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## China Plans Subsidies to Tap Shale Gas

By Bloomberg News - Oct 20, 2011

[China](#), estimated to hold more natural gas trapped in shale than the U.S., will offer subsidies and auction new exploration blocks this year to encourage domestic companies to tap the resource.

“The government places high emphasis on developing shale gas and has been actively studying supporting policies,” Zhang Dawei, deputy head of the Strategic Research Center at the Ministry of Land and Resources, said in [Shanghai](#) today. A national shale gas plan will be announced soon, he said.

More than 10 shale gas blocks will be offered to Chinese state and private companies in the second round of auctions, Zhang said at a conference. While overseas companies will be barred from the sale to be held this quarter, they can invest in and supply technology to domestic operators, he said.

[Cnooc Ltd. \(883\)](#) and China Petrochemical Corp. are seeking technology through overseas acquisitions. PetroChina Co.’s parent agreed in June to form a venture with Royal Dutch Shell Plc to improve its drilling efficiency after taking 11 months to complete China’s first shale well. China, yet to produce any shale gas commercially, plans 6.5 billion cubic meters of annual output by 2015 and 80 billion cubic meters by 2020, Zhang said.

The subsidy for shale gas will be higher than the 0.2 yuan (3 cents) per cubic meter provided for coal-bed methane, because gas is harder to extract from shale rock, the official said.

Chinese shale may hold 1,275 trillion cubic feet (36 trillion cubic meters of gas), or 12 times the country’s conventional natural gas deposits, the U.S. Energy Information Administration [said](#) in April. China’s “technically recoverable” reserves are almost 50 percent more than the 862 trillion cubic feet held by the U.S., the EIA said.

### Estimated Reserves

China estimated in 2010 that it had about 31 trillion cubic meters exploitable shale gas reserves, and the figure will be updated by the end of this year as the government has done nationwide onshore appraisal, Zhang said today.

Shale gas production in China is expected to increase to about 15 percent of domestic output by 2040, compared with 50 percent by 2030 in the U.S., Steven W. Lewis, a professor at the Baker Institute at [Rice University](#), said at the conference. In [Canada](#), shale may account for a third of overall gas production by mid 2030s, he said.

China Petrochemical, known as Sinopec Group, agreed this month to buy Daylight Energy Ltd. for about C\$2.2 billion (\$2.2 billion) to gain Canadian shale-gas reserves in the company's largest acquisition this year.

## Overseas Acquisitions

Cnooc agreed in February to buy a 33.3 percent stake in Chesapeake Energy Corp.'s Niobrara shale project in Colorado and [Wyoming](#) for \$570 million, after paying \$1.08 billion last year for one-third of a Chesapeake shale venture in [Texas](#).

In June, PetroChina walked away from a C\$5.4 billion bid for Encana Corp.'s Cutbank Ridge gas assets after failing to agree on the price. The acquisition would have been its largest overseas deal.

[China Petroleum & Chemical Corp. \(386\)](#), the listed arm of Sinopec Group, and Henan Provincial Coal Seam Gas Development and Utilization Co. won exploration rights in China's first auction of shale-gas blocks, the land ministry said in July.

Chevron Corp., BP Plc and Statoil ASA are among international explorers that have entered talks to form joint ventures in China to tap shale gas assets.

China aims to triple the use of natural gas to about 10 percent of energy demand by 2020 to rely less on more polluting coal and oil.

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