinese rig hands reportedly are double the going rates in Southeast Asia, but less than 10 percent goes to the worker. The China National Offshore Oil Corporation, or one of its subsidiaries, receives the rest.

year are detailed regulations implementing the Joint Venture Law, a law on corporations, and the Patent Law. The last has been particularly difficult for the Chinese to draft. The current version of the draft law excludes computer software, pharmaceuticals, and chemical products from eligibility for patent protection.

New regulations may also be forthcoming in the areas of labor and training. With regard to labor, it is expected that the Chinese will expand the existing regulations dealing with labor in joint ventures to all situations where Chinese labor is used in foreign investment projects. Though training regulations are not being drafted, at least officially, attorneys involved in negotiating recent joint ventures have had the impression that their Chinese counterparts were "guided" in the negotiations by rather detailed guidelines that they expect to see in regulation form soon. The level of detail goes far beyond the training provisions of the model contract, and includes such issues as the specific number of hours that will be devoted to different types of training, the level of personnel who would conduct the training, and the training materials to be used.

Finally, there have been a number of reports that Guangdong Province has drafted new regulations covering a broad range of activities in the Shenzhen Special Economic Zone. These include the management of foreign commodities and real estate in Shenzen, importation of foreign technology, management of foreign banks, and economic cooperation with foreign countries.

Structuring the Best Arrangement

The provisions of the offshore petroleum regulations and the model contract (specifically its preference clause) are forcing foreign petroleum equipment and service suppliers to consider mechanisms for doing business which, in better times, would not be of interest.

Given a choice, many US equipment manufacturers would prefer simply to sell equipment to China without establishing a legal presence there. Some companies may take comfort in the fact that, under the terms of the model contract, the operator has considerable discretion with respect to relatively small procurements. The Joint Management Committee will be required to review only those purchases exceeding $500,000, orders exceeding $3,000,000, or lease agreements exceeding $3,000,000. Nevertheless, it is doubtful that even small procurements will escape the preference clause, since contractors are required to review procurement policy with CNOOC, and the preference clause applies to all procurements. One ultimate enforcement tool the Chinese could implement if efforts were made to subvert the preference clause would be to deny customs clearance to the foreign products.

In attempting to work within the framework of the preference clause, foreign companies have adopted a number of approaches. Some companies have explored licensing agreements, whereby a Chinese factory pays royalties for using the foreign company's technology. Usually, such an agreement would rely on foreign parts and equipment in the beginning, with a gradual phasing in of Chinese parts and other supplies over time. Other companies have developed a relationship with an overseas Chinese enterprise (usually in Hong Kong) and furnished supplies and equipment to that entity, which then enters into a joint venture with a PRC entity. This way a foreign firm can avoid the problems of registration and taxation in the PRC, while still supplying equipment, albeit indirectly, under the preference clause. The third approach, and one that is of interest to an increasing number of US companies, is to establish a joint venture directly with a Chinese entity. Joint ventures can be "equity" joint ventures under the Joint Venture Law, or some other form of joint cooperation established by contract.

From the point of view of the foreign investor, there are several advantages to creating an equity joint venture as opposed to something less formal, like a partnership or production-sharing arrangement. For one thing, there is a certain comfort in the fact that such joint ventures are specifically protected under Chinese law, and that, as stated in Article 2 of the law, "The Chinese Government protects, by the legislation in force, the resources invested by a foreign participant in a joint venture and the profits due him pursuant to the agreements. . . ." Second, the overall tax rate for an equity joint venture is less than for other foreign company activity in China. Under the Joint Venture Income Tax Law, the applicable tax rate is 33 percent plus a 10 percent withholding tax on profits repatriated by the foreign partner in the venture. For non–joint equity ventures, the maximum tax rate under the Foreign Enterprise Income Tax Law is close to 50 percent.

Many foreign companies also believe that a joint equity venture gives the Chinese partners a meaningful stake in the venture, and motivates them to work doubly hard to ensure its success. This level of commitment can be important when one considers the number and variety of Chinese organizations with which it is likely that a business enterprise will have to deal. By having a committed Chinese management to run interference, many of the difficulties that greet foreigners operating in China can be avoided. Not least of its advantages, a joint equity venture assures the foreign party preferential treatment under the "preference clause," though it remains to be seen whether other types of cooperative arrangements might also be found by the Chinese to qualify under the preference clause.

One of the advantages in China's strategy of forging business ties at the same time that it develops a legal framework is the opportunity it afford foreigners to play a constructive role in advising the Chinese on the impact of particular courses of action. While the Chinese have not always followed the advice of foreign attorneys and company personnel, they have been invariably polite and interested in the issues addressed. If nothing else, foreigners can be confident that the flexibility and interest in foreign viewpoints displayed by the Chinese will continue as their legal framework develops.

Robert C. Goodwin, Jr. maintains a law practice in Washington, DC, dealing principally with international legal matters, and also serves as General Counsel of China Energy Ventures, Inc. Goodwin was formerly an assistant general counsel at the US Department of Energy, and acted as the legal representative on Secretary Schlesinger's 1978 trip to China.

Get Back to Nature....

With Natural Wallcovering from Guangdong (Canton)

If you thought that natural wall-covering of top quality was a thing of the past, ask for air-speed samples of our straw, seagrass, jute, sisal, bamboo, wood or other natural fibre wallcovering. It won't take you long to realize our natural wall-covering of that quality is very much a thing of the future.

Our natural wallcovering is lovely and durable because of natural fibres. Their cooling and warming effect is great for every season. As an interior decoration of your rooms, you will find that our natural wallcovering is sound-proof, damp-proof, safe and sanitory. Its delicate colour protects vision and gives calm feeling. The classic beauty of nature will enhance the pleasures in your life.

All our wallcovering measures one yard across and available in any length.

Don't turn your back on nature-get back to it . . . because your market's getting back to it, too.

CHINA NATIONAL ARTS & CRAFTS I/E CORP., GUANGDONG BRANCH

Address: 2 Qiao Guang Rd., Guangzhou(Canton)China Cable: "ARTCANTON" Telex: 44079 KCACB CN

歐美公司專經營各種生板及經鞣製之熟板裘皮與皮革買賣如有意者請與高斯先生聯絡

MR
HARRY
GROSS

EURO-AMERICAN specialist in Buying and Selling any kind of Raw and Tanned furs and Leather. If interested please contact:

MR. HARRY GROSS
450 SEVENTH AVENUE
NEW YORK, N.Y. 10123, U.S.A.
212-244-0011 TELEX: 237728 STC UR NIKICOR

地　址 450 SEVENTH AVENUE
NEW YORK, N.Y. 10123,
U.S.A
電　話 212-244-0011
電　傳 237728 STC UR
電報掛號 NIKICOR

China's activities in, or near, contested waters of the East China Sea and Tonkin Gulf suggest the urgency of international agreements with Japan and Vietnam.

Conflicting Offshore Boundary Claims

Selig S. Harrison

China's current offshore program is an ambitious one, but it offers only a hint of what lies just over the horizon. Beijing has carefully limited its contract areas in the South China and Yellow seas to undisputed coastal waters. As drilling moves ahead in these uncontested areas, Chinese petroleum officials are planning to extend their exploration activity into disputed waters, far from shore, where Chinese geologists believe that reserves equal or exceed those already surveyed. Even now, Beijing is quietly sending rigs and survey vessels to conduct "preliminary reconnaissance surveys" in many of these disputed areas.

China has carefully avoided a precise definition of its sea boundary claims and has left the door wide open, accordingly, for negotiated settlements with its maritime neighbors. To the extent that its claims have been implicitly or explicitly indicated, they substantially overlap areas claimed by Japan, Taiwan, South Korea, Vietnam, Malaysia, Indonesia, Brunei, and the Philippines. Chinese statements during United Nations discussions on the Law of the Sea treaty echoed the "natural prolongation" concept set forth by the World Court in the North Sea cases, which gives China a legal rationale for claiming the entire continental shelf. This rationale was implicitly invoked in a basic policy statement on June 13, 1977, describing the shelf as "an integral part" of the mainland. In other statements China has accepted the principle of median lines and "equitable" adjustments between neighbors, but it is far from clear that Beijing would accept a median-line agreement in either the Yellow Sea or the East China Sea.

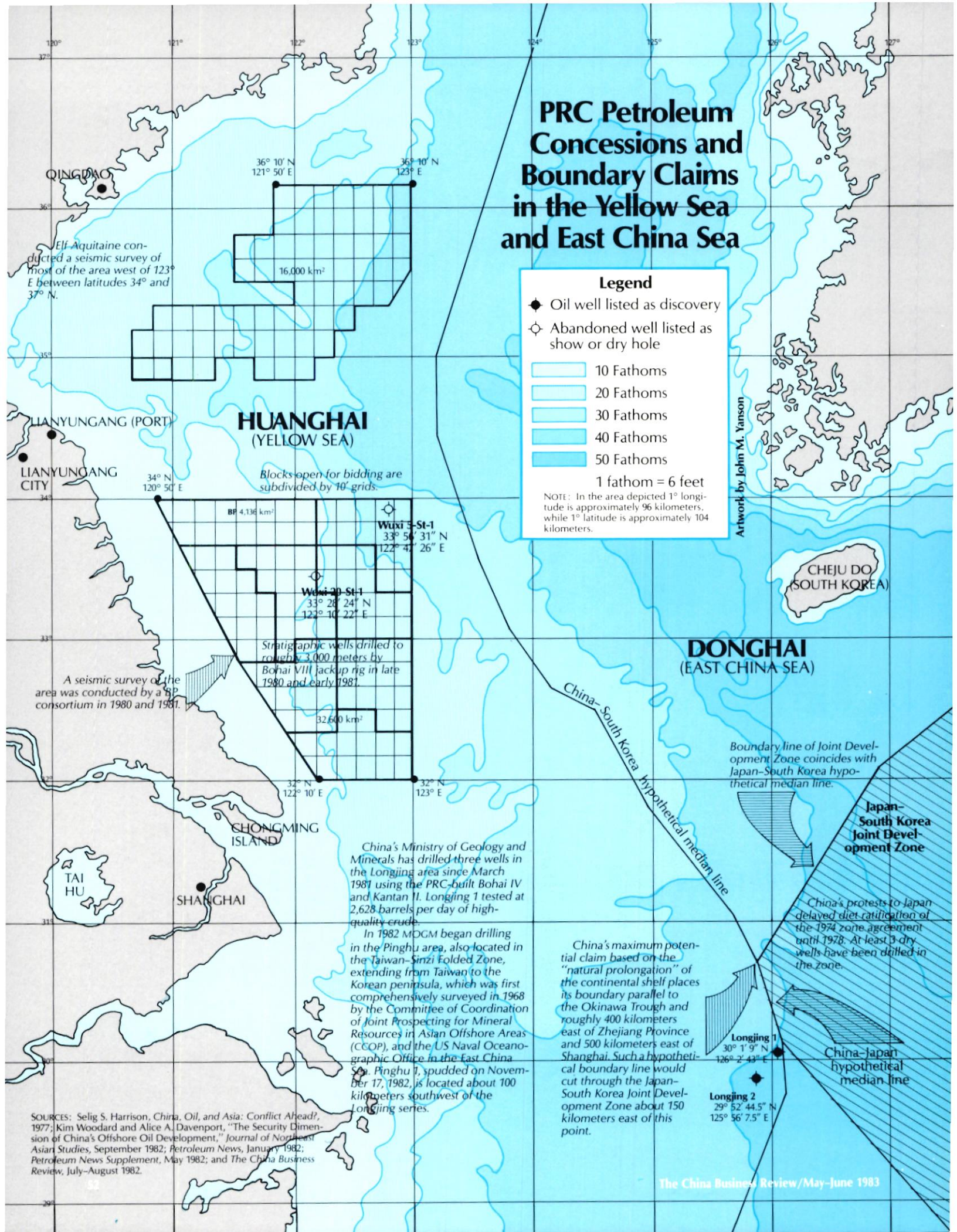
Chinese international law specialists argued during a recent visit to Beijing that provisions of the Law of the Sea treaty relating to the median line concept are open-ended and ambiguous. In the Chinese view, the median line approach is not necessarily applicable under the treaty to a case such as the East China Sea, in which a coastal state faces an island state, in contrast to cases such as the Tonkin Gulf and the Yellow Sea, where states contiguous on the same land mass can invoke the "natural prolongation" doctrine. In the case of the Yellow Sea, however, China does not recognize the South Korean regime as a legitimate party to a median-line settlement.

Should China insist on the "natural prolongation" doctrine in the East China Sea, its claims could reach up to and possibly include portions of the Okinawa Trough, the subsea canyon west of Japan's Ryukyu islands. Significantly, Chinese seismic survey boats have repeatedly gone as far as the Okinawa Trough, closely monitored on each and every occasion by Japanese planes and gunboats. More important, Chinese rigs have drilled four wildcat wells during the past two years in potentially contested areas of the East China Sea that either lie just on the Chinese side of where a hypothetical Sino–Japanese median line would lie or, by some interpretations, on the Japanese side of the hypothetical line (*see* page 52).

When Tokyo has complained about these Chinese incursions, Beijing has responded politely that China has a right to conduct preliminary surveys on its own continental shelf in preparation for eventual negotiations. Chinese officials distinguish sharply between exploration and production. They stress that China would not actually attempt to pump oil or gas out of disputed areas of the seabed until jurisdictional agreements have been reached with its neighbors. But they make clear that the four wildcats were intended to dramatize the urgent need for a jurisdictional agreement in the East China Sea among China, Japan, and Taiwan. As an extension of its claims to the mainland, Taipei has allocated petroleum concessions in the same areas of the East China Sea that are disputed by Tokyo and Beijing.

Japan has gone out of its way to avoid an open clash with Beijing over the East China Sea that might complicate the lucrative Sino–Japanese partnership now emerging in the Bohai Gulf, and other undisputed Chinese coastal areas. Tokyo has played down the four wildcats, and has not publicized its diplomatic protests.

Until now, the Taiwan issue has obstructed a Sino–Japanese agreement on the future of the shelf because Japan is reluctant to strike a bargain with Beijing that might jeopardize its lucrative trade and investment ties to Taiwan. Tokyo and Beijing held two secret meetings in late 1980 and early 1981 to discuss possible scenarios for a shelf settlement. Tokyo insisted on a median-line approach, while Beijing, asserting the "natural prolongation" doctrine, advocated the creation of joint development zones that would give China a share of any petroleum found on the Japanese side of the shelf, where the richest reserves are believed to be concentrated. Another meeting was scheduled, but Tokyo called off further negotiations after Taipei got wind of the talks and threatened reprisals.



SOURCES: Selig S. Harrison, *China, Oil, and Asia: Conflict Ahead?*, 1977; Kim Woodard and Alice A. Davenport, "The Security Dimension of China's Offshore Oil Development," *Journal of Northeast Asian Studies*, September 1982; *Petroleum News*, January 1982; *Petroleum News Supplement*, May 1982; and *The China Business Review*, July–August 1982.

Beijing's continuing overtures to Taipei for economic cooperation have emphasized proposals for joint offshore oil development in the East China Sea. Officials in Beijing told me that they would welcome cooperation with Taipei on the Chinese side of a hypothetical median line with Japan, pending a comprehensive settlement with Tokyo. These officials suggested the possibility of "joint venture companies" in which Beijing's China National Offshore Oil Corporation and Taipei's Chinese Petroleum Corporation would join together with American companies, including those that have previously been granted East China Sea exploration rights by Taipei.

Under a settlement with Japan, these officials said, Taiwan would be implicitly or explicitly treated as an autonomous province of China. It would have no jurisdictional rights of its own but could receive a significant share of the oil or gas developed by Beijing and Tokyo, and could conceivably be allocated "provincial" areas for development under its own authority. ❦

Selig S. Harrison, a senior associate at the Carnegie Endowment for International Peace, is the author of China, Oil and Asia: Conflict Ahead? *He was formerly the Northeast Asia bureau chief for the* Washington Post, *and the author of* The Widening Gulf: Asian Nationalism and American Policy. *Harrison is currently conducting a study of the economic aspects of the Taiwan issue.*

中外贸易

Jennifer Little
Research Assistant

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. Joint ventures, licensing arrangements, and other forms of business arrangements are included if classified as such in Chinese and foreign media reports. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*.

National Council members can contact the library to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, member firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of Jennifer Little.

中外贸易

CHINA'S IMPORTS THROUGH MARCH 15

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
Maharoshtra and Gujarat State Cooperative Marketing Federation (India)	23,400 bales of cotton. 1/83.
NA (Australia)/Wenchang Duck Farm, Hainan	Disease-resistant ducks. 1/83.
(Thailand)	100,000 tons of rice for 1983. 1/29/83.
(West Germany)	Dairy cattle and angora rabbits; in addition W. German mirror carp will be exchanged for Chinese fresh-water fry.
Agricultural Technology	
Bentall Simplex (UK)	Grain-drying and storage equipment. $205,651 (£127,000). 7/82.
(West Germany)	Bee honey technology and equipment, development of 533,000 ha of land in Huimin Prefecture, Shandong. 1/22/83.
(Japan)/Ministry of Chemical Industry	Signed protocol on joint research on antibiotics for agricultural purposes. 1/26/83.
Chemicals	
Chemolimpex (Hungary)	50,000 metric tons of nitrogen fertilizer. $7.16 million (SwF 14.7 million). 1/20/83.
Chemical and Petrochemical Plants and Equipment	
International Petroleum and Chemical Engineering Group Ltd. (HK and foreign investors)	Has State Council approval to develop a petrochemical center in Shantou which will refine 10–12 million tons of oil annually. 1/30/83.
Asoma Corp. (US)/China Ocean Shipping Agency	8 fertilizer bagging lines. $820,000. 2/7/83.
F. Hoffman la Roche & Co. Ltd. (Switzerland)/ Beijing Huadu Animal Production, Processing Industry, and Commerce Corp.	Will establish feed additive premixing plant with annual capacity of 500–700 tons. $663,000 (SwF 1.362 million). 2/7/83.
Toyobo Co. and Teijin Ltd. (Japan)	Negotiating sale of synthetic fiber plant in Tianjin $34.6 million (¥8 billion). 2/17/83.
Coal	
Hong Kong & China Gas Co. Ltd. (HK)	Negotiating construction of coal gasification plant in Shenzhen. 1/16/83.
Construction Materials and Planning	
Manfusion Trading Co. (HK)	Partner in construction of an exhibition center in Zhuhai. Chinese investment: $258,000 (Rmb 500,000). 1/9/83.
Utahloy Co., Ltd. (HK)/Guangzhou Oil Base Co.	Will develop Golden Lake residential complex in Guangzhou for foreign oil personnel. $226 million (HK$1.5 billion). 1/30/83.
Scriven Trading Ltd., Sinyu Trading, and Polydia Trading (HK)/ Shenzhen SEZ Development Co.	Contract to form the Shenzhen Far East Marble Co. $4.5 million (HK$30 million). 2/6/83.
Hutchison China Trade (Holdings) Ltd. (HK)/Xiyuan Hotel, Beijing	Double glazing for hotel windows. $452,000 (HK$3 million). 2/9/83.
Sumitomo Corp. and Nippon Cable Co. (Japan)/MACHIMPEX	Order for passenger ropeway system to carry viewers between the Yun-Gun Temple and the Beihai Hotel in Huangshan, Anhui. $1 million. 3/9/83.
Consumer Goods	
Gallaher Ltd. (UK)/ Guangzhou No. 1 Cigarette Plant	Production of "Sovereign" cigarettes. 11/27/83.
Danbrew Consult Ltd., subsidiary of Carlsberg (Denmark)	Signed cooperation agreements with breweries in Guangzhou and Beijing. 2/83.
Electronics	
Racal Recorders, Ltd. (UK)	11 multichannel recording systems for use in airport control towers. $414,000–580,000 (HK$2.75–3.85 million). 12/16/83.
Gould SEL (US)/ TECHIMPORT	Small computers for university use. $5 million. 1/10/83.
IBM (Japan)/INSTRIMPEX	Maintenance service agreement. 1/17/83.
REED Corp. and Hotel Okura (Japan)/White Swan Hotel, Guangzhou	Hotel software package. 1/19/83.
Westinghouse Electric Corp. (US)/TECHIMPORT and Hua Tong Switchgear Works, Shanghai	Contract for molded case circuit breaker technology. 1/23/83.

NA = Not Available

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*. Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*.

Nippon Tungsten Co. (Japan)/Ganzhou Tungsten and Molybdenum Materials Factory, Jiangxi	Contract for electric bulb filament plant. $1.1 million (Yen 260 million). 1/30/83.
United Incandescent Lamp and Electric Co. of Hungary	Contract for lamp-making production lines and machinery for spare parts production. $3.9 million (SwF 7.5 million). 2/83.
Kanematsu-Gosho Ltd. and IBM Japan Ltd. (Japan)	Basic agreement to export personal and small business computers. 3/1/83.
Minnesota Mining & Manufacturing Co. (US)/Shanghai Investment & Trust Co.	Negotiating electrical insulating tape project, located in Minhang District. 3/2/83.

Food Processing

Buhler Brothers (Switzerland)	Pilot flour mill for Beijing. 1/4/83.
Miramar Hotel and Investment Co. Ltd. (HK)/China Nanhai Oil Joint Service Corp.	Initial agreement to set up food manufacturing plant in Guangzhou for foreign oil personnel. $2 million. 1/16/83.
(West Germany)	Has agreed to cooperate in technologies for meat, fish, and fruit processing. 1/22/83.
Alfa-Laval (Sweden)	Milk-processing system. 2/1/83.

Machine Tools

Tree Machine Tool Inc. (US)/Nantong Machine Tool Plant, Jiangsu	Technology for vertical milling machines in exchange for 120 finished machines. 1/83.
Moore Special Tool Co. Inc. (US)	4 manual jig grinders. 1/3/83.

Machinery

Milford-Astor Pty. Ltd. (Australia)	Printing machine to decorate radio and TV front panels. $15,468 (A$16,000). 1/83.
(West Germany)	Plans to export oil nozzle, pump, and aluminum pistons technology. 1/21/83.

Metals and Minerals

(Zaire)	20,000 metric tons of copper, 300 tons of cobalt and 4,000 tons of zinc in 1983. $30 million. 1/27/83.
Metal Marketing Corp. (Zambia)	5-year copper-purchasing contract. 2/6/83.
Airtrust Singapore Pte. Ltd. (Singapore) and Airtrust International Corp. (US)/China Rare Earth Corp.	Contract to market world-wide Chinese rare earth metals. 2/10/83.

Mining Equipment

PHB Weserhütte AG (W. Germany)/China Machine Building International Corp. and Shenyang Mining Machine Works	Know-how agreement for manufacture of high-capacity belt conveyor installations. 1/14/83.

Petroleum

GCA/Vacuum Industries (US)/South Central China Petroleum Corp.	2 dual-chamber Sintervac 300 vacuum furnaces for vacuum sintering oil well drill bit compacts. 1/17/83.
GD Engineering (UK)/MACHIMPEX	Replacement parts for GD pigs in use on oil and gas pipelines. $74,488 (£46,000). 1/28/83.

Pharmaceuticals

(Japan)/Ministry of Chemical Industry	Protocol on joint research on antibiotics for medical purposes. 1/26/83.

Power

Allis Chalmers Corp. (US)	Agreed to cooperate in manufacturing electric power generating equipment and other machines. 3/1/83.

Scientific Instruments

Bentham Instruments (UK)	Order for light measurement instruments. $30,000 (£18,500). 12/1/82.
Yokogawa Electric Works Ltd. (Japan)/TECHIMPORT and Sichuan Instrument and Meter General Plant	Reached agreement for transferring technology for manufacturing self-balancing recording instruments. 1/31/83.
(W. Germany)/Beijing Medical College	Presented an electron microscope. 3/5/83.

Shipping

Home-Pack Transport Inc. (US)/China Ocean Shipping Agency	Won exclusive 2-year contract to handle household goods, vehicles, diplomatic, and general cargo shipments. 1/16/83.
Global International (US)/PENAVICO	Signed agency agreement for removal service. 1/30/83.
Mitsubishi Motors Corp. (Japan)/MACHIMPEX	20 crane carriers. 2/1/83.
Hop Cheong Marine Co. Ltd. (HK)/Guangdong Shipbuilding Industry Import and Export Corp.	Letter of intent to establish an offshore supply vessel maintenance base in South China Sea. 2/7/83.

Steel

BHP (Australia)	Negotiating sale. $9.7 million (A$10 million). 1/5/83.
John Lysaght (Australia) Ltd.	Contract for 20,000 metric tons of galvanized sheet. 1/11/83.
Daido Steel Co., Aichi Steel Works, and Sanyo Special Steel Co. (Japan)	6,000 metric tons of specialty steel. 1/20/83.
Emhart Corp. (US)	US Exim Bank funded order for steel mill equipment. $6 million. 2/2/83.
Nippon Steel Corp + others (Japan)	Additional orders bringing Jan.-June total to 3 million tons. 3/1/83.

Textiles

Feltex NZ Ltd. (New Zealand)	Negotiated deal to carpet 5 hotels. 12/24/82.
Didier Engineering GmbH (W. Germany)	Contract for compact spinning technology. 2/1/83.

Tourism

Asean Horizon Co. Ltd. (HK)/Xinya Hotel, Guangzhou	Agreement for renovating hotel. $754,000 (HK$5 million). 1/23/83.
Huachen Co., Ltd., a joint venture between the Shenzhen SEZ and Euro-Air Travel Service (HK) Ltd.	Contract for design and construction of Lingnan Tourist Sightseeing Area in Shenzhen. 2/21/83.

Transportation

DK Aviation (UK)	Will market Chinese Y11T commuter airliner worldwide. 11/82.
Frey Eas[illegible]rn Development (Switzerland)	Will handle international marketing and distribution for Chinese bicycles. 1/83.
Hitachi Ltd. and Tokyu Car Corp. (Japan)/Ministry of Railways	Expected to help produce parts and components of railway rolling stock. 2/1/83.
Clark Equipment (Australia)	7 diesel-powered container lift trucks. 2/13/83.

Miscellaneous

Par Plan Sydney (Australia)/China Central People's Broadcasting Station	Appointed advertising sub-agent for Australia. 1/83.
Viacom Enterprises (US)	Sold 4 TV movies. 1/5/83.
Banque National de Paris (France)/Jiangsu International Trust and Investment Corp.	Signed economic cooperation agreement. 1/16/83.
(W. Germany)	Plan to co-build a leather-processing factory. 2/21/83.

中外贸易

CHINA'S EXPORTS THROUGH MARCH 15

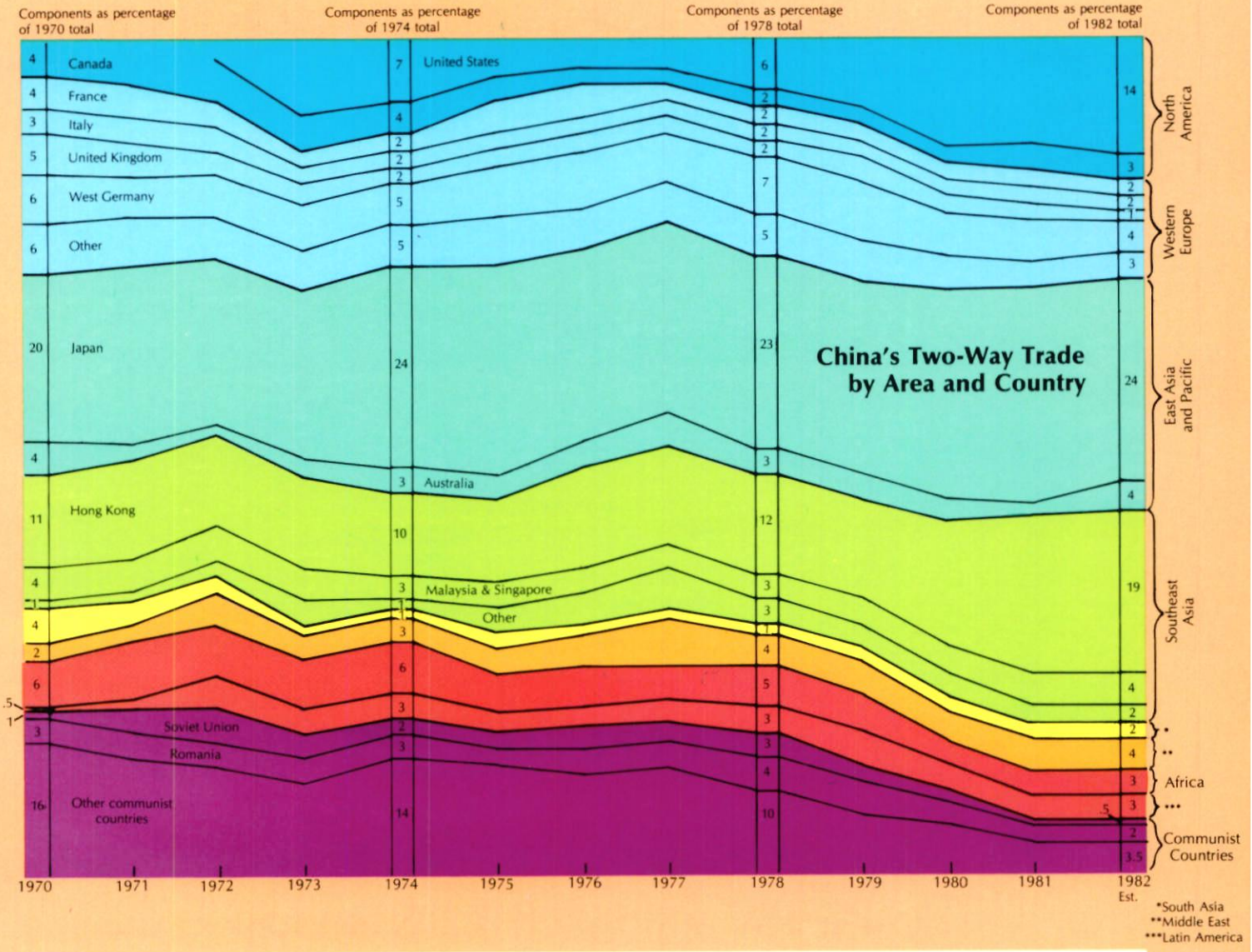
Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agriculture	
Japan Assoc. for the Promotion of International Trade/China Beef Cattle Supplying Corp.	1,000 beef cattle in 1983. 2/7/83.
Construction	
(Syria)/China Aero-Technology and Export Corp. and Economic and Technical Cooperative Co., Jiangsu and Sichuan Branches	Won contract to construct satellite town for army officials in Syria. $976 million. 2/83.
(S. Yemen)/China Construction Engineering Corp.	Contract to design and construct office building in Aden. 1/31/83.
Foreign Aid	
(Ecuador)	Flood relief. $50,000. 1/11/83.
(Togo)/China Red Cross Society	Aid for Togolese expelled from Nigeria. $20,000. 1/17/83.
(Pakistan)/China Red Cross Society	3 ambulances and 389 chests of medicine and medical instruments for Afghan refugees. 1/23/83.
Machine Tools	
(Thailand)/EQUIMPEX, Jiangsu Branch	Signed long-term trade contract. 1/19/83.
Minerals and Metals	
(Malta)	Chinese coal in exchange for Maltese loan to develop coal industry in southwest China. 1/31/83.
Power	
(Philippines)/EQUIMPEX	Complete set of hydropower station equipment. $5 million. 1/23/83.
Scientific Instruments	
HDT International Inc. (US)	Measuring instruments from a Chengdu factory. 2/83.
Petroleum	
Geco, a PRC-Norway joint venture/Arco	Contract for seismic survey in South China Sea. 2/4/83.
Shipping	
Egon Oldendorff (W. Germany)	Delivered one of two container ships made in Shanghai. 12/17/82.
Peter Doehle (W. Germany)	Two container ships ordered. 12/17/82.
(W. Africa)	100 new 20 ft. containers built at Shanghai Shipyard. 1/27/83.

Nippon Express Co. (Japan)/Hebei Maritime Corp.	Concluded a general agency contract for Hebei's planned service between Japan and China. 2/7/83.
Trade Agreements	
(Czechoslovakia), (Zimbabwe), (Finland), (Yugoslavia), (E. Germany), (Mongolia), (Morocco)	Signed trade and economic cooperation agreements in January, February, and March.
Transporation	
(Botswana)/Ministry of Railways	Renovation of a railway. Chinese loan of $15.5 million (Rmb30 million). 12/10/82.
Miscellaneous	
Glaser and Berk Prods. (US)/China Film Import and Export Co.	Purchased US distribution rights to the film, "The Rickshaw Boy", and is also negotiating coproduction of movie about Shanghai. 2/4/83.

中外贸易

DIRECT INVESTMENT/PROCESSING/ COUNTERTRADE THROUGH MARCH 15

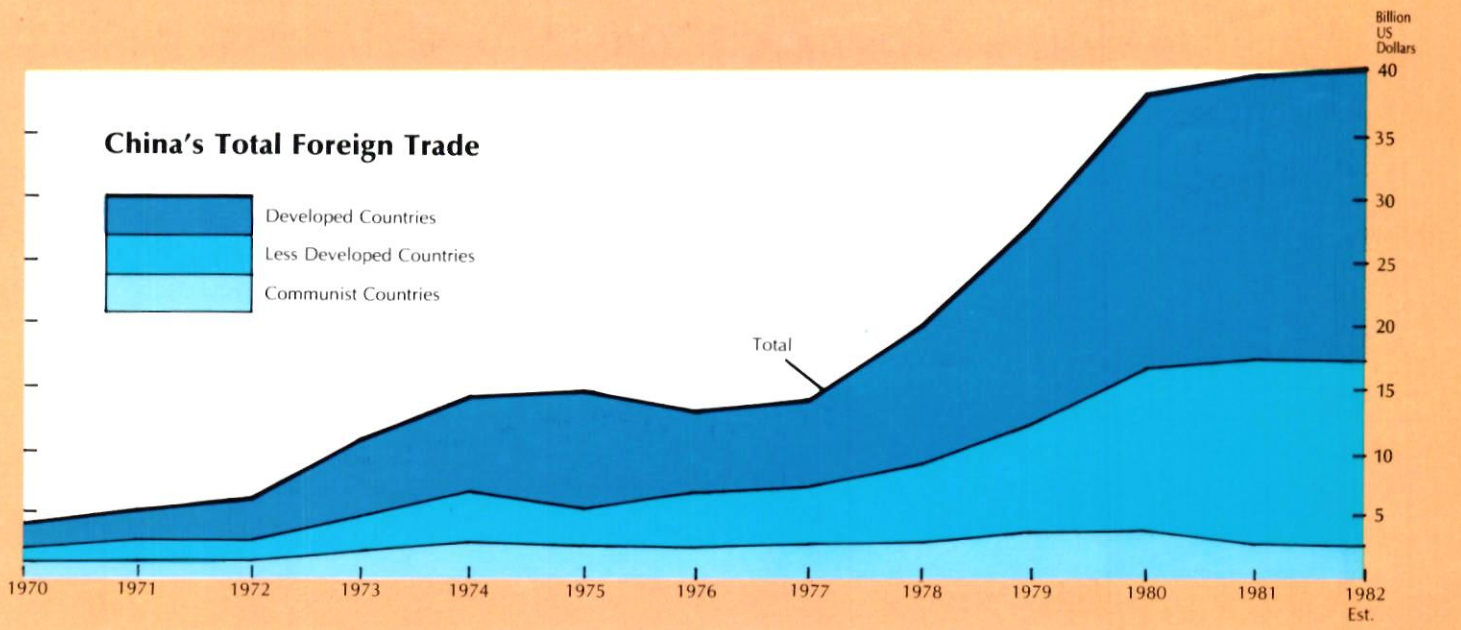
Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
Joint Ventures	
Harrywell Hanson Civil Construction Engineering Consultant Co. (UK)/ China National Complete Plant Export Corp., Beijing Branch	Reportedly formed Jingcheng International Construction Corp. to undertake overseas construction projects, one contract for 3 hotels in Libya. $70 million. 1/5/83.
Racal-Dana Instruments Ltd. (UK)	Signed agreement to assemble British-made electronic frequency counters in a Shanghai factory. 2/13/83.
Luen Wah Travel and Tours Co. Ltd. (HK)/ Shenzhen Tourism Bureau	Will build the Xili Lake Holiday Village including an amusement park. $1.5 million + (HK$10 million). 1/23/83.
Great River Trading Co. Ltd. (HK)/Guangdong Enterprises, Ltd.	Opened the Shenzhen Meigang Petrol Station to provide repair work, car-washing, and restaurant. $452,500 (HK$ 3 million). 1/30/83.
Victory Brothers & Co. (HK)/INDUSTRY, Jiangsu Branch and Wuxi General Furniture Factory	2/81 signed contract to set up the South China Timber Development Co., Ltd. with an annual production of 20,000 c. meters of plywood. Capital $2.98 million. 1/31/83.
Pilkington Brothers PLC (UK)/Bank of China, Shanghai Branch, and Shanghai Yaohua Glassworks Factory	Negotiating flat glass production venture. 2/3/83.
NA (Macao)/Zhuhai Economic Development Co.	Have set up the Sociedade de Construcoes e Fomento Predial Macao-Zhuhai Limitada for a land reclamation project in Macao. 2/18/83.
Mitsui Mining Co. and Togen Ltd. (Japan)	Contract for 50-50 venture to produce cement and ready-mixed concrete materials in Shenzhen. $15 million. 3/2/83.
Compensation Trade	
NA (HK)/Guangdong Provincial Dairy Co.	Chinese will provide land for modern dairy cattle farm in Guangzhou with US high-yield cattle; products to be exported. 1/30/83.
Jermi Corp. (Italy)/Yantai Silk Printing and Dyeing Mill, Shandong	Signed agreement for Jermi to provide 35 sets of equipment in exchange for becoming the sole agent for mill's products. 2/1/83.
NA (HK)/Sanshui County Cement Factory, Guangdong	Machinery and equipment in exchange for cement. $754,000 (HK$5 million). 2/6/83.

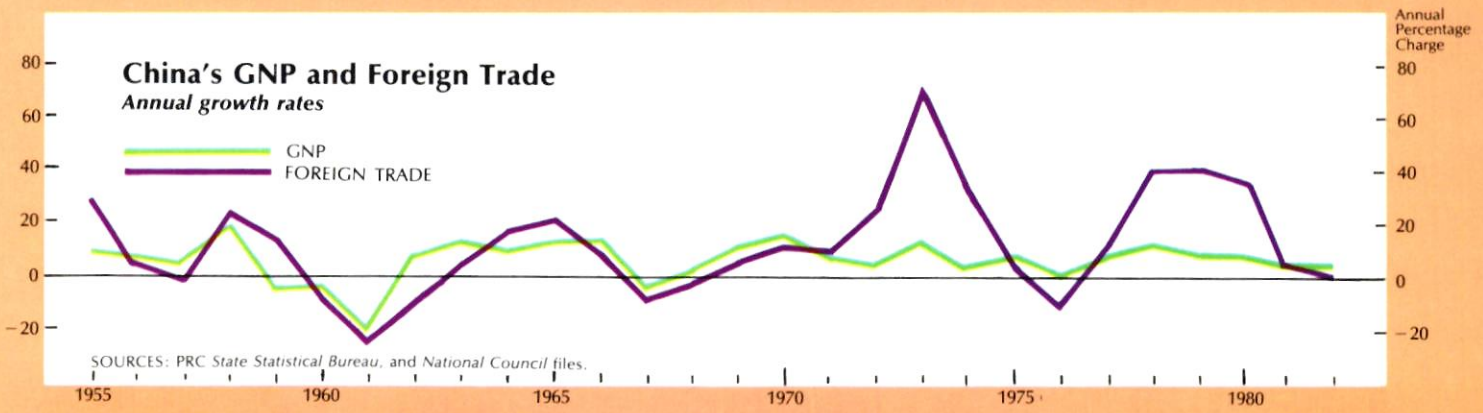


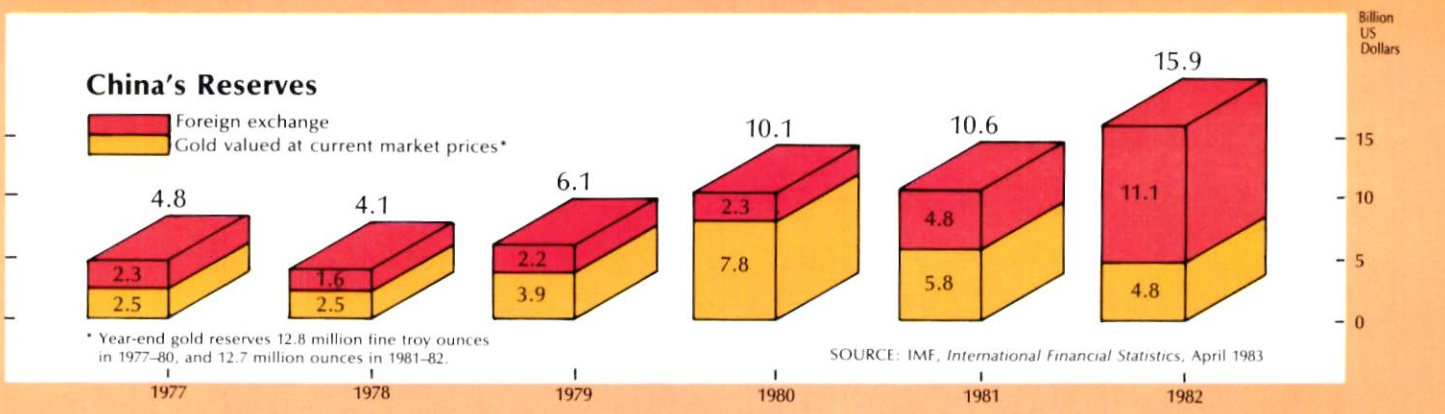
FOREIGN TRADE WITH CHINA IN MILLION US DOLLARS

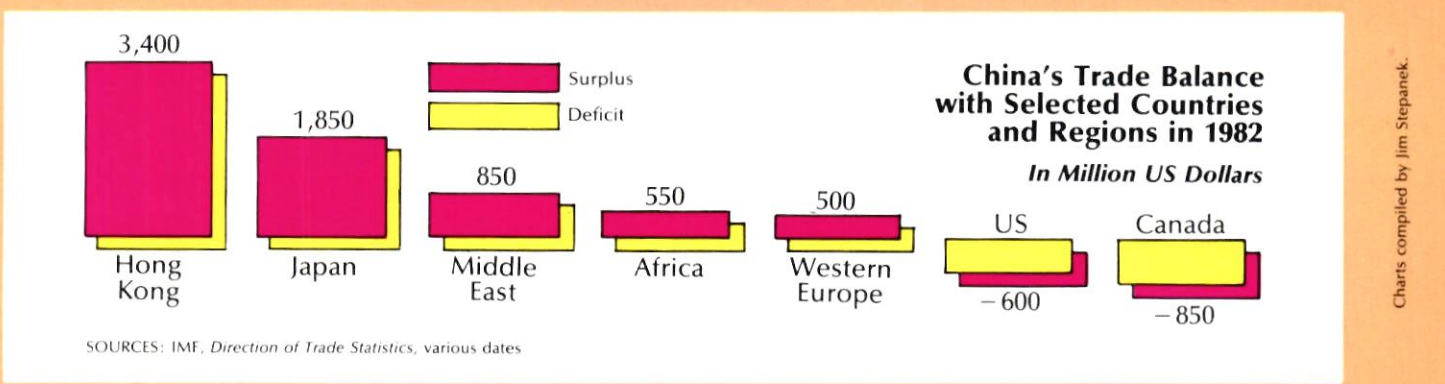
	1976	1977	1978	1979	1980	1981	1982	Percent change
UNITED STATES								
Exports fas	135.4	171.3	823.6	1,716.5	3,749.0	3,598.6	2,904.5	−19.3
Exports customs value	201.0	202.7	324.1	592.3	1,058.3	1,895.3	2,283.7	20.5
Total	336.4	374.0	1,147.7	2,308.8	4,807.3	5,493.9	5,195.8	−5.4
JAPAN								
Exports fob	1,666	1,955	3,074	3,674	5,109	5,076	3,510	−30.9
Imports clf	1,373	1,560	2,045	2,933	4,346	5,283	5,350	1.3
Total	3,039	3,515	5,119	6,607	9,455	10,359	8,860	−14.5
HONG KONG								
Exports fob	30	44	63	382	1,249	1,964	1,907	−2.9
Imports clf	1,593	1,735	2,249	3,021	4,401	5,272	5,284	0.2
Total	1,623	1,779	2,312	3,403	5,650	7,236	7,191	−0.6
WEST GERMANY								
Exports fob	622	501	995	1,493	1,145	1,017	811	−20.3
Imports clf	272	288	367	534	808	769	704	−8.5
Total	894	789	1,362	2,027	1,953	1,786	1,515	−15.2
CANADA								
Exports fob	200	347	442	507	742	776	1,014	30.7
Imports fob	90	77	83	143	132	183	169	−7.7
Total	290	424	525	650	874	959	1,183	23.4
UNITED KINGDOM								
Exports fob	126	109	176	453	394	352	157	−55.4
Imports clf	156	183	214	293	357	365	336	−7.9
Total	282	292	390	746	751	617	493	−20.1

SOURCES: IMF, *Direction of Trade Statistics*, various dates; CIA, *China: International Trade, First and Second Quarters, 1982*; *The Japan Economic Journal*, March 1983; National Council files.









Charts compiled by Jim Stepanek.

Guangdong leather clothing, leather gloves and leather products

CHINA NATIONAL NATIVE PRODUCE & ANIMAL
BY-PRODUCTS IMPORT & EXPORT CORP.
GUANGDONG ANIMAL BY-PRODUCTS BRANCH

Address: 48 SHAMIAN NANJIE, GUANGZHOU, CHINA
Cable: "BYPRODUCTS" GUANGZHOU
TELS: 88632 84665
TELEX: 44073 KABB CN

THIS CENTURY OLD ART IS OF GREAT COMMERCIAL VALUE TO YOU

Our rang of embroidered garments, regarded as art pieces by many, includes shirts, blouses, and gowns. The embroidery is an art derived from drawn work – a technique which can be applied to all garments and most fabrics, including silk, artificial silk, cotton, jute, polyester, and cotton. For more than a century the people of Guangdong have manufactured and exported these sought after embroidered garments-hot-selling, profit-making items which just can't be passed up.
Demand for them is feverish – last year's sales volume topped US$14 million and the number of designs available to buyers almost hit the 10,000 mark.
Your own embroider designs are usually available three months after being submitted – time varies depending on complexity.
Compensation trade, coordination production, and joint ventures are welcome, so write today for full details.

CHINA SILK CORPORATION, GUANGDONG BRANCH
63, Wen Ming Road, Guangzhou, China. Cable: SILK GUANGDONG. Telex: 44071 KTTEX CN

THE NATIONAL COUNCIL FOR US–CHINA TRADE

OFFICERS
Chairman: WALTER STERLING SURREY
Vice-Chairmen: DAVID C. SCOTT, WILLIAM C. DOUCE, CHARLES I. ROSTOV
Secretary-Treasurer: HARRY TAYLOR
Counsel: BENJAMIN P. FISHBURNE III
President: CHRISTOPHER H. PHILLIPS

BOARD OF DIRECTORS
ROBERT ANDERSON, chairman and chief executive officer, *Rockwell International Corp.*
WILLIAM C. ARTHUR, chairman, *Merrill Lynch International, Inc.*
SAM AYOUB, senior executive vice-president and chief financial officer, *The Coca-Cola Co.*
MURRY P. BERGER, president and chief executive officer, *MB International Consultants, Inc.*
WILLIAM H. BRICKER, chairman of the board, *Diamond Shamrock Corporation*
WILLARD C. BUTCHER, chairman and chief executive officer, *The Chase Manhattan Bank, N.A.*
WILLIAM C. DOUCE, president and chief executive officer, *Phillips Petroleum Co.*
MICHEL FRIBOURG, president, *Continental Grain Co.*
FRED L. HARTLEY, chairman and president, *Union Oil Co. of California*
HARRY HOLIDAY, JR., chief executive officer, *Armco, Inc.*
AMORY HOUGHTON, JR., chairman, *Corning Glass Works*
JOHN V. JAMES, chairman and chief executive officer, *Dresser Industries, Inc.*
WALTER B. KISSINGER, chairman, president, and chief officer, *The Allen Group, Inc.*
PHILLIP KNIGHT, president and chairman of the board, *Nike, Inc.*
DONALD C. PLATTEN, chairman, *Chemical Bank*
M. JOSEPH LAPENSKY, president and chief executive officer, *Northwest Airlines, Inc.*
CHARLES I. ROSTOV, president, *Trans-Ocean Import Co., Inc.*
DAVID C. SCOTT, chairman and chief executive officer, *Allis Chalmers Corp.*
WALTER STERLING SURREY, senior partner, *Surrey & Morse*
DAVID S. TAPPAN, JR., president and chief operating officer, *Fluor Corp.*
HARRY TAYLOR, vice-chairman, *Manufacturers Hanover Trust Co.*
WILLIAM E. TUCKER, chairman and chief executive officer, *Caltex Petroleum Corporation*

WASHINGTON STAFF
President: CHRISTOPHER H. PHILLIPS
Executive Vice-President: ROGER W. SULLIVAN
Administration: PATRICIA P. CAPERONES
Business Advisory Services: CAROLYN L. BREHM
China Business Review: JAMES B. STEPANEK
Comptroller: RICHARD L. PETERMAN
Development and Government Relations: SCOTT D. SELIGMAN
Liaison and Language Services: I-CHUAN CHEN
Librarian: MARIANNA GRAHAM
Publications: CAROL S. GOLDSMITH

Address
1050 17th St., NW, Suite 350
Washington, DC 20036 USA
(202) 429–0340
Telex: 64517 NCUSCTUW
Cable: USCHINTRAD WSH

BEIJING OFFICE
Vice-President for China Operations: WILLIAM W. CLARKE
Assistant Vice-President for China Operations, Beijing: ROSANNE DRUMMOND
Advisor: LI WENDA
Suite 1136, Beijing Hotel
Telephone: 552231, 556531, ext. 1136
Cable: USCHINTRAD
Telex: 22637 NCPEKCN

US GOVERNMENT OFFICES

EMBASSY
Ambassador: ARTHUR W. HUMMEL, JR.
Deputy Chief of Mission: CHARLES W. FREEMAN
Economic Counselor: DAVID G. BROWN
Economic Officers: HOWARD LANGE, JOHN P. MODDERNO, NICHOLAS RIEGG
Agricultural Counselor: NORMAN R. KALLEMEYN
Commercial Counselor: MELVIN W. SEARLS
Commercial Officers: CLARK T. RANDT, PETER HANLEY
Science Counselor: JACK GOSNELL
17 Guanghua Lu
Jianguomenwai, Beijing
Telephone: 52–2033

SHANGHAI CONSULATE
Consul General: DONALD M. ANDERSON
Deputy Principal Officer/Economic Section Chief: KENT WIEDEMANN
1469 Huai Hai Zhong Lu
Telephone: 379–880

GUANGZHOU CONSULATE
Consul General: JEROME C. OGDEN
Deputy Principal Officer/Economic Section Chief: JAMES H. HALL
Dongfang Hotel
Telephone: 69–900

HONG KONG CONSULATE
Consul General: BURTON LEVIN
Economic Section:
Chief: HENRY A. ENGELBRECHT, JR.
Deputy Chief: MARSHALL ADAIR
Economic Officers: JOAN M. PLAISTED, ANGUS SIMMONS, DOUGLAS G. SPELMAN
Chief, Foreign Commercial Service: WILLIAM C. JACKSON
26 Garden Rd.
Telephone: 5–239011

PRC GOVERNMENT OFFICES IN THE US

EMBASSY
Ambassador: ZHANG WENJIN
Commercial Counselor: AN DONG
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008
Telephone (202):
Reception: 328–2500
Commercial: 328–2520 thru 2527
Visas: 328–2517

NEW YORK CONSULATE GENERAL
Consul General: CAO GUISHENG
Deputy Consul General: JI LIDE
Commercial Consul: SONG GUIBAO
520 12th Avenue
New York, New York 10036
Telephone numbers (212):
Commercial: 564–1139 & 2541
Visas: 279–0885 & 1127

HOUSTON CONSULATE GENERAL
Consul General: WU XIAODA
Commercial Consul: WU MINXIAN
3417 Montrose Blvd.
Houston, Texas 77006
Telephone numbers (713):
Commercial: 524–4064
Visas: 524–4311

SAN FRANCISCO CONSULATE GENERAL
Consul General: HU DINGYI
Commercial Consul: GUO YIMIN
1450 Laguna Street
San Francisco, CA 94115
Telephone numbers (415):
Commercial: 563–4858
Visas: 563–4857

Q: Why travel with American Express when you go to China?

A: BECAUSE WE ARE THERE!

American Express Travel Related Services Company is a worldwide international company that provides top quality financial and travel services for business & vacation travelers wherever in the world they may find the need to travel, including China where we have a Travel Service Office right in Beijing.

American Express® Travel Service

With a worldwide network of nearly 1,000 Travel Service Offices* (TSO's), we are ready and eager to satisfy your business and vacation travel needs. Our office in Beijing (located at the Peking Hotel, Room 1527, East Chang An Avenue) is prepared to assist with travel information and the reporting of lost or stolen American Express Travelers Cheques and Cards. And American Express not only has more offices throughout the Orient than any other American travel company, but we are the first officially registered tour operator to establish an office in China.

Our American Express® Vacation Stores located throughout the United States are staffed by travel experts who sell quality vacations all around the world. For the location of the one nearest you , look under "Travel" in the yellow pages or under "American Express" in the white pages of your telephone directory.

Don't leave home without us.®

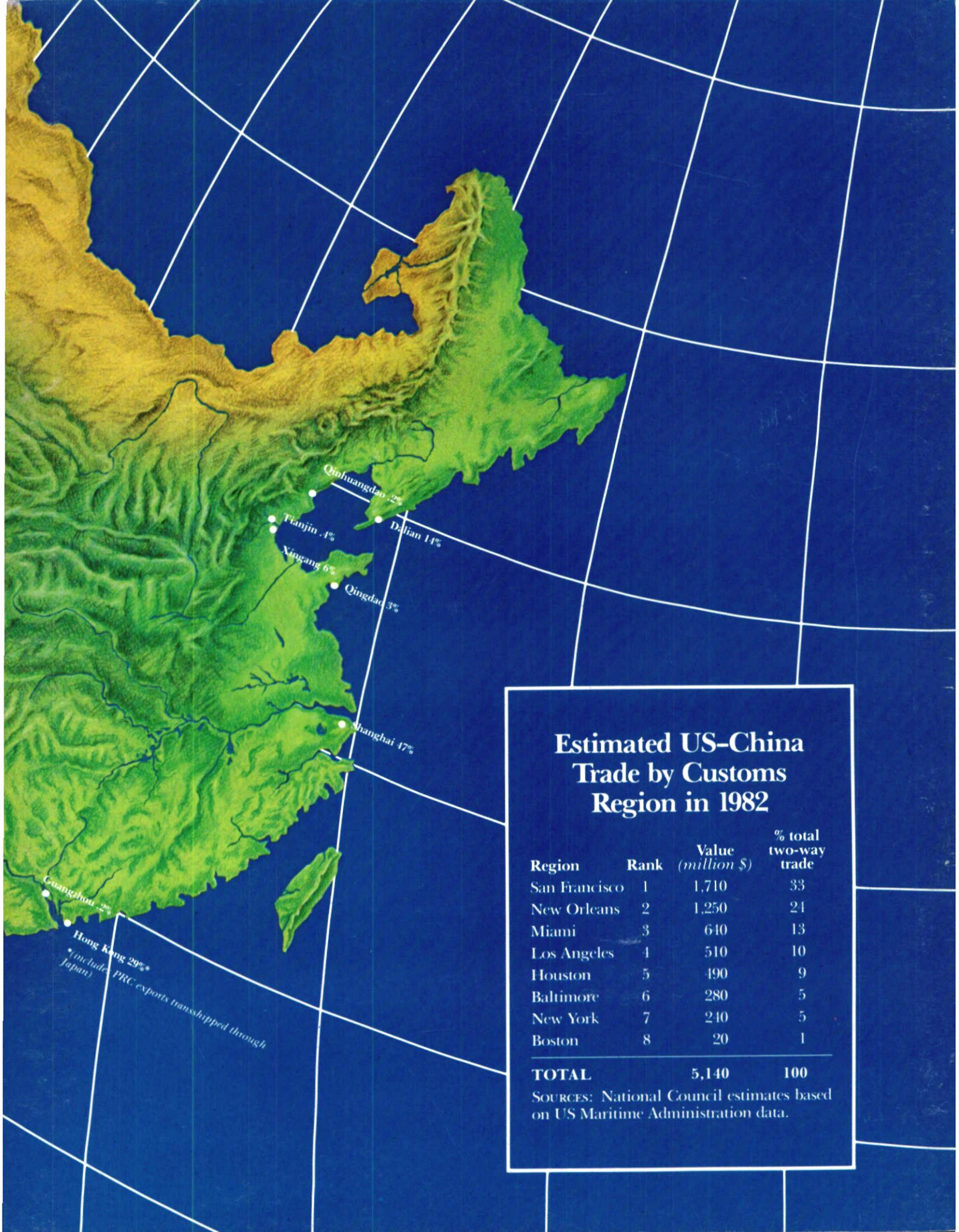
*The network is comprised of offices owned by American Express® Company, its subsidiaries or representatives.

American Express® Travel Management Services.

We have been helping companies manage travel for more than 70 years. Today, our "Business Travel Service" offers companies a full complement of traditional travel agency services plus state-of-the-art products to simplify administration of t & e expenses. There are 19 American Express Business Travel Centers in key major metropolitan U.S. cities. For the location of the one nearest you, call or write to Mr. Roger Hymas, Vice President, American Express Travel Related Services Co., Inc., American Express Plaza (25th floor), New York, New York 10004, (212) 323-2224.

Don't leave your office without it.℠

AMERICAN EXPRESS ®



Estimated US–China Trade by Customs Region in 1982

Region	Rank	Value *(million $)*	% total two-way trade
San Francisco	1	1,710	33
New Orleans	2	1,250	24
Miami	3	640	13
Los Angeles	4	510	10
Houston	5	490	9
Baltimore	6	280	5
New York	7	240	5
Boston	8	20	1
TOTAL		**5,140**	**100**

SOURCES: National Council estimates based on US Maritime Administration data.