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THE BRITISH EMBASSY

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PEKING



## NOTE FOR THE RECORD

## PRIME MINISTER'S VISIT TO BP ESTABLISHMENT IN SHANGHAI

1. The Prime Minister and her immediate party visited the BP residence in Shanghai on 26 September for a short briefing by Mr Simon Downs, the BP China representative, on BP's activities in China.
2. Mr Downs said that, along with other oil companies, BP had put in tremendous efforts in the exploration of China's offshore waters in the belief that the prospects of finding oil in commercial quantities were "world-ranking". The seismic work done beginning in 1978/79 confirmed this belief. Most of the work done by BP was in the East China Sea off the coast near Shanghai. Under the rules of the game the data gained by their surveys was shared with all other participants, which meant 35 companies in the Shanghai area and 45 altogether for the coastal waters of China. In addition, BP had drilled two exploration wells in the Yellow Sea. The data recovered from these was shared with the Chinese but not with any other oil companies.
3. The oil companies have now made their bids, and the Chinese Oil Ministry was examining them. BP had been told informally that the Chinese were disappointed in the main with the level of bids received, but this disappointment did not extend to BP. Without going into detail, Mr Downs said that the bids contained three main aspects: the number of wells the company proposed to drill, the amount of money it was prepared to put in, and the amount of oil it wished to take out. If licences were awarded, they would be for 5 to 7 years in the first instance. Under the oil exploitation law, the companies had the right to the production of the wells which they drilled for 15 years from the start of the flow of oil. On the other hand, the Chinese would have the right to take over the well once the company had recovered its development and production costs.
4. BP would continue to maintain its main office in Peking. The seismic surveys made it necessary for BP to move the centre of gravity of its efforts in China to Canton: the South China Sea and the Pearl River delta were much more promising than the East China Sea. This had been reflected in the bidding, where very few companies had put in more than token bids for work in the East China Sea.
5. The main problems facing BP and other companies were unfamiliar contractual conditions, obviously inadequate speed of response by the Chinese authorities to practical problems, and strange arrangements for arbitration. A great deal of training of Chinese oil personnel would be necessary. BP thought the best course was honest and straightforward advice, which they had pursued with success up to now. Mr Downs expected that BP would be among the first companies to be summoned to discuss their bid, and that offshore work would begin as a result in the first or second quarter of 1983.



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6. In answer to questions from the Prime Minister, Mr Downs said he thought that undersea pipe would not be required in great quantities for at least 7 years. Some of the drilling rigs would be made in China, but most would be brought in on contract as there was now a large international surplus of equipment. He hoped that the British offshore service industry would improve on its slow start and obtain a reasonable share of the business. Finally, Mr Downs predicted that not more than a dozen companies would be asked to discuss their bids in the first instance as to do more would strain Chinese negotiating capabilities.

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G E Clark  
29 September 1982