China’s Development of Shale Gas
Opportunities and Challenges

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Dawn of a new resource era for China?

- At present, gas makes up just 4% of China’s primary energy consumption.
- China’s latest 5-year plan for 2011-2015 envisages an increase to 8% by 2016.
- BUT: a 1% increase in China’s gas consumption is reckoned to equal 25 bcm of gas a year.
- Hence great hope for shale gas in China.
- China’s MLR estimates that China has 25.08 tcm of potentially recoverable shale gas resources (the U.S. EIA’s estimate in March 2011 was 36 tcm).
Source: CNPC
Recent Shale Gas Developments in China

• China started pushing shale in 2009 - China signed a shale gas memorandum with the U.S. in 2009

• PRC SOEs have signed multi-billion shale gas deals in the U.S. with Chesapeake Energy and Devon

• Foreign players have entered the Chinese market, e.g.:
  o Royal Dutch Shell and CNPC in Sichuan province
  o BP and Sinopec in Guizhou province

• In essence, China wants to identify the right technology to unlock its potentially vast shale gas reserves by 2015, and then make a quantum leap in shale gas production by 2020 BUT: China has not yet started commercial shale gas production, with the exception of Sinopec’s Fuling shale gas field in Chongqing municipality
Recent Shale Gas Developments in China

• June 2011: China launched first shale gas bid round
  
  o 6 PRC SOEs bid on 4 blocks in the Chongqing municipality and Guizhou and Hunan provinces
  o only 2 blocks were awarded:
    ▪ Nanchuan block to Sinopec Corp
    ▪ Xiushan block to Henan Provincial Coal Seam Gas Development & Utilization Co

• 24 December 2011: NDRC and MOC revised the Foreign Investment and Industry Guidance Catalogue (with effect from 30 January 2012) to make foreign investment in shale gas projects, in cooperation with Chinese partners, an “encouraged” interest

• 31 December 2011: MLR announced that the State Council has approved a change in the status of shale gas, from ‘natural resource’ to ‘mining resource’

• March 2012: Royal Dutch Shell and CNPC announced the signing of the first ever PSC to explore, develop and produce shale gas in China
Recent Shale Gas Developments in China (cont)

- 10 September 2012: China launched second shale gas bid round

- Effective 26 October 2012, MLR issues the “Circular Regarding Reinforcing the Administration of Exploration, Exploitation and Supervision of Shale Gas Resources”

- 1 November 2012: China’s Ministry of Finance and National Energy Administration announced subsidy for shale gas production in China

- January 2013: Winners of second bid round announced

- Slow progress by winners of second bid round

- Third bid round?
Current Shale Gas Regulatory Framework

• China’s Shale Gas Regulatory Framework is still a work in progress

• Grey areas regarding activities under joint study arrangements

• PRC government is considering one of two possible models on how to develop shale gas projects:
  
  o PSC model, where Chinese entity holds the block license, and then enters into a PSC with a foreign entity

• OR
  
  o JV model, where foreign entity forms a joint venture with a Chinese entity, and the Sino-foreign joint venture holds the block license

• Current lack of clear framework and investment model is an obstacle to foreign investment in the PRC shale gas space