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“This thesis is a part of the B.Sc. program at BI Norwegian School of Management in collaboration with Fudan University. Neither of the schools takes responsibility for the methods used, results found nor conclusion drawn.”
Executive Summary

This thesis has been conducted by four students on the behalf of Sevan Marine ASA, a Norwegian company in the floating offshore application industry. The aim of the thesis is to provide the company with an overview of the Chinese offshore industry, and possible entry strategies for their FPSO and driller units. The thesis is based on secondary literature and personal interviews.

With expanding deep-sea activities in South China Sea, opportunities for international companies with deep-sea technology will emerge. This is due to the lack of deep-sea technology in the Chinese oil industry, thus creating opportunities for Sevan Marine.

The findings reveal that the Chinese market is complex, with a high degree of governmental involvement. In addition, the legal framework, poor IPR standards and a distinct business culture, makes it a challenging market.

As the Chinese offshore market has a monopolistic structure, Sevan is dependent on an agreement with the state owned oil company CNOOC. Sevan should not invest heavily in the Chinese market before an agreement with CNOOC is reached. However, increased market activities at the Singapore office are recommended, due to close proximity and reasonable financial costs.

Through the established network with COSCO, Sevan Marine might develop a sustainable relationship with CNOOC, resulting in future contracts. They should create a position in the Chinese market based upon their deep-sea drilling capabilities and history of production in China.

A Build, Own Operate model is the preferred business model for Sevan Marine in China. By conducting this through a JV with COSCO, important financial contributions will be secured as well as access to key networks and relationships.

An alternative strategy is to sell a finished driller to CNOOC, which will create financial gain in short-term for Sevan Marine, but includes risks concerning IPR.
Acknowledgements

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Mr. Fredrik Major; Vice President, Research & Development at Sevan Marine ASA. We would like to thank him for his throughout support for our entire project period. We would also thank him for this opportunity to write this thesis, as well as his involvement in order to make the best result as possible.

Mr. Lars Einar Bjørgaas; Project Manager at Qidong for Sevan Marine ASA. He invited us for an exciting and informative trip to COSCO Shipyard in Qidong, and provided us with valuable information throughout the visit.

In addition, we would like to thank all our interviewees. You have helped us create a thesis that we are proud of. Without all of you, this thesis would not have seen the light of day. Thanks for your time, inputs, thoughts and will.

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Shanghai, the 17th of May, 2010

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Abbreviations and definitions
Explanation of words and terms frequently used in this thesis.

**BOO-model:** Build-Own-Operate model

**FPSO:** Floating Production, Storage and Offloading

**MODU:** Mobile Offshore Drilling Unit

**Floating production:** Production of oil within offshore applications

**Floating unit:** Offshore platforms (here: FPSO’s and MODU’s)

**Topside- and Process-technology:** Technology involved with the tasks a floating offshore application performs.

**PSC:** Production Sharing Agreement, an agreement made between a foreign- and a state-owned oil company which relates to sharing the oil produced in one project.

**Upstream:** Term used to refer to the searching for and the recovery and production of crude oil and natural gas

**Midstream:** Term used to refer to process, store, market and transport for example crude oil, natural gas or natural gas liquids

**Downstream:** Term used to refer to the refining of crude oil, and the selling and distribution of natural gas and products derived from crude oil

**Bbl:** Barrel (of oil), singular // **Bbls:** Barrels (of oil), plural

**BOE:** Barrel of Oil Equivalent, a unit of energy based on the approximate energy released by burning one barrel

**BOEPD:** Barrels of Oil Equivalent Per Day, production volumes are measured in BOEPD

**GPA:** Agreement on Government Procurement (GPA), a legally binding agreement in the WTO focusing on the subject of government procurement

**NOC:** (Chinese) National Oil Companies, commonly used in China
**IOC:** International Oil Companies

**SOC:** State Owned Companies

**SOE:** State Owned Enterprises

**Sub-Sea:** Underneath the ocean’s surface

**Deep-Sea/Deep water:** Ocean depths at 1800m or above

**CNOOC:** China National Offshore Oil Corporation

**COSCO:** China Ocean Shipping (Group) Company

**CNPC:** China National Petroleum Corporation

**SASAC:** State-Owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality

**SCS:** South China Sea

**PRC:** People’s Republic of China

**IPR:** Intellectual Property Rights

**Guanxi:** Chinese term used to describe interpersonal relationships and networking

**INTSOK:** An International company for Norwegian Oil & Gas partners, focusing on expanding their members’ activities in international oil and gas markets.

**Block:** Here: Related to oilfields. “Blocks” are used to describe a designated area in an oilfield. Oilfields can consist of several blocks.

**Oil Company:** A company that discovers, extracts and refines oil into a variety of products, and distributes it to the public / A company that produces and delivers oil and oil products

**Contractor:** A company that owns oil platforms and contract their services to oil companies

**Operator:** A company designated to conduct offshore operations (for example operate a well)
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Part I: Introduction

Chapter 1: Introduction
This thesis is written by four students on the behalf of Sevan Marine. Sevan Marine is a Norwegian company who is specialized in building, owning and operating floating units for offshore applications. The company has developed a cylinder shaped oil rig, which is suitable for all offshore environments.

Sevan Marine has no activities in China besides construction of their platforms. Their knowledge of the Chinese market is limited, as the company has been prioritizing other markets. Sevan Marine is now looking for opportunities to introduce their platforms in the Chinese offshore market, but require more information to determine the possibilities in this market.

Our cooperation with Sevan Marine started in late December 2009, and ended mid-May 2010. The authors of this thesis have been very satisfied to have Sevan Marine as a partner. Sevan has been helpful and have provided us with valuable information regarding our thesis, including a sponsored fieldtrip to COSCO Shipyard in Qidong, where they are currently building a new platform.

1.1 Problem/Assignment
We have with the help of Sevan Marine developed a suitable research aim for our thesis. Since Sevan has very limited knowledge about China, Sevan Marine provided us with a Chinese contact, Mr. Jian Guo. Guo is working for INTSOK, an organization for Norwegian Oil and Gas Partners. On February 2nd, 2010, we had a meeting with Mr. Guo, and discussed the research aim and how to move forward with the research, in order to provide Sevan with an overview of the Chinese offshore market.

1.2 Research Aim
Our research aim was defined as:

“Provide Sevan Marine with an overview of the Chinese offshore market and based upon this, recommend a suitable market entry strategy.”
Our research aim focuses on collecting valuable information about the Chinese oil industry and offshore market, and find and develop a suitable market entry strategy for Sevan Marine.

1.3 Research Questions
Our research questions have also been developed with the support of Sevan Marine.

1. What is the current situation in the Chinese offshore market?
2. Who are Sevan Marine’s major competitors in the Chinese market?
3. Which areas within the Chinese offshore industry would be attractive for Sevan Marine?
4. Which of the technologies in Sevan’s portfolio is most suitable for the Chinese market?
5. How can Sevan Marine use their experience and relationships in China in order to obtain upcoming contracts in China?
6. How can Sevan Marine position themselves in order to obtain upcoming contracts in China?
7. What are the major entry barriers for Sevan Marine in China?

1.4 Research Limitations
This thesis focuses specifically on the Chinese offshore oil industry. Hereunder, the FPSO (Floating Production Storage and Offloading) and drilling sector is especially focused on, as requested by Fredrik Major (Sevan Marine). Other offshore applications will not be covered in this thesis.

As the focus on this thesis has primarily been on marketing and the attractiveness of the market, a thorough analysis of Sevan’s financial situation is not included. But in order to get a brief overview, basic analysis of the balance sheet and financial resources are included.

As the oil industry is an international industry, all international FPSO and driller owners can be seen as possible competitors for Sevan Marine on the Chinese market. Therefore, the competitors accounted for in this theses are those already present in the Chinese oil market.
Due to time limitations and research aim, the internal analysis is limited to Sevan’s headquarter and their office in Singapore. A deeper internal analysis was not considered to be of significant value concerning the aim of this thesis.

In our research, we have experienced several limitations which have influenced the analysis of the Chinese deep-sea offshore market and industry.

Chinese government and SOEs traditionally does not reveal much of their company information publicly. As the offshore industry is dominated by SOEs, this has made it difficult to find accurate information regarding the market situation. And much of this information is based upon interview findings. In addition the online information containing more than a fragment of the industry information, were pay sites, charging prices beyond our budget limitations.

Additionally, the language barriers has lead to restrictions both regarding access to information and potential valuable interview candidates.
Chapter 2: Sevan Marine Background

This chapter will introduce Sevan Marine, in order to offer insight regarding the company’s current situation in the global offshore market. A presentation of Sevan Marine’s products/services, business structure, company structure, policies and values will also be included. Sevan Marine’s current activities in the Chinese market will be presented at the end of this chapter.

Sevan Marine Background is based upon information from Sevan’s web-page, in addition to internal interviews. This chapter will be the basis for the internal analysis.

2.1 Sevan Marine ASA

Sevan Marine is a Norwegian company in the floating offshore applications industry. The company specializes in design, engineering, construction, ownership and operation of their floating production and drilling units. In addition to floating production and drilling applications, Sevan Marine is focusing on floating LNG (Liquefied Natural Gas) production and topside- and process- technology.

Sevan Marine’s vision is:

- “…to be a world-class company in the technological challenging segments of the offshore market.”

The company’s strategy is portrayed as:

- *Utilize our competitive advantages within design, engineering and project execution to offer cost-effective and innovative products and solutions to our clients, based on the Sevan technology.*
- *Aim at maintaining a local presence in international markets.*
- *Growth shall be achieved mainly through organic development and partnership arrangements.*

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2.2 History
Sevan Marine was founded in 2001 by Arne Smedal, and their head-quarter is placed in Arendal, Norway. The company consisted of only three employees during its first two years\(^3\), who had a goal to develop the world’s first cylindrical floater\(^4\). On December 13th, 2004, Sevan Marine listed on the Oslo Stock Exchange, and in 2005 a contract for the world’s first cylindrical FPSO was given to Sevan Marine by Petrobas, an international state-owned Brazilian oil company\(^5\). Today, Sevan Marine has four FPSO contracts and three drilling contracts, with presence in the North Sea and the Brazilian coastline. Sevan Marine has grown into a company with a strong business culture and low turnover rate, with over 400 employees world-wide (Q4, 2009)\(^6\). Sevan Marine’s cylindrical platforms are today experiencing growing international recognition.

2.3 Sevan Company Structure

![Sevan Company Structure Model (Feb. 2010)](image)

*Figure 1: Sevan Company Structure*

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Sevan Marine’s company structure consists of the company’s subsidiaries and overseas offices.

Sevan Marine’s topside- and process-technology is provided by the Kanfa Group. The Kanfa Group consists of Kanfa AS, Kanfa Aragon, Kanfa TEC and Mator. Topside- and process-technology includes different elements, such as engineering, energy systems, water treatment and gas systems.

The office in Singapore is connected to Sevan’s financial side. Each Sevan platform (except FPSO Piranema) has its own Singaporean holding company. The holding companies own and operate Sevan’s platforms, and all of them, except from one, are owned 100% by Sevan Marine. If clients want to co-own platforms, the holding company can be set up as a joint-venture, which has been done with FPSO Hummingbird. These holding companies are located in Singapore due to the favorable tax regime.

Sevan’s office in Brazil has two functions. It deals with Sevan’s current operations in Brazil and manages Sevan contracts with Petrobras S.A.

2.4 Sevan Business Model

![Figure 2: Sevan Business Model](http://www.sevanmarine.com/index.php?option=com_content&task=view&id=24&Itemid=131)

Sevan Marine traditionally uses a build-own-operate model (BOO). Here, Sevan takes responsibility for construction, ownership and operation of platforms. This model is used to retain Sevan’s technology, gather and make use of their experience in each step of their business structure. However, Sevan has lately become more flexible and can consider altering their traditional BOO on a case-to-case basis.
2.4.1 Design and Engineering
The basis of designing and engineering Sevan platforms lies in Sevan’s technology, as well as Sevan Marine’s marine and process expertise. Sevan platforms offer flexibility and can be optimized depending on a client’s demand. Sevan platforms are designed based upon the characteristics of the oilfield in which they will operate, such as depth and size. The unique design of the Sevan units is solely developed by Sevan Marine.

Engineering of Sevan units has background in large R&D investments for optimizing the cylindrical hull. This is also mainly done by Sevan Marine. External parties, such as Marintek and Det Norske Veritas (DNV), are used for verification purposes in both design and engineering.

2.4.2 Construction
Today, Sevan platforms are constructed in China. This is done with cooperation from the multinational Chinese enterprise “China Ocean Shipping Company” (COSCO). COSCO focuses on shipping and logistic businesses, and is the largest ship repairing and building company in China8.

The circular design of the platforms makes construction both simpler and more efficient compared to traditional platforms. Sevan’s construction process requires a lower amount of steel than traditional platforms, and no special facilities or infrastructure is needed. Due to this, the period of time used to build Sevan platforms is shorter. Sevan’s newest driller took only 24 months to design and construct, 6 months less than it normally does9. Furthermore, China also offers low prices of construction. Because of these features, the construction cost is significantly lowered compared to platforms of similar quality.

2.4.3 Ownership
Sevan Marine prefers to keep ownership of all their platforms. However, if seen as advantageous, co-ownership can be agreed, and will be evaluated by criteria’s such as risk, profitability, available financing, construction and engineering capacity. Ownership is decided on a case-to-case basis. Under the BOO model,
platform day-rates are used for remuneration, which consist of one operating element and one capital element. Day-rates are typically used for drilling units, whereas fixed rates with production bonuses are used for FPSO units. If a client prefers to own a Sevan unit, a license model is used. This ensures that Sevan Marine retains full control of their technology.

2.4.4 Operation
Sevan Marine’s preference is to keep all operation and maintenance (O&M) responsibility of their platforms, also in a co-ownership contract. This secures valuable feedback about operations, which can be important for future projects. The operating crew consists of mainly local workers, but also Sevan employees. Some Sevan units have employees from their cooperating parts, because of their standing with local authorities10.

2.5 Values and Policy
Sevan Marine has developed three business policies; Social Responsibility, policies for Quality, Health, Safety and Environment (QHSE), and Corporate Business Ethics. The most relevant points of these policies for this thesis are presented.

Sevan’s Social Responsibility11:

- *Respecting laws in foreign countries and communities*
- *Understanding their social and cultural impacts when entering new areas*
- *Developing strategies to respect rights and cultures of local communities and contribute to these*

Sevan’s QHSE (Quality, Health, Safety and Environment) policies ensure the safety and health of their employees, in addition to reduction of environmental

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10 Interview Fredrik Major
harm. Sevan Marine is operating under recognized international safety standards, which are closely monitored and continuously improved.\textsuperscript{12}

To maintain the integrity of the company and its employees, Sevan has developed a Corporate Business Ethics policy\textsuperscript{13}. This includes strict policies for corruption and bribery.

Sevan is based upon four fundamental values; \textit{diversity}, \textit{adaptability}, \textit{accountability} and \textit{efficiency}. These values are guidelines in securing a multicultural, multinational, adaptable technological, cost efficient, safe, value creating and responsible company. This is in terms of clients, owners, employees and shareholders.\textsuperscript{14}

### 2.6 Products and solution

In order to fully understand Sevan Marine’s platforms, a presentation of the most typical platforms in the oil industry will be given.

#### 2.6.1 Traditional oil platforms

In general, there are five different oil platforms, divided between drillers and FPSOs.

**Drilling units**:\textsuperscript{15}

1. \textit{Fixed platforms} are built directly on the seabed to drill wells when oil is found. These platforms are stationary and focused on one oil field in shallow waters.

2. \textit{Semi Submersible platforms} are floating drilling platforms which are commonly used for deep-sea exploration purposes because of their


\textsuperscript{14}http://www.sevanmarine.com/images/stories/QHSE/smc-corp-vis-001_vision_values_and_strategies_rev_a_approved.pdf

\textsuperscript{15}http://www.rigworker.com/industry/oilrigs.shtml
mobility. These platforms usually have four columns and eight mooring anchors to stabilize their motions.

3. **Jack Up platforms** are similar to Semi Submersible platforms. However, instead of floating above a drilling location, Jack Up platforms use adjustable “legs” to anchor the platform to the seabed. This type of platform also is mobile, but is limited to shallow waters.

4. **Drill Ships** are ship shaped drilling vessels. These ships also resemble Semi Submersibles, but have less stable motion characteristics.

**FPSO:**

1. *Floating Production, Storage and Offloading (FPSO) units* are equipped with processing- and storage-facilities. These units receive oil from existing wells or nearby platforms, and offload the processed oil to tankers. Most FPSOs are converted tankers, and are therefore ship shaped.

Drilling platforms perform numerous advanced tasks. This involves sub-sea processes, such as drilling, cementing, pumping and lifting, in addition to the tasks executed inside the oil platform. Due to the many advanced functions of a drilling platform, sophisticated technology is required. Furthermore, deep drilling locations are more demanding for oil platforms than shallow drilling locations, making technology an even more important factor in deep-sea projects.

FPSO platforms deal with simpler tasks compared to drilling platforms. These platforms focus on a known, ongoing process/procedure. Oil processing plants inside FPSOs are performing more or less standard actions, such as water separation and chemical injections. Therefore, the technology required for these tasks is less demanding than drilling technology.

Oil rigs vary in prices depending on their size, operation depth and purpose. Both FPSOs and drilling platforms can range from between 600 million to over 1 billion USD. Due to Sevan’s lower construction costs and their unique technology, Sevan platforms are able to compete on price, operational costs and

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17 Interview Lars Einar Bjørgaas
18 Interview Lars Einar Bjørgaas
[http://www.fpso.net/page7.html](http://www.fpso.net/page7.html)
quality specifications. Depending on operational factors, a Sevan platform costs around 700 million USD.

### 2.6.2 Sevan Oil Platforms

Sevan platforms can be described as an own category of platforms. In contrast to traditional platform designs, Sevan’s platforms have a cylindrical design. This cylindrical design can be adapted to both drilling and FPSO solutions. Sevan units can be used in both deep and shallow waters (30m to 3000m). The cylindrical design creates excellent motion characteristics and possibilities for spread anchoring. This results in stability in harsh water conditions. Sevan’s circular hull can be described as a “protective shell”, similar to a ship’s hull, and makes Sevan platforms suitable for extreme environments, such as arctic locations, and cyclonic conditions.

The design of conventional platforms exposes the platforms structure and its equipment to forces such as bending, pressure, strain and tension (see picture below). According to Sevan Marine’s website, Sevan Marine’s design results in protection of most equipment and insignificant bending stresses in the deck structure. This is due to cylindrical hull, in addition to the hull’s use for storing drilling equipment, cargo- and ballast-tanks, and marine- and utility-systems. The internal storage possibility also creates opportunity for higher deck load capacity, and high oil-storage capability.

![Comparison of hull stress between platform types](image)

**Figure 3: Comparison of hull stress between platform types**

Securing Sevan technology in relation to suppliers and clients is very important. Sevan has patented their technology as far as it is possible, but it is very difficult
to patent a specific shaped platform. Therefore, only parts of Sevan units are patented by Sevan’s patent portfolio.\textsuperscript{20}

Sevan’ product line consists of seven applications (illustrated below): FDPSO (Floating Drilling Production Storage Offloading), MSV (Multipurpose Support Vessels), GTW (Gas To Wire), FAU (Floating Accommodation), FPSO (Floating Production, Storage and Offloading), FLNG (Floating Liquefied Natural Gas production) and MODU (Mobile Offshore Drilling Unit). The base of Sevan Marine’s activities lies, however, in FPSOs and MODUs (“Drillers”), which are currently the only platforms produced by Sevan.

Sevan Marine’s product-line:

\textbf{The Sevan Platform - the versatile technology -}

\textbf{Figure 4: Sevan’s versatile technology}\textsuperscript{21}

\textsuperscript{20} Interview Lars Einar Bjørgaas
\textsuperscript{21} http://www.sevanmarine.com
Existing Sevan units and units under construction are outlined below:

**Figure 5: Sevan’s current platforms in the industry**

### 2.7 Customers
Sevan Marine currently has clients for seven of their nine platforms. Two unfinished Sevan FPSO platforms, entirely financed by Sevan equity, do not have contracts (Sevan 300 no.4 and Sevan 300 no.5). These are currently marketed to clients, and will continue construction once clients are available.

FPSO Sevan Piranema, Sevan’s first floating unit is contracted to Petrobras, as well as Sevan Driller I and Driller II. Petrobras S.A is an international oil company owned by the Brazilian government, and has been ranked as the 8th biggest oil company in 2008.\(^{22}\)

It is still uncertain if the Sevan Driller III contract will be pursued due to unfulfilled conditions, which is on a three year contract to Oil and Natural Gas Corporation LTD (ONGC) from India.

FPSO Sevan Hummingbird is contracted to Centrica. Centrica is an integrated energy company based in the United Kingdom, with activities in North America and Europe\(^ {23} \). 

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FPSO Sevan Voyager is contracted to Premier Oil Plc. The contract for Sevan Voyager ranges from 2009 to 2012. Premier Oil is an independent oil and gas company with activities in the UK, Indonesia, Pakistan and Mauritania\textsuperscript{24}.

Sevan Marine’s newest project; FPSO Sevan 1000, is licensed to Eni Norge AS. Eni Norge has been part of the Italian based company Eni S.p.A since 1964, and is operating specifically in Norway. Sevan is only licensing out the design for the unit.\textsuperscript{25}

\textit{Figure 6: Contract Status on Sevan’s FPSO Units}

\textsuperscript{24} http://www.sevanmarine.com/index.php?option=com_content\&task=view\&id=16\&Itemid=142

\textsuperscript{25} http://www.eninorge.no/EniNo.nsf/page/DED71D42177627E0C12574E60040DAF9?OpenDocument\&Lang=norwegian
2.8 Sevan Marine Financial Situation

In cases where Sevan has responsibility for construction, Sevan experiences very large financing requirements. Sevan platforms are financed entirely by Sevan Marine. This is done through amongst other equity, bank loans and bonds. Remuneration occurs when the platforms are in operation, depending on ownership and contract terms.

Because of the large financing demand of platforms, Sevan has been especially exposed to the financial crisis. Remuneration, to cover the already made investments in platforms, has taken longer than anticipated. In addition to this, banks are less willing to take part in financing projects, especially if smaller clients would apply for a new platform. 26

The annual financial statement from Sevan Marine ASA as of 31st December, 2009, shows a 75 million USD increase in revenue, from 120 million USD (2008) to 195 million USD (2009). Sevan has also decreased their operating loss from 130 million USD (2008) to 83 million USD (2009). However, the financial statements show a loss of USD 20.085.000 USD for Sevan Marine, and a loss of 143.414.000 for Sevan Marine Group. Furthermore, the Group has a debt of

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26 Interview Fredrik Major
1.336.277.000 USD. The number of shareholder has increased from 6.740 (2008) to 10.941 (2009), whereof 57% of shares are owned by foreign shareholders.27

2.9 Sevan Marine in China
In 2004, Sevan Marine entered China with the intention of starting construction on their first FPSO. Chinese shipyards are less experienced relative to Korean or Singaporean shipyards, but the cost benefit justified having construction in China.28

Sevan Marine has no activities in China besides construction of their platforms. Their knowledge of the Chinese market is limited, as the company has prioritized other markets. Sevan has also become more flexible concerning their business-model, which is resulting in additional strategic options in different markets.

Today, Sevan Marine has only one person who is focusing on the Chinese market. However, due to high activities on Sevan’s Chinese construction site, the marketing towards the Chinese market has been somewhat limited.

2.10 Sevan Marine and COSCO relations
Sevan Marine’s relation to COSCO started with the construction of FPSO Piranema in 2004. Lars Einar Bjørgaas explains that their relationship has developed positively. Bjørgaas described that this applies to construction, construction follow-ups, construction methods, marketing, upcoming projects and financing, where Sevan and COSCO assist each other when needed. COSCO has become very familiar with the construction of Sevan units. Bjørgaas states that their newest project might utilize 1 to 1.5 million less work-hours than former projects. This is due to COSCOs experience in providing work-drawings for Sevan platforms, and the construction methods used. According to Bjørgaas, this cooperation is functioning at all organizational levels. Sevan’s relation to COSCO is based upon repeated transactions.29

With only construction contracts as a bond, Sevan is limiting their obligations in their cooperation with COSCO. Fredrik Major explains that Sevan Marine has

28 http://en.ce.cn/subject/chinamarkets/marketpic/200907/06/t20090706_19470325.shtml
http://www.eksportfinans.no/News/Temaartikler/GoingInCircles_Sevan%20Marine.aspx
29 Interview Lars Einar Bjørgaas
been very cautious about being in a position where Sevan can change shipyards. According to Major, Sevan’s clients in some cases request that construction of their platforms takes place on more experienced shipyards. Therefore, having the freedom of not being bound to only one shipyard is important for them. Major also states that although COSCO has the potential of being the dominating supplier of Sevan platforms, more advanced projects might be constructed elsewhere.30

2.11 Sevan Marine reputation in China
Sevan Driller I, which was finished in 2009, is the world’s first deep-sea drilling rig entirely “made in China”. Due to this, Sevan Driller I, with its advanced drilling capabilities, gained a lot of publicity in China31. As the world’s leading countries in building offshore rigs are Singapore and South Korea, the completion of Sevan Driller I is described as a milestone for the Chinese COSCO Shipyard. Det Norske Veritas (DNV) called this project a “technological breakthrough” in the industry. This statement also appeared in Chinese news.32

Wang Xingru, general manager of COSCO Shipyard, said in an interview with China Business Weekly: “As far as I know, this rig performs better than any others in the world regarding the depth of drilling.” 33

Due to the complex construction and advanced technologies used, the drilling unit attracted a lot of attention in the industry. Through this publicity, both Sevan and COSCO improved their reputation in the industry and especially in China.

30 Interview Fredrik Major
31 http://english.cas.cn/Ne/CN/200909/20090923_43435.shtml
33 http://www.chinadaily.com.cn/bizchina/2009-07/06/content_8380682.htm
Furthermore, by choosing China as a construction site, Sevan Marine’s driller project has provided China with more knowledge about the global marine engineering market. In addition to this, the project has helped China to improve their ability to manufacture high quality offshore equipment, as China had little prior experience about deepwater rig construction.34

Furthermore, construction of a rig involves a large number of employees, and Sevan Marine’s presence on COSCO shipyards provides numerous jobs.

"We hired more than 1,000 graduates this year (2009) and we need more qualified hands to deliver those orders." - Wang Xingru, general manager of COSCO Shipyard35

34 http://english.cas.cn/Ne/CN/200909/t20090923_43435.shtml
Part II - Research process

The purpose of this part is to provide the reader with an understanding of the research process used in this thesis. It will clarify both the methodological approach (Chapter 3) and the theories used (Chapter 4, 5 and 6) in addition to account for empirical findings (Chapter 7 and 8).

Chapter 3: Research Methodology
This chapter will provide the reader with information about the research process. The process applied in this thesis has been built upon the framework of Gipsrud, Olsson and Silkoset (2008), which divides the research process into six different stages.

3.1 Research aim and research questions
The research aim and research questions gives a description of the elements that needs to be covered in order to fulfill the objective of the thesis, and has served as guidelines throughout the research process. These are presented in Chapter 1.

Our research aim was defined as:

“Provide Sevan Marine with an overview of the Chinese offshore market and based upon this, recommend a suitable market entry strategy.”

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36 Gipsrud, Olsson and Silkoset 2008, 53
3.2 Research design and data requirements

“Exploratory research has the goal of formulating problems more precisely, clarifying concepts, gathering explanations, gaining insight, eliminating impractical ideas and forming hypothesis” \(^37\). As the authors of this thesis have little prior knowledge about the research area, an exploratory research design would be the best suited to answer the research objectives.

Exploratory research is categorized by its flexible design, and is usually associated with qualitative strategies. Qualitative strategies emphasize words instead of numbers, and focuses on individual perceptions and understanding. By using a qualitative approach, this thesis seeks to provide Sevan Marine with a description of the Chinese deep-sea offshore market.

3.3 Data collection

Conducting an explorative research allows the researcher to choose freely among the different qualitative methods of gathering information. The most used methods within qualitative research are indirect data collection, observation, interview / discussion and participation. To answer our research questions, we have chosen to focus on Secondary data / indirect data collection and in-depth interviews.

3.3.1 Secondary data / indirect data collection

Secondary data is data that originally is collected for another purpose then one’s own project. Based upon the purpose of the thesis; “provide Sevan Marine with an overview of the Chinese offshore market and based upon this, recommend a suitable market entry strategy”, secondary data has been used to create a basic understanding of the market and its main actors, Sevan Marine as a company, and issues that will be of importance if Sevan Marine is to enter the Chinese market. The main part of the data presented in this thesis is in the form of indirect data. According to Maylor and Blackmon, indirect data consists of; “non-numeric data,
including words, pictures, sounds and other qualitative data”38. It has proved to be difficult to find reliable numeric formation and statistics about the Chinese offshore market. The use of numeric data has therefore been limited in this thesis.

The data collected in this thesis has been gathered through both internal and external sources.

Printed material provided by our contact person at Sevan Marine, the Sevan Marine online newsletter and the Sevan Marine web page has been our main sources of secondary internal information. This has been in the form of numeric and non numeric data regarding the company like their business model, technology, financial status etc.

External information has also been gathered through several sources. Since the situation of the Chinese oil market is constantly changing, it has been of great importance to gather updated information, containing the newest market developments. To gain the newest information, the main part of information regarding the Chinese oil market has been based upon online information and to some extent academic journals. In the section of the thesis, regarding more stable areas e.g. marketing theory and general business strategy the main part of the information is from books and academic articles, written by professionals in the area of interest.

3.3.2 Primary data collection

Primary data are data you have collected yourself specifically for your own research project.39 The only source of primary data in this thesis is in-depth interviews. This is due to the fact that in-depth interviews can provide a high degree of specific knowledge regarding the area of interest in addition to the interviewee’s thoughts and feelings about the underlying reasons. In debt interviews also offers a great deal of flexibility and are moderately time consuming, something that is favorable when working with a limited timeframe. As most information regarding state owned enterprises are not public information, personal contacts are usually one of the main sources of information regarding

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38 Maylor, Harvey and Kate Blackmon. 2005, 222
39 Maylor, Harvey and Kate Blackmon. 2005, 172
this industry. In depth interviews will with the right people therefore serve as a source for information that is not accessible through secondary sources.

There are two main forms of in-depth interviews; unstructured and semi-structured. These methods enable the researcher to access detailed information based upon the interviewee’s thoughts, priorities and experiences. As the in-depth interview is based upon a person’s subjective thoughts and meanings, this form of interview will not only provide information regarding the state of the area of interest, and also help to explain the underlying reason for why this is the case.

Both unstructured and semi-structured interviews give the respondent a great deal of freedom, but there are some main differences in the role of the interviewer and how the interview is carried out. The unstructured interview might only consist of one single question that creates the basis of a conversation. In contrast, a semi-structured interview has a more detailed description of which areas that should be covered and the questions in the interview guide reflect this.

Since this thesis contains a variety of different aspects that need to be covered, and a limited access to relevant interview objects, a semi-structured approach has been used when conducting interviews. Through this, gaining exact knowledge that is required to answer the research aim has been made possible.

### 3.3.3 Internal Interviews

To gain a better understanding and insight in Sevan Marine as a company, we have chosen to conduct semi structured interviews with two members of Sevan Marine:

**Fredrik Major (Interview 20.04.2010)**

Fredrik Major has been our contact person in Sevan Marine. Major is the Vice President of Business Development /Research and Development at Sevan Marine. He has worked inside the Oil & Energy industry for over 15 years, whereof the past five years in Sevan Marine.

**Lars Einar Bjørgaas (Interview 10.03.2010)**

Bjørgaas is the Project Manager for Sevan Marine at COSCO Shipyard in Qidong. He has extensive knowledge about construction and operations of oil platforms.
As the first interviewee is seated in Norway, this interview was conducted by Video Conference. Though limiting some of the benefits of in-person interviews, this still allows the use of two-way communication, thus using quite a flexible design where we follow up on interesting subjects that might emerge. The second interview was a face-to-face interview, conducted during a fieldtrip to Sevan Marine’s construction site in Qidong. This fieldtrip has also provided a deeper understanding of Sevan’s physical elements.

### 3.3.4 External interviews

The external sources have been chosen because of their ability to provide us with necessary information about the Chinese market. This list of interviewees includes both professionals with experience from the Chinese offshore oil industry and academics with knowledge in areas that might influence how to do business in China.

**Alf Andersen (Interview 19.04.2010)**

Alf Andersen is the Managing Director of Shanghai Offshore Group Ltd. Andersen has worked in shipping and shipbuilding his entire professional career, and specializes in the Chinese offshore construction and shipbuilding scene. The Shanghai Offshore Group Ltd. provides marine offshore consultancy and management for new-buildings, with high focus on quality.

**Erik Henriksen (Interview 29.04.2010)**

Henriksen is the Senior Principal Engineer and Offshore Coordinator Region Greater China at DNV (Energy). He has, amongst others, been one of the speakers at China’s number one annual offshore Oil & Gas conference “China Offshore Summit” in 2008, 2009 and 2010.

**Geir Sviggum (Interview 16.03.2010)**

Geir Sviggum is Resident Partner & Head of Wikborg Rein, Shanghai Office, as well as Chairman of the Norwegian Business Association in Shanghai. Sviggum specializes in litigation and dispute resolution, in addition to construction- and fabrication contracts both on- and offshore. He has handled international arbitrations and other disputes in China and several European countries, and has
been lead counsel for construction projects in Scandinavia, Eastern Europe and China.

**Pia Polsa (Interview 22.04.2010)**
Pia Polsa (Ph.D.) currently is working as a Visiting Lecturer at Fudan University, Visiting Professor at Tianjin Normal University and Director at KATAJA – The Finnish doctoral program in business studies. Polsa is a researcher interested in amongst others Chinese consumer behavior, relationship marketing in China and cross-cultural research methods.

**Vidar Andersen (Interview 01.03.2010)**
Andersen is the Vice President of Energy, Trade and Industry at DNB NOR Shanghai branch. He has worked for DNB NOR since 2001, and obtained his current position in 2005. Andersen has since then gained several years of experience within banking and business consultancy in China.

**Jian Guo (Interview 02.02.2010)**
Jian Guo is the Oil and Gas Advisor for China at INTSOK (Norwegian Oil and Gas Partners) in Beijing. INTSOK is focusing on promoting the Norwegian offshore industry’s capabilities to key clients in overseas markets, and provides market information to its partners. Guo has extensive knowledge about the Chinese oil market.

The main part of the interviews has been conducted as face-to-face interviews. These interviews have been based upon an interview guide, but have been conducted with a high degree of flexibility. This has allowed the interview to take form during the interview process and made the conversation flow in a natural manner, which has given possibilities of exploring areas of interest as they emerge along the way.

**3.4 Data analysis – Validity and reliability**
Validity and reliability are two terms closely associated with the quality of research. “Reliability is concerned with whether the results of a study are
repeatable”, while “validity is concerned with the integrity of the conclusions that are generated from a piece of research” 40

As the accessible information regarding the Chinese offshore market has been limited, finding credible secondary sources has been one of the main challenges when conducting this thesis. To ensure the quality of the information in this thesis, secondary information has been based upon substantial academic research and internal information provided by Sevan Marine, as far as possible. In those cases where the information only has been accessible through references to the original text or through quotes, the credibility has been tested by ensuring that several sources provide the same information. The main source of information, regarding the situation within the Chinese offshore market, usually comes from personal contacts, while only a limited amount of information is published. Due to this, some parts of the information has solely been based upon information acquired through interviews. To ensure the reliability of this information, we have as far as possible used cross references from different sources. The people interviewed regarding the market situation are working within the industry. In addition, several of the interviewees have acquired information through personal contacts within the companies portrayed in this thesis. We are though aware that all interviewees are in possession of limited information, and that this information will not provide us with all details regarding the market situation.

Another concern when using a qualitative approach is that results will never be absolutely objective, and element of subjectivity has been recognized as a part of this thesis. To reduce the risk of bias based upon subjectivity, it has been of great importance to recognize how the interviewees’ viewpoints might be influenced by personal interest. The goal has not been to eliminate subjectivity, but to be aware of how this may influence the interviewees’ answers. To ensure that the conclusions drawn from the secondary findings and interviews are valid, all interviews have been transcribed. The most relevant interviews have been enclosed as appendix, and the remaining are attached on CD as Word-files.

40 Bryman, Alan and Emma Bell. 2003, 33
Chapter 4: External Analysis Theories

The external environment for a company consists of both the general environment and the industry environment. Different elements in these environments will directly or indirectly influence a company’s ability to succeed in its target market. To uncover threats and opportunities, we have chosen to use the PESTEL framework to analyze general forces that may affect Sevan Marine’s activities, while using the framework Porters five forces to analyze the situation within the Chinese offshore industry. As the Chinese oil market and the Chinese government are heavily entwined, some parts of the elements in the general environment and the industry environment will be overlapping. In this thesis, these facts will be addressed in the industry analysis.

4.1 PESTEL Analysis

The general environments consist of environmental forces that might affect the company and other participants in an industry, but are outside a company’s control. The PESTEL framework divides this environment into six different forces; Political, Economic, Sociocultural and Technological, Environmental and Legal. In this thesis, Political, Sociocultural, Environmental, Economic and Legal factors will be addressed, which are believed to be the most important for Sevan Marine, if they decide to enter the Chinese market.
4.1.1 Political forces
The political forces are related to the framework the government use in order to control business conduct. These forces are especially relevant in markets with high political involvement, and complex governmental environments.

4.1.2 Economic forces
The economic situation of a country will influence its market demand. Factors that can influence market demand are amongst others; high GDP growth rate, high inflation and high interest rates.

4.1.3 Sociocultural forces
When operating in an international market, there are several different social and cultural aspects that might influence how business is conducted. Distinctive customs, values and beliefs can affect the general behavior of a market.
4.1.4 Environmental forces

The physical environment will provide restrictions and possibilities for different companies. Characteristics in a market's natural environment can stimulate business to different positions. Environmental factors that might influence business can either be natural or manmade.

4.1.5 Legal forces

As the legal framework differs from one country to another, this is an important factor for conducting business in a certain area. The legal framework “aims to protect societal interests, regulate market power, hinder collusion and stop deceptive practices”. Poorly developed legal systems in some countries cause major problems for foreign firms.

4.2 Porters Five Forces
Michael Porters framework has been used in order to determine the attractiveness of the Chinese offshore oil market. This framework divides an industry into five separate forces.

4.2.1 Rivalry Among Existing Competitors
The companies within an industry compete for the same customers and use different strategies while trying to create above average returns. The degree of rivalry will influence a company’s price and positioning.

4.2.2 Bargaining power of customers
The bargaining power of customers can cause a large threat to the company’s prices. The customer’s bargaining power is strong when they purchase a large portion of an industry’s total output. Customers can easily switch to another seller
if the industry’s products are undifferentiated or standardized, and the buyers pose a credible threat if they were to integrate backward into the sellers industry.  

4.2.3  Bargaining power of suppliers

Large bargaining power of suppliers can also pose a serious threat to a company. Potential threats of powerful suppliers can be an increase in prices and reduction of product quality.

A supplier group is powerful when the market is dominated by a small concentration of large suppliers. The bargaining power of suppliers also increases if the supplier’s goods are critical for a company’s success in the market, and no substitute products are available. If a suppliers’ product has created a high switching cost for industry companies, bargaining power of the supplier is also increased. Furthermore, when industry firms are not significant customers of a supplier group, the supplier group becomes more powerful. Highly resourceful suppliers can also pose a threat to integrate forward into a buyers’ industry, thereby increasing the suppliers bargaining power.  

4.2.4  Threat of New Entrants

High entry barriers usually make a market less attractive for possible new entrants. Factors that would influence the entry barriers are; economies of scale, product differentiation, capital investments and government policy. In addition to this, a new entrant might face retaliation from established industry members.  

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42 Hitt, Ireland and Hoskisson 2006, 39
43 Hitt, A. Michael, R. Duane Ireland and Robert E. Hoskisson. 2006, 37
44 Hitt, Ireland and Hoskisson. 2006, 34
4.2.5 Threat of Substitute Products
According to Hitt, Ireland and Hoskisson (2006); “Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces” 45

If existing substitutes are able to cover the same wants and needs as the original product to a lower price, substitutes can pose a threat to the attractiveness of the industry. This is especially relevant if the customer’s switching costs are low or nonexistent.

Chapter 5: Internal Analysis Theory
This chapter will provide an overview of the theoretical framework used for the internal analysis. Through this framework, the thesis will expose Sevan’s weaknesses and threats.

5.1 Resource theory
Resource theory is based upon the principle that a company’s strategy should be established upon their unique collection of resources. In order for the firm to create competitive advantage, resources must work together to create value. In most cases, one resource is not capable of creating any value for the company on its own. According to Hitt, Ireland and Hoskisson, competitive advantage is generally based on the unique bundling of several resources.46 Grant (2002) states that “…the firm is essentially a pool of resources and capabilities, and that these resources and capabilities are the primary determinants of its strategy.”47 A company’s resource can be divided into three separate areas; tangible, intangible and human.

45 Hitt, Ireland and Hoskisson. 2006, 38
46 Hitt, A. Michael, R. Duane Ireland and Robert E. Hoskisson. 2006, 55
47 Grant, M. Robert. 2002, 133
5.1.1 Tangible resources

Hitt, Ireland and Hoskisson identify tangible resources as assets that can be seen and quantified. The value of many tangible resources can be established through financial statements, but these statements do not account for the value of all of a firm’s assets, because they disregard some intangible resources. Therefore, a firm’s source of competitive advantage is not fully reflected on corporate financial statements. 49

5.1.2 Intangible resources

Intangible resources include assets that typically are rooted deeply in the firm’s history and have accumulated over time. Intangible resources could for example be technology, reputation and business culture. Hitt, Ireland and Hoskisson also state that; “Because intangible resources are less visible and more difficult for competitors to understand, purchase, imitate, or substitute for, firms prefer to rely on them rather than on tangible resources as the foundation for their capabilities and core competencies.” 50

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48 Grant, M. Robert. 2002, 139
49 Hitt, A. Michael, R. Duane Ireland and Robert E. Hoskisson. 2006, 55
50 Hitt, A. Michael, R. Duane Ireland and Robert E. Hoskisson. 2006, 57
5.1.3 Human Resources
Human resources are based on the capabilities and knowledge of the employees within the organization. These resources could be the employee’s ability to learn, communication skills and motivation.

Chapter 6: SWOT Theory
SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. “The aim of any SWOT analysis should be to isolate the key issues that will be important to the future of the firm and that subsequent marketing strategy will address.”51 The strengths and weaknesses are derived from the internal analysis, while the opportunities and treats are derived from the external analysis.

6.1 Strengths
According to Hitt, Ireland and Hoskisson (2006), the strengths of a company are the internal resources and capabilities that have the potential to become core competencies. Core competencies are capabilities which create competitive advantages for a company.

6.2 Weaknesses
According to Hitt, Ireland and Hoskisson (2006), the weaknesses of a firm are the internal resources and capabilities that have the potential to place a firm at a competitive disadvantage relative to its rivals. This could be such as weak financial resources or lack of international experience.

6.3 Opportunities
According to Luecke (2005), a company’s opportunities are trends, external forces and other macroeconomic matters that a company can take advantage of. Luecke also states that it is important for the company to realize these potentials. Opportunities could be changes in the market, new trends as well as new laws that are in favor for the company’s business.52

51 Kotabe, Masaaki and Kristian Helsen. 2007, 276
52 Luecke, R. 2005
6.4 Threats
According to Luecke (2005), a company’s threats are the dangers the company faces from possible trends and events from outside of the company’s control.
Luecke also points out the importance of taking these threats in consideration, and decide how to diminish the effect of them. Examples of threats might be new competitors and IPR (Intellectual Property Right) infringements.\textsuperscript{53}

\textsuperscript{53} Luecke, R. 2005
PART III: Research Findings

This part will present the research findings, both from the general- and industry-environment, which will provide a basis for answering the research questions presented earlier in the thesis. A short summary of topics discussed by our interviewees will also be given. Findings from our interviews are used to support and verify the research findings.

**Interview Summaries**

Our interview findings are used throughout the thesis. Therefore, a short presentation of topics discussed with our interviewees is given. Answers from our interviewees were based on their personal experience, opinions and expertise. In cases where interviews have been conducted in Norwegian, quotes have been translated into English by the authors.

Fredrik Major (Sevan Marine) explained Sevan Marine’s internal structure and activities. Sevan Marine’s BOO-model was especially focused on, hereunder Sevan Marine’s attitudes towards altering their BOO-model. Additionally, Major described Sevan’s current knowledge about the Chinese market and their relations to COSCO.

Lars Einar Bjørgaas (Sevan Marine) elaborated regarding Sevan’s relationship with COSCO and the construction process of Sevan platforms. Bjørgaas talked about Sevan’s business activities in China, in addition to challenges encountered by Sevan in China. Additionally, he elaborated about challenges related to securing Sevan’s technology. Bjørgaas also explained the advantages of Sevan platforms as well as the cost advantage of Chinese shipyards.

Geir Sviggum (Wikborg Rein) provided information about the legal issues a company encounters when entering China. Hereunder, Sviggum presented different entry strategies in China, and the challenges related to these. Furthermore, Sviggum described how networking and relationship building in China can influence Sevan Marine.

Jian Guo (INTSOK) was our first interviewee provided by Sevan Marine. He pointed out general and most important issues concerning the Chinese offshore
market. Guo gave an explanation of the market’s different actors and their function. In addition, Guo described market obstacles, the importance of networks and relationships, and the market attractiveness.

Vidar Andersen (DNB) offered information about general business in China. Central topics, such as cultural differences between Norway and China, market obstacles, guanxi and entry barriers were explained by Andersen. Furthermore, Andersen elaborated the Chinese’ attitudes toward risk as well as financial requirements when entering China.

Pia Polsa (Fudan University) strictly talked about guanxi and Chinese business culture. Polsa pointed out how important guanxi is in China today, and gave her view on the importance of guanxi in the future. Government relations and related challenges were also described by Polsa. In addition, Chinese’ views on risk, entry barriers and the Chinese negotiation process was also discussed.

Erik Henriksen (DNV) described China’s offshore conditions. Hereunder, Henriksen talked about Chinese oil companies, especially CNOOC. Potential challenges and solutions for Sevan Marine were also explained by Henriksen. In addition, Henriksen provided his view on the attractiveness of the Chinese offshore market.

Alf Andersen (Shanghai Offshore Contractors) explained China’s offshore market functions. He talked about CNOOC, hereunder also Sevan’s potential COSCO-CNOOC relation. Furthermore, Andersen talked about challenges and possible solutions for Sevan Marine, the quality of Chinese shipyards and COSCOs technology.
Chapter 7: General Environment

Chapter 7 will account for the findings related to the general environment by examining Political-, Environmental-, Legal-, Economic- and Sociocultural-forces. These forces will indirectly influence Sevan’s business in China.

7.1 Political forces

7.1.1 WTO
The 11 December of 2001, the PRC joined the WTO. According to an article written by Wang Yong called “China in the WTO: A Chinese View”\(^{54}\), China has changed in many positive ways since they joined the WTO. The ideas of market economy, trade and investment liberalizations have been integrated into popular thinking. More important, the Chinese public now widely accepts core WTO concepts such as transparency, accountable governance, and national treatment.\(^ {55}\)

Yajun “James” Lu, former section chief in the WTO Department in China’s ministry of commerce, claims that “the WTO created such frenzy there (Red: in China) because it leveled the economic playing field for China, made foreign investment more attractive, gave China access to WTO rule-making, upgraded domestic economic regulations, and increased the accountability of the Chinese government” Lu adds; “More importantly, I think, it links China irreversibly with the opening-up process. This process will not be interrupted by politics anymore. It will make the country more responsible and predictable.”\(^ {56}\)

7.1.2 WTO and the Oil market
According to Frederico Bordonaro and his article from 2006 “Total-ly invested in China’s energy sector”\(^ {57}\), the government has not hesitated in the past few years to revoke permits it had issued to foreign companies, in order to help the three national oil heavyweights (CNOOC, CNPC and SinoPec) secure their market

\(^{54}\) http://chinabusinessreview.net/public/0609/yong.html
\(^{55}\) http://chinabusinessreview.net/public/0609/yong.html
\(^{57}\) http://www.atimes.com/atimes/China_Business/HC17Cb05.html
positions, thus preserving its state-owned giants while avoiding formal infringement of WTO rules.  

Bordonaro also claims that this means the political risk in China's oil-and-gas market has remained high for foreign businesses through the past decade. Nevertheless, international oil and gas majors have not lost interest and are continuing to work to expand their influence in the Chinese market.  

According to Bordonaro, a reoccurring theme in the development of China's energy sector is that China appears to be interpreting the spirit of the WTO rules to its own national advantage, mainly in terms of maintaining a significant amount of state control over this crucial sector.

Therefore, although China has joined the WTO, the government still keeps their energy sources on a tight leash, afraid of losing control of this important energy source, and thereby making it challenging for international oil firms to enter and take advantage of the oil industry in China.

### 7.1.3 China’s Five-Year Plan

Since 1953 China has continuously implemented five-year plans, which institute the blueprint and targets for national economical development. The basis of this plan is, among others, to ensure a high rate of economic growth, with an emphasis on industrial development, heavy industry and capital-intensive technology. The five-year plan dictates the future priorities in offshore development, and serves as a basis for the set period. Then, the five-year plan naturally becomes a key indicator on national strategies and directions in development. A new five year plan will be taken into action from 2011. The content of this plan was not available when this thesis was conducted, but might lead to large changes within the oil industry.

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58 [http://www.atimes.com/atimes/China_Business/HG17Cb05.html](http://www.atimes.com/atimes/China_Business/HG17Cb05.html)
60 [http://www.atimes.com/atimes/China_Business/HG17Cb05.html](http://www.atimes.com/atimes/China_Business/HG17Cb05.html)
7.1.4 Relationship between State and Local government

Contradictions still exist between the Central Government and local governments. How to deal with these contradictions is still a very important question to a large country such as China. The political system is also decentralized, with limited democratic processes inside the party, and at local levels. With each province mainly responsible for its own economic growth, their quest for new income sources within the provinces is high and often contradicts orders from the central government. In particular, those branches that are important for PRC, such as political stability, high technology and research institutes are managed by the central government. With a bureaucratic system, along with a relatively low amount of control, and deals often based on personal relationships, the communication and relationship between the central and local government is still somewhat limited.

7.1.5 The State-Owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality (SASAC)

SASAC is a bureau level organ established directly under the Central People’s Government of the Peoples Republic of China. The commission supervises and administrates the state – owned assets invested in enterprises by the Chinese government. One of the main duties of SASAC is to ensure the value of state-owned assets and protect state interests. This includes appointing principals of the state owned companies, approving sales and mergers, and drafting laws related to the state owned enterprises.

Erik Henriksen states that; “Leader figures from the government often circulates among the big state owned companies, and often obtain positions beneath the top leaders in these companies”. Today, SASAC is the owner of 150 NOCs. Among these companies are CNOOC and COSCO.
7.1.6 Territorial Dispute
The South China Sea (SCS) covers a portion of the Pacific Ocean. It stretches approximately from southwest Singapore to the passage of Taiwan in the northeast. There are 200 islands in this area, and the geophysical characteristic are that the area is rich in natural resources. For decades there has been territorial conflicts concerning SCS, with several countries claiming the right to the area’s resources. Based upon the robust economic growth and the increasing demand of energy in Asia, the South China Sea has become an important strategic and political issue.  

Alf Andersen states that the activities in the South China Sea would probably increase with time, but that it is delayed due to political negotiations. He also adds that “The South China Sea has more conflicts and less development, compared to other similar areas internationally”  

These statements are backed up by Erik Henriksen, who claims that “Everybody wants to do something there, but they can’t agree. And it will probably take some time before they reach an agreement”  

7.1.7 Relationship between Norway and China
Norway is a world leading provider of environmental and energy technology and a leader in its maritime and marine sectors. The bilateral cooperation between Norway and China are well developed, with increased activity in almost all areas and levels. Norway is important for China as a reliable partner with useful social political experience and contributes with useful solutions to the challenges China are faced with. China has shown interest in the Norwegian views on the development of public welfare, state ownership, solutions to pollution problems, energy efficiency and renewable energy. The Norwegian government’s “China Strategy” states that Norway will actively seek to exploit opportunities in China.  

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68 Interview Alf Andersen
69 Interview Erik Henriksen
70 [http://www.regjeringen.no/upload/UD/Vedlegg/Kinastrategi_opplag_to.pdf](http://www.regjeringen.no/upload/UD/Vedlegg/Kinastrategi_opplag_to.pdf)
China shows great interest in contact and cooperation in areas of importance for China, and the two nations are currently negotiating a free trade agreement. An agreement of this character will give Norway better market access in China.  

Norwegian oil companies were invited as advisory capacity for the upstream exploration and exploitation of oil and gas in the Bohai bay field and the South China Sea early in the 1980’s. This has strengthened the relationship between the two oil nations. Norwegian companies have succeeded in building close ties with the Chinese government, and created a growing relationship with national energy companies such as CNOOC, CNPC and SINOPEC. 

7.2 Environmental Forces

7.2.1 Environmental Risks
At the 2009 UN climate change summit, President Hu Jintao expressed that China in the years ahead will further integrate actions on climate change into its economical and social development plan and take several positive measures within four different focus areas. While the environmental risks of offshore oil development has always been a priority within the legal framework of offshore petroleum laws and regulations, this area is not among the focus points in Chinas new environmental friendly policies. Chinas offshore oil sector is still regulated by the Marine Environmental Protection Law of 1982, revised in 1999. This law states several rules to which oil companies must comply, but the legal framework in this area is still not substantial enough to have a visible, positive impact on pollution levels.

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7.3 Legal forces

7.3.1 Foreign Direct Investment (FDI) law
"The Catalogue of Industries for Guiding Foreign Investment (Revised 2007)" provides a framework for foreign companies conducting business in PRC. This catalogue also highlights regulations foreign companies in the offshore sector in China must follow. These regulations are in regards to the business scope the company is allowed to operate within. “When you establish yourself in China, no matter what form of establishment you choose, you have a business license. This is the description of the scope you have applied for to operate in, and which you are allowed to operate in.”

The catalogue divides foreign investment into four distinct categories based upon the scope of their business operations. These categories are:

1. Encouraged Investment
2. Permitted Investment
3. Restricted Investment
4. Prohibited Investment

As China is seeking to utilize its national oil resources, most companies within the oil industry will belong to the range of encouraged businesses. However, to preserve Chinese national interests, most international oil related services has restrictions regarding how to enter the Chinese market. The Catalogue states that most oil related business would have to engage in a joint venture with a Chinese partner if they were to get established in China. Geir Sviggum supports this, and explains that the majority of oil and gas companies entering China, especially the areas of licensing and exploration, will most likely experience a hard time maneuvering away from a joint venture.

However, as China is in need of technology in order to develop their offshore oil resources, these regulations are somewhat flexible. Erik Henriksen explained this further with: “all FPSOs in China are either owned by CNOOC or by someone in

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75 Interview Geir Sviggum
a JV with CNOOC, but the drillers are often owned and operated by contractors.”

### 7.3.2 Intellectual Property Rights (IPR)

Intellectual property is the right to possess or control the use of intellectual property, such as trademarks, copyrights, patents and trade secrets. Ideas in this matter typically involve large investments in creative and investigative work to create the product, whilst manufacturing cost is fairly low. As such they are amenable to being duplicated readily by imitators. Imitation reduces potential returns that would have accrued to the innovator, thereby limiting its ability to appropriate the large investment made.

According to Geir Sviggum, Intellectual Property Rights are especially important for a company like Sevan, with advanced and expensive technology. He adds that in China, a thorough patent process is needed, especially in JV’s, and that there is a lot of challenges concerning this process. This is confirmed by Pia Polsa; “...they make a JV in order to learn from you... Management learning, technology learning and so on. When you are dealing with Chinese, remember they are learning.... We think they are copying from us, and partly they have been copying. But that copying is a way of learning...”

Fredrik Major explains that Chinese shipyards are aware of the negative reputational effect counterfeiting can cause. He states that Sevan Marine holds a patent portfolio that to some degree secures the technology. If Sevan were to discover that competitors had their design available, it would be a very serious matter.

With a poor history of intellectual property ownership, copying has been a cornerstone of China’s cultural history. Confucius democratized education, and encouraged the copying of the works of great scholars as a means of spreading knowledge. Learning and copying are almost synonymous, and it has therefore been accepted as a learning procedure in China.
7.3.4 Joint Ventures in China

“A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms” 83

Many international companies enter through JVs when establishing their business in China.

Entering a market with a local partner can be beneficial as they will provide established networks, provide sufficient help in negotiation with SOE’s and the PRC government officials. An international company would gain the insight regarding market and the industrial environment.84

However there are certain issues that need to be addressed before choosing a partnership. Establishing a joint venture in China is a lengthy process. When entering a joint venture with SOE in China, it is extremely time demanding as one need to educate the Chinese participants in thinking differently. 85 Geir Sviggum echoes this point further. In order to be able to establish a joint venture in China one need to negotiate such an agreement and the participants must seek permission with the authorities. Therefore an establishment of a joint venture will likely be more time demanding than the other options.86

Fernandez and Underwood suggest the following successful criteria’s for entering a joint venture in China,87

1. Mutual Trust
2. Good Communication
3. Effective Decision-Making
4. Shared Ethics and standards

7.4 Economic forces

China is the most populated country in the world with more than 1.3 billion people. Since the opening and reformation in 1978, China has had a steady
economic growth, with an average annual GDP growth rate of 8.48% until 2009. The increased living standards, and investments in energy intensive industries such as cement, steel and petrochemical production has lead to a vast increase in the Chinese demand for energy. This increased need, combined with the aim of reducing the use of coal as the primary source of energy, has had huge consequences for the oil market. From being largely self sufficient in domestic energy supply and demand until 1993, China is today the world’s second largest oil importer, after USA. In 2004, 32% of all oil consumed in China was imported. With a continuously increasing energy demand, it is predicted that by 2020, China’s energy demand will increase by another 15%. In China, this will result in a demand of 10 – 13.6 million barrels per day, while production will range between 2.7 and 4 million barrels per day. This means that import will account for 60 – 80% of China’s total oil production. Thus, it is crucial for China to develop its domestic oil resources in order to meet the increased demand.

7.5 Sociocultural forces

7.5.1 Chinese Business Culture
Chinese business culture contains many characteristics which differ from Western business culture. Doing business in China can therefore be challenging for western companies, even for companies who are well established in China. There are a few essential aspects which are important for any Western firm to know about, when doing business in China.

According to Tony Fang, interpersonal relationships are important in Chinese business. Richard Gesteland also explains that socializing over drinks and dinner before doing business is usual in China; “First you make a friend, then you make a deal.” Laurence J. Brahm states that China is more process-oriented in comparison to the Western goal-orientation, which means that personal principles

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88 INTSOK – user restricted access
89 www.ogel.org/article.asp?key=2710
90 www.ogel.org/article.asp?key=2723
91 INTSOK – user restricted access
94 Fang, Tony. 1999
95 Gesteland 2008, 280
are more important than contractual principles in China. This means, as Tony Fang explains, that business is based on friendship and personal relationships. Time and patience is required to build up rapport, and it is necessary in order to do business in China.

Kristoffersen (2008) states in his book “Det nye Kina” that China has a hierarchical business culture. The Chinese leaders should receive more respect than an “ordinary” employee, and are expected to have better conditions. However, this hierarchy is not only related to rank, but also age and even gender; old above young, male above female and ruler above subject. In business situations, these three applications will determine the attitude Chinese organizations have towards their counterpart.

Humility and humbleness is very important in Chinese business culture. Pia Polsa states that arrogant, direct and aggressive behavior should be avoided. Polsa explains that by being indirect and less aggressive, one is seen as more intelligent by the Chinese. Gesteland (2005) and Brahm (2004) both state that harmony is appreciated in China, where visitors should stay patient, calm and avoid open confrontations.

The Chinese concept of face is related to many social and cultural aspects of China. Tony Fang described “to lose face” as losing one’s credit, good name, or reputation, and “to gain face” will result in the opposite of this. Face is not only lost or gained, but can also be traded, saved, given or taken. Examples of this can be seen in China’s hierarchical culture, the tendency of Chinese people avoiding saying “no”, doing favors for each other, white lies and avoiding open confrontations. Generally, face can be described as a moral mechanism, where not only a person’s personal matters are in question, but also the concern of a family, social networks, communities and even countries.
Frank T. Gallo (2008) states that patriotism and nationalism plays a big role in China. Chinese people do not only focus on the good of the company, but also on the good of the country.\textsuperscript{105} Pia Polsa also explains that “it is their task to be patriotic”.\textsuperscript{106} This means that foreign companies also should think of how they can contribute to China’s growth in order to be fully accepted in China.

7.5.2 Guanxi
The most widespread concept related to doing business in China is guanxi. Guanxi is commonly translated into “relationship”, and refers to the building of influential networks and long-term relations with individuals.\textsuperscript{107} Tony Fang states guanxi can be identified as a “reciprocal obligation”.\textsuperscript{108} Frank T. Gallo explains that this concept is similar to the Western way of building social networks, where “You scratch my back and I scratch yours”. However, according to Gallo; the Chinese will do much more with background in guanxi than what Westerners might do in their social networks. Gallo exemplifies this, saying that guanxi can be used to bend rules, getting preferred business terms and lower prices.\textsuperscript{109}

Lieberthal and Liberthal state that even a company with excellent fundamentals can be undermined by Chinese officials.\textsuperscript{110} Governmental relations are therefore important, especially as China has a complex institutional terrain. Tony Fang states that “inefficiency” is a popular word describing the Chinese bureaucracy.\textsuperscript{111} Here, guanxi has helped firms to quickly overcome many governmental obstacles, such as laws and regulations, where others often had to depend on lawyers “to get things done”.\textsuperscript{112} Governmental relations can also give a company strategic advantages through, for example, valuable information, licenses, and distribution channels.\textsuperscript{113}

When doing business with the Chinese government, for example with state-owned companies, guanxi must be established in the right levels on government.\textsuperscript{114}

\begin{footnotes}
\item[105] Gallo, T. Frank. 2008
\item[106] Interview Pia Polsa
\item[107] Gallo, T. Frank. 2008 + Kristoffersen, Henning. 2008
\item[108] Fang, Tony. 1999, 118+127
\item[109] Gallo, T. Frank. 2008, 52
\item[110] Lieberthal and Lieberthal, 2003
\item[111] Fang, Tony. 1999, 100-101
\item[112] Gallo, T. Frank. 2008
\item[114] Interview Geir Sviggum
\end{footnotes}
Guanxi is on a personal plane and not institutional\textsuperscript{115}, which means having connections on the right levels of government is important. According to Pia Polsa, state-owned companies are owned on different levels of governmental bureaus; on a national-, provincial- and city-level, in addition to the influence of the legislative institutions\textsuperscript{116}. Depending on what a company wants to achieve, a dialogue on the appropriate level must take place.

But despite of the focus on guanxi, guanxi is no substitute for performance according to Jian Guo; “\textit{You cannot use Guanxi if your technology is lacking}” \textsuperscript{117}. Tony Fang also states that technical competence is gaining more importance in business operations\textsuperscript{118}. This shows that even if a company has good guanxi, it is not sufficient for success.

As recent years have shown, China is undergoing tremendous change. Vidar Andersen stated that guanxi was very important in the past, but today it is often misunderstood or overrated in China\textsuperscript{119}. According to Pia Polsa, China has developed a better legal infrastructure and is becoming more individualistic because of the economic development. Therefore personal relationships might become less important. Polsa adds that this is especially seen in Westernized cities, such as Shanghai. However, she adds that guanxi is a cultural feature that will always be preserved in China\textsuperscript{120}.

\textsuperscript{115} Interview Pia Polsa
\textsuperscript{116} Interview Pia Polsa
\textsuperscript{117} Interview Jian Guo
\textsuperscript{118} Fang, Tony. 1999, 120
\textsuperscript{119} Interview Vidar Andersen
\textsuperscript{120} Interview Pia Polsa
Chapter 8: Industry Environment

8.1 International Oil Market

The oil industry is an international industry with strong actors operating in countries across the globe. The industry is also heavily technology dependent. The development of new technology enables oil companies to extract oil from previously inaccessible sources. Technological innovations will usually influence all oil producing countries in the world. To understand and predict the development in the Chinese offshore industry, it will be helpful to look at the development in the global oil market.

The discovery of deep-sea oil reserves has become a new focus in the offshore industry around the world. Between 2002 and 2006, 69% of the world’s large offshore oilfields discovered were located in deep-sea, accounting for 65.5% of oil reserves. The trend has also been moving towards deeper waters, and over the last couple of years the main development has been in waters deeper than 900m. This development is predicted to continue, resulting in a higher demand of deep water rigs world-wide. This is also the trend in the Asian market.121

![Figure 12: The Development of the Deep Water Oil Industry](http://www.bergen-chamber.no/uploads/Rune%2020070612%20Pareto.pdf)

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8.2 China Oil Sector Overview

China is the world’s fifth largest oil producing nation\textsuperscript{123}. The Chinese oil market is dominated by three major state owned oil companies; CNPC (China National Petroleum Corporation), SINOPEC (China Petroleum & Chemical Corporation) and CNOOC (China National Offshore Oil Corporation). These are vertically integrated companies which control all levels of the supply chain. Together, these state-owned companies hold the rights to all oil resources in the PRC\textsuperscript{124}. The two largest companies; CNPC and Sinopec mainly focus on onshore production, while CNOOC while CNOOC has the exclusive right to offshore operations. Erik Henriksen states that “\textit{CNOOC is entitled full jurisdiction on all areas that surpasses a depth of five meters, according to Chinese legislation}”\textsuperscript{125}.

\textit{Figure 13: Ownerstructure of “The Three Majors” in terms of upstream}

Today, about 85% of the Chinese oil recovery is located onshore. Several of the large onshore oilfields have been heavily tapped since the 1960s, and it is expected a significantly decline in coming years. Offshore production is significantly smaller than the onshore industry, and only accounts for 15% of total outcome. \textsuperscript{126}

\textsuperscript{123} Kilde artikkel 1997 – 2002
\textsuperscript{124} INTSOK – user restricted access
\textsuperscript{125} Interview Erik Henriksen
\textsuperscript{126} \texttt{http://www.eia.doe.gov/cabs/China/Oil.html}
Even though the offshore recovery today only account for a relatively small proportion of the total recovery in China, it is believed that most of China’s net oil production-growth in the future will come from offshore fields. These volumes will offset some of the declines from the mature onshore fields in Eastern China, and are also seen as the most attractive investments for international oil companies.\(^{127}\) Both CNPC and Sinopec are also currently investing in offshore operations; this is though restricted to JVs with CNOOC.\(^{128}\)

### 8.3 CNOOC

CNOOC has several subsidiaries operating at all levels within the oil industry. These subsidiaries cover the upstream, midstream, and downstream operations, in addition to technical and financial services and other related services.

![CNOOC Company Structure](image)

**Figure 14: CNOOC Company Structure**

\(^{127}\) [http://www.eia.doe.gov/cabs/China/Oil.html](http://www.eia.doe.gov/cabs/China/Oil.html)  
The subsidiaries mainly related to this thesis are the upstream and technical service companies. These are CNOOC Ltd., COSL and COOEC, and are important for Sevan to acknowledge.

### 8.3.1 CNOOC Ltd.

CNOOC Ltd. is a subsidiary of CNOOC that is involved in the exploration, development, production and marketing of oil and gas. Next to Petrobras, CNOOC Ltd. is the world’s largest FPSO owner, owning and operating 13 FPSO vessels (*Appendix I: FPSO Operator and Contractor overview*)\(^{129}\). CNOOCs FPSOs are mainly located in China and operates to depths of 135m. According to Erik Henriksen, CNOOC wishes to own the FPSOs used in the company’s operations, and do not make use of FPSO contractors.\(^{130}\)

CNOOC Ltd. is 64.41% owned by CNOOC, while the rest is on the open market. It is one of the world’s largest independent oil companies, and its activities are mostly concentrated in offshore China; Bohai Bay, Western South China Sea, Eastern South China Sea and East China Sea. In addition, CNOOC Ltd holds blocks overseas in Indonesia, Australia and Nigeria.\(^{131}\)

![State-Owned Assets Supervision and Administration Commission of the State Council (SASAC)](image)

![China National Offshore Oil Company (CNOOC)](image)

![CNOOC Ltd.](image)

*Figure 15: Ownerstructure of CNOOC Ltd.*

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130 Interview Erik Henriksen
8.3.2 China Oilfield Services Ltd
China Oilfield Services Ltd (COSL) is the leading integrated offshore oilfield service providers in China. COSL provide all services related to offshore oil and gas exploration, development and production. In addition, COSL is the subsidiary that owns and controls all the Drillers that belong to the CNOOC Group.\(^{132}\) Today, COSL drillers operate in China, and their most technologically advanced drillers has the ability to drill in waters as deep as 457 meters. According to statements by Chairman Fu Chengyu, “the company has focused on construction of deep-water and development capacity by enhancing and gaining more experience on its operation equipment, technology and human resources”\(^{133}\). In 2010, COSL will accelerate construction of a 762 m semi-submersible drilling rig and “seize the opportunities of deep water operation to gain experience, which will help us prepare well for deep water operation”\(^{134}\).

At the end of 2009, CNOOC was the controlling shareholder and beneficial controller of COSL, accounting for approximately 54\(^{\%}\)\(^{135}\).

\[\text{Figure 16: Ownerstructure of COSL}^{136}\]

8.3.3 Offshore Oil Engineering Corporation Ltd.
China Offshore Oil Engineering Corporation Ltd. (COOEC) is the largest offshore engineering and construction company in China. COOECs business areas consist of both onshore and offshore operations, amongst other: offshore installation and

\(^{132}\) [http://www.cnoocs.com/aboutus/OurStory.jsp](http://www.cnoocs.com/aboutus/OurStory.jsp)  
maintenance for oil and gas exploration and production, underwater engineering and onshore fabrications. CNOOC is the main stockholder in COOEC, holding 56.67% of the shares. Some of the largest construction sites in the Asia pacific region are owned by COOEC. However, according to Alf Andersen, “The competence at Chinese shipyards is still somewhat limited.” Still, CNOOC wishes to acquire enough deep-sea technology to construct deep-sea rigs at the COOEC shipyards. According to both Erik Henriksen and Alf Andersen, COSCO would prefer to produce their own rigs at COOEC shipyards. In addition, Zhao Zhiming, Executive Vice President of the China Petroleum and Petrochemical Equipment Industry Association, states that building a deep-sea vessel cost only half or two-thirds that of leasing one. Other reasons for building own rigs are that deep-sea drilling equipment is difficult to find because of the rising demand for deep-sea exploration.

8.4 Market Situation in Offshore China
The main offshore activities in China are focused on Bohai Bay region, South China Sea, and to a lesser extent, the East China Sea.

Bohai Bay is the largest oil and gas production field in shallow waters offshore China. CNOOC has partnered with several international companies through production-sharing contracts and agreements, concerning operations in Bohai Bay. In the past decade, there have been several drilling projects carried out by CNOOCs and their partners in this region. The main partners in Bohai Bay include Conoco Phillips, Anadarko and Shell Exploration China Ltd. Jian Guo states that “in Bohai Bay, there is no longer need for FPSO”. Erik Henriksen also states that “Personally I don’t believe that Sevan should focus much on Bohai bay……there is already much infrastructure”.

The East China Sea only contains one planned oilfield. This is to be operated by Husky Energy, which will drill a single well in 2010. The authors have not
found published information that indicates further investments in this area in the future.

South China Sea operations focus on both deep and shallow waters. CNOOC are currently operating oilfields in these areas alone and in JV with international contractors. The deep waters of South China Sea will be the main focus area within Chinese offshore industry in the near future\textsuperscript{146}. Both Erik Henriksen and Jian Guo believe that the best opportunities for Sevan Marine are in the deep-sea areas of South China Sea because “the market knows Sevan as a deep-sea provider”\textsuperscript{147}. When talking about Bohai Bay, Guo states: “All the oil in shallow waters have already been located and is being pumped up. We now have to go to deeper water, in order to find more oil”\textsuperscript{148}.

According to Erik Henriksen low price is an important factor within the Chinese offshore industry, and usually the prices within the oil industry are more important than quality. But the Chinese oil companies are willing to pay international prices when needed, because they are dependent on extracting the oil\textsuperscript{149}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig17.png}
\caption{Key Operating Ares Offshore China\textsuperscript{150}}
\end{figure}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{Fields} & \textbf{58} \\
\hline
\textbf{Production} & \\
\begin{itemize}
\item Oil: 520 MBOPD
\item Gas: 667 MMCFPD
\end{itemize} \\
\hline
\textbf{Reserves:} & 2988 MMBOE \\
\hline
\end{tabular}
\caption{Key Operating Ares Offshore China} \\
\end{table}

\textsuperscript{146} http://www.chinaoceaneng-expo.com/EN\_about.html
\textsuperscript{147} Interview Erik Henriksen
\textsuperscript{148} Interview Jian Guo
\textsuperscript{149} Interview Henriksen
\textsuperscript{150} http://www.seametric.com/doc/01-China1.pdf
8.5 Market situation in South China Sea
According to numbers presented by CNOOC, 700,000km2 of the South China Sea can be characterized as deep waters. CNOOC plans to invest US$ 50 billion before 2020 in exploration and production in these waters. They estimate the reserves to be 3 billion Barrels of Oil Equivalent (BOE), and the production rate to be 900 million Barrels of Oil Equivalent Per Day (BOEPD). The operational water depth will be up to 3000m. Currently, CNOOC has decided to explore 200,000km2 of the South China Sea deep water areas.

Although projections and findings are promising, operating in the South China Sea present three unique challenges. South China Sea has the world’s highest frequency of typhoons, a high frequency of inner wave-flows and the disastrous geological formation of sand waves and sand ridges, making it a challenging area to operate in.

8.6 International Deep-Sea Operators in China
CNOOC has already plans for exploring 200,000km2 of deep-sea water in the South China Sea. Out of these, 130,000km2 is to be explored and operated by CNOOC and 70,000km2 by international oil companies. Today CNOOC has not engaged in activities in water deeper than 300 meters, and all deep-sea activities are handled through JVs with international oil companies. Until now, CNOOC has engaged in JVs with four international oil companies, who can provide CNOOC with the necessary technology, and are operating nine blocks in the South China Sea. The international companies present in the South China Sea are; Husky Energy, Anadarko Petroleum Corporation, BG group and Devon Energy. If oil is found in either of the blocks operated by the foreign companies, CNOOC will gain priority of 51% stake in the block. In addition to the deep-sea activities, CNOOC has on May 7th 2010 presented 13 shallow water...
blocs open for JVs with international oil companies. These blocks will be operated by the same structure as the previously described JVs\textsuperscript{158}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{south_china_sea_blocks.png}
\caption{Blocks to be operated by international companies in the South China Sea\textsuperscript{159}}
\end{figure}

8.7 Need for foreign technology

As increased energy demand has forced China to focus more on deep-sea reserves and exploration. Thus, the need for foreign expertise and technology has increased. CNOOC’s technology portfolio makes them unable to enter the deep-sea areas, as their technology development so far has been focused towards shallow water. The operational and technical characteristics in deep-sea differ from shallow waters. At present time CNOOCs technical portfolio is therefore limited to shallow waters. Oil recovered from deep-sea is more difficult to recover, and therefore requires more advanced technology. To cover their need for foreign technology, CNOOC often co-operates with foreign companies. Partners

\textsuperscript{158} \url{http://www.cnooc.com.cn/data/html/news/2010-05-07/301292.html}

\textsuperscript{159} INTSOK – user restricted access
capable of deep-water drilling, geologically complex reserves extraction, and enhanced oil recovery are required.\textsuperscript{160}

The ownership of oil platforms can be divided into two main categories; platforms owned by operators and platforms owned by contractor. Contractors own platforms and contract their services to oil companies, whereas operators mainly are oil companies in charge of development and production of an oilfield. In the global market, there are several FPSO operators and contractors in possession of deep-sea FPSOs. CNOOC engages in joint ventures with oil companies in the South China Sea that provides the technology and full operational services. According to Erik Henriksen all the FPSO in China are owned by oil companies. In the Chinese drilling market however, drillers owned by contractors and drillers owned by operator is both present. The only deep-sea driller operating in the South China Sea today is Sea Drill’s Semi driller, Hercules West. This driller is owned by Sea-Drill, and contracted to Husky/CNOOC\textsuperscript{161}. There is a large need for deep-sea drillers and deep-sea drilling technology in the world market. Currently, Petrobras has leased 80\% of the world’s deepest drilling offshore rigs, leaving the rest of the market without sufficient coverage.\textsuperscript{162} This is also the case in the South China Sea where E.g. Anadarko had to wait for a substantial amount of time for an available deep-sea driller, before they started their drilling in the South China Sea.\textsuperscript{163}

\textsuperscript{160} http://www.buyusa.gov/china/en/oilgas.html
\textsuperscript{161} www.seadrill.com and interview Erik Henriksen
\textsuperscript{162} http://www.bloomberg.com/apps/news?pid=20601109&sid=aV.LdPUaNU&refer=exclusive
PART IV: ANALYSIS

This part will analyze the findings from Chapter 7 and 8. In addition, the internal analysis of Sevan Marine is included in this part.

Chapter 9: External Analysis

9.1 PESTEL Analysis
This chapter will analyze Sociocultural-, Economic- Legal-, Environmental- and Political-forces, based on our findings from Chapter 7.

9.1.1 Analysis of political factors
The combination of government control and functioning corporate communication within China’s NOCs has made the Chinese political environment a challenge for foreign companies, and this also accounts for the Chinese oil industry.

Even though the theories of market economy and investments liberalization have become more integrated in the popular way of thinking in China, this does not seem to have a large effect on the oil industry. Like many other central NOCs, the Chinese oil companies are seen as a crucial part of the Chinese future economy, and are therefore being heavily protected by the government. Goals are set through five-year plans, and the government makes key decisions regarding this important industry. This is either through SASAC directly, or through the company management appointed by SASAC. A result of this form of governmental decision making, is that traditional market mechanisms, such as price vs. quality, inevitably loses importance to other factors which are of importance to the Chinese government. Examples of factors that are of great importance in the Chinese oil industry are; protection of Chinese oil resources, development of Chinese technical competence and providing jobs for Chinese citizens.

The governmental goals direct influence on the SOEs activities can prove to be a positive factor for Sevan Marine. Sevan has through several years of construction
in China established themselves as a China friendly company. Thus the governmental policies can prove to work for Sevan’s advantage.

The Chinese government seems to not release information before this is absolutely crucial. The information received through personal contacts is often not very concrete and from unverifiable sources. To gain good information regarding the development in the Chinese oil industry, it is critical to have contacts in the right positions. The lack of clear sources of information will therefore be an important challenge for Sevan Marine to overcome.

The territorial disputes will have a direct impact on the development of the oilfields in South China Sea. If these disputes are solved, this could result in expansion of oil exploration and may be the source of more opportunities for international companies who wish to enter the Chinese oil industry.

China and Norway has a good tradition for cooperation within the oil industry. As Norway has contributed greatly to the development of the Chinese oil sector, Norwegian companies enjoy a rather good reputation among the Chinese government and oil companies. This is though the case for all Norwegian oil related firms, and will play a minor role for the differentiation of Sevan, compared to the reputation of the company itself.

### 9.1.2 Analysis of Sociocultural Factors

The sociocultural factors will be of great importance when conducting business in China. Even though the oil industry reaches beyond borders, guanxi is still present in China, even in more westernized cities such as Shanghai. Guanxi becomes especially important when dealing with Chinese governmental business, due to the complex governmental structure of China. This factor will heavily influence Sevan Marine as they are likely to do business with state-owned companies. Important Chinese cultural elements such as hierarchy, harmony and face are less important in the Norwegian culture, thus behaving in accordance with the Chinese business culture can be a large challenge for Sevan Marine. The hierarchical structure in Chinese companies has to be taken into consideration when coming from an egalitarian culture such as the Norwegian culture. Doing business in China requires time, and as personal relationships are prioritized before business
relationships, an international company conducting business in China has to be prepared for a lengthy process. Business in China is often based on relationships, with a long time perspective. This makes huge, one time transactions challenging for western companies, and is something Sevan should consider when choosing business strategy in China. Creating a solid guanxi network could be time-consuming and demanding, when entering the Chinese market, but when established, it can prove to be a priceless resource. Based upon the elements of reciprocity and long time commitment, an established network can serve as a source of future contracts. In addition, a good network can provide valuable information and contacts, and is thereby a valuable resource for future business investments in China.

9.1.3 Analysis of Economical factors
As the Chinese economy is growing, so is the Chinese demand for oil. The Chinese oil industry will have to develop their national oil resources rapidly, leading to large investments, and increased need for foreign enterprises and technology. Thus the economic development has increased the possibilities for international companies wishing to enter the Chinese oil industry.

9.1.4 Analysis of legal factors
China’s strong regulations regarding foreign trade, but weak regulations concerning IP rights, will greatly influence Sevan’s possibilities in the Chinese market.

According to the “Catalogue of Industries for Guiding Foreign Investment”, most foreign companies working within oil related services are limited to equity joint ventures or cooperative joint ventures. Restrictions do though appear to be flexible when the government heavily needs the technology. As a state owned enterprise, CNOOC has somewhat avoided these regulations when cooperating with international drilling contractors, as they do have a lack of technology on certain areas.

Joint Venture’s have a big risk regarding violation of intellectual property rights. China is still developing, and is continuously seeking more advanced technology.
Sevan has to be very careful in exposing their technology due to the focus of learning. Although the Chinese legal system still is not fully developed, patents, trade secrets and copyrights must be properly processed. The legal requirements will therefore be the main factor regarding Sevan’s choice of entry mode.

9.1.4.1 Joint Ventures in China
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9.1.5 Analysis of Environmental Factors
Sevan Marine has a large focus on environmental friendliness, both in their corporate culture and in their oil rigs technology. However, as the laws regarding the offshore industry are aging and the offshore industry is not a part of Chinas environmental focus, environmentally friendly offshore operation does not seem to be a main focus within the Chinese oil industry. The environmental factors of the Sevan rigs will therefore not be an important valuable attribute, compared to other elements such as price, “China friendliness” and technology.
9.2 Industry Environment Analysis
The industry analysis will analyze the environment within the offshore oil industry in China. Due to the complex structure of the Chinese oil industry, some of the forces will be somewhat overlapping.

9.2.1 Rivalry among existing competitors
Through COSL and CNOOC Ltd, CNOOC is the dominating owner and provider of oil platforms in the Chinese offshore market. This creates a market with a low degree of competitiveness, where CNOOC Ltd and COSL gain first priority to operations as long as they are able to provide the required products.

The market situation in the deep-sea market is though more fragmented. As CNOOC Ltd and COSL lack the necessary technology, this market has a higher concentration of providers of platforms. The deep-sea FPSO market is covered through JVs with international oil companies, with FPSOs partially owned by CNOOC. As all platforms within the oil market is owned by oil companies, there is currently no market for FPSO contractors.

The Norwegian company Sea Drill has the only deep-sea drilling platform present in the Chinese deep-sea driller market. Sea Drill’s driller Hercules West has been operating for Husky/CNOOC in the South China Sea since 2008. Since all platforms are locked to operating contracts, rivalry within this market is limited. This situation is though predicted to slowly change, as both CNOOC Ltd and COSL are gaining more deep-sea technology, thus the need for international actors with desired technology decreases.

The market rivalry is low, simply because the structure of the industry creates no incentive for rivalry.

Even though there is a low degree of rivalry between the companies present in the Chinese market, this would not be the situation regarding the international market, with competitors aiming to enter the Chinese market. As it is outside the scope of this thesis, an evaluation of the international industry rivalry will not be addressed. It will though be mentioned that the rivalry seems to be smaller at the deep-sea driller market than the FPSO market, as the global demand for deep-sea drillers is larger than the units available, as of today.
9.2.2 Customers Bargaining Power
There is only one potential customer in the deep-sea oil industry; CNOOC. With the rights to all offshore areas deeper than 5m on Chinese Soil, and the majority stockholder in all JVs with international oil companies, all agreements in the Chinese offshore oil industry have to be conducted or approved by CNOOC. In addition, any provider of FPSOs or drillers would only account for a small proportion of CNOOC’s annual revenue. Together, these two factors are increasing CNOOCs bargaining power.

Decreasing CNOOCs bargaining power is their need for deep-sea technology. For Sevan, being able to provide scarce technology and differentiating themselves from the competitors will be the best way to attain an attractive deal in the Chinese offshore oil market.

Even though CNOOC is the only customer for both FPSOs and drillers, the customers bargaining power is different within these industries based upon the need for advanced technology. CNOOC’s bargaining power is extremely high regarding all shallow water operations, where they already have the necessary technical expertise. It will therefore be difficult for Sevan to acquire an attractive contract in the shallow-sea market. CNOOCs bargaining power will also be strong in the deep-sea FPSO market, where their technology is rapidly improving. In contrast, the need for contractors with deep-sea drilling experience is high, and there is a lack of available drillers in the world market. This will reduce CNOOCs bargaining power within the drilling industry, and it is therefore more likely that Sevan can reach a mutually beneficial agreement with CNOOC, regarding a deep-sea driller unit.

9.2.3 Suppliers Bargaining Power
Today, Sevan is building their rigs at COSCO shipyards in Nantong and Qidong. The cooperation has been well functioning and has required specific investments from both parties. COSCO is the largest shipbuilder in China, and together with CNOOC subsidiary COOEC, they are the only Chinese companies specializing in rig building. The relationship between COSCO and Sevan is also viewed as very important by COSCO, since it is providing COSCO with rig building competence. Due to COSCOs proven ability to construct advanced rigs, CNOOC has shown
interest in using COSCO shipyards for rig construction. If Sevan was to enter the Chinese market, the good relationship with COSCO would be an important factor for obtaining an attractive deal with CNOOC.

As the situation is today, the bargaining power of the supplier is fairly low. Sevan could, if necessary, use well-established shipyards with higher rig building experience, in countries such as Korea or Singapore. But if Sevan wishes to enter the Chinese deep-sea offshore market, the bargaining power of COSCO would most likely increase, as the relationship with COSCO will positively influence Sevan’s reputation in the Chinese market.

9.2.4 Threat of New Entrants
The entry barriers in the Chinese offshore oil market is heavily influenced by one factor; government policy. And through the state-owned company CNOOC, the government policies are applied into the offshore industry. Therefore, if a company wants to enter this industry, it also has to be beneficial for China as a country. This makes the entry barriers for the Chinese market very high.

CNOOC’s goal is to acquire enough competence to enter the deep-sea offshore market themselves without JVs with international companies. When dividing the South China Sea blocks, CNOOC has set aside 70% of the blocks for their own operations. In this sense, CNOOC as an independent company could be categorized as a new entrant in the deep-sea offshore market, in addition to new international entrants.

CNOOC will operate 70% of the South China Sea themselves, but still lack technology and expertise within this sector. Therefore, the possibility for CNOOC using contractors, in order to operate their deep-sea fields successfully, increases. This opens market entry opportunities for offshore contractors, with high technological expertise. For Sevan Marine, creates an opportunity to enter the Chinese deep-sea offshore market.

9.2.5 Threat of Substitute Products
Today, it exist no substitute for drilling rigs, and the only substitute for FPSOs are pipelines. As both pipelines and FPSOs are major investments, and FPSOs usually
are used in areas where it is difficult to lay a pipeline system, or where the expenses will be too large, the threat of substitutes are very low.

Chapter 10: Internal Analysis

10.1 Analysis of resources

10.1.1 Tangible resources

10.1.1.1 Financial resources
Even though Sevan's financial state is improving, their financial resources are still very limited. The weak financial state of the company will heavily influence Sevan Marines borrowing capacity, and thereby their ability to finance the construction of new rigs. Sevan Marine is therefore dependant on investors in order to finance construction of a new rig. In order to attract investors, Sevan would need to be in possession of a contract with a client, thus securing forthcoming financial return on investments regarding construction. Due to the monopolistic structure in China, Sevan Marine is dependent upon CNOOC in order to enter the market. This dependency upon a single possible customer increases the financial risks associated with getting established in a new market. Based upon Sevan’s financial balance sheet, heavy investments in new markets must be carefully considered.

10.1.1.2 Physical resources
Sevan Marine’s physical assets consist mainly of their fleet of oil rigs. The fleet consists of nine platforms, with four currently operating and three being built based upon long time contracts. These seven platforms are the source of the company’s financial income. These platforms are operating under long time contracts, and will therefore not serve as a source of additional income before their current contracts has expired.
In addition, Sevan owns two unfinished FPSOs. Finding clients for these FPSOs is important for Sevan Marine in order to improve the company’s financial situation, and help cover the production costs linked to these units.

CNOOC wants to build and own platforms themselves, and they already possess a large degree of FPSO technology, both trough their experiences in shallow water and trough their JVs with international oil companies. Therefore, the unfinished Sevan FPSO units will be of limited value for Sevan in the Chinese market, as well as the Sevan units tied to contracts.

In addition to the oil rigs, Sevan Marine’s offices are also important physical assets. Sevan Marine has offices in Norway, Brazil and Singapore. Due to the short geographical distance between Singapore and China, the Singapore office could serve as an important resource in terms of market activities. As Sevan’s financial resources shows, it is unfavorable for Sevan to invest heavily in establishing an office in China, before the associated risk has been limited.

10.1.2 Intangible resources

10.1.2.1 Technological resources
Sevan Marine’s technological resource is one of their major assets. The Sevan technology is the foundation of the company, and preserving their technological resources is necessary for the company. In addition, Sevan’s R&D capabilities enable the company to develop innovative design and construct units customized to the client’s needs. This is important in China, due to the specific conditions in the South China Sea.

10.1.2.2 Reputational resources
Through media publicity, Sevan Marine has gained international recognition for the quality and performance of their platforms. In China, Sevan is mainly recognized as a deep-sea operator, and their reputation has also been very positively influenced in China due to the company’s good cooperation with COSCO. In China, Sevan has contributed to the development of the Chinese rig building capabilities. Furthermore, by constructing in China, Sevan contribute to creating new jobs for Chinese citizens. In addition to this, being the first company to fully construct a platform at a Chinese shipyard, has contributed positively to
the international perception of Chinese shipyards. Thus, Sevan’s reputational resources will be a great advantage for Sevan within the Chinese offshore market.

10.1.2.3 Company Culture
Sevan Marine has a company culture that is based upon the values of diversity, adaptability, accountability and efficiency. Sevan’s business policies have a high focus on understanding other cultures, adapting to customer’s needs, as well as strict regulations concerning corruption. Sevan’s focus on understanding social and cultural impacts and developing strategies to respect rights and cultures of local communities, will serve as a good foundation if Sevan were to enter the Chinese market.

10.1.3 Human resources

10.1.3.1 Skills / know how
The Sevan Marine staff has expertise within the offshore oil sector. They employ highly qualified staff within engineering, construction and operation. With a low turnover rate, Sevan possess a sizeable group of staff, with highly valuable insight and experience regarding Sevan technology. Since China has little experience within deep-sea offshore production, the need of qualified operating staff is high, and is something that can be provided by Sevan alongside their units, by using a Build – own – operating model. This will especially apply for the Sevan drilling units, where there the need for specialized expertise is high.

10.1.3.2 Capacity for communication and collaboration
The language and culture barrier is challenging for most western companies doing business in China. Sevan Marine has currently only one Chinese-speaking employee at the Singapore office, working towards the Chinese market and the Chinese construction site. However, due to high activities on the construction site, market activities have not been prioritized. Based upon this Sevan’s knowledge about the Chinese offshore industry is limited. In addition, Sevan lacks fundamental knowledge about the Chinese legal system. When doing business in China, personnel with a Chinese background will serve as a large advantage to limit the language and culture barrier. As of today Sevan Mariner communication
and collaboration resources are limited regarding their possibilities to enter the Chinese market.

**Chapter 11: SWOT Analysis**

According to Kotler and Keller (2005), the SWOT analysis is the overall evaluation of a company’s strengths, weaknesses, opportunities and threats. Hitt, Ireland and Hoskisson (2006) state that “the key objective of conducting a SWOT analysis is to determine how to position the firm so it can take advantage of opportunities, while simultaneously avoiding or minimizing environmental threats”. The SWOT analysis is also designed to identify a company’s distinctive competencies, and the opportunities that the company is unable to take advantage of.

By accounting the four different variables separately, the resources and capabilities of Sevan can be matched to the competitive environment that Sevan operates in. The SWOT analysis should also result in valuable insights into the selection of Sevan’s strategies.

![Figure 19: Approaching the SWOT Analysis](image_url)

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164 Hitt, A. Michael, R. Duane Ireland and Robert E. Hoskisson. 2006, 307
### 11.1 Sevan’s strengths

<table>
<thead>
<tr>
<th>Strengths (Internal factors)</th>
<th>Importance in the market*</th>
<th>Score**</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Technology / Design</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>b) Reputation in China</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>e) Relationship with COSCO Group of Shipyards</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>c) Flexibility regarding business model</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>g) Highly qualified employees</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>f) Ability to construct at a lower cost</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

### 11.2 Sevan’s weaknesses

<table>
<thead>
<tr>
<th>Weaknesses (Internal factors)</th>
<th>Importance in the market*</th>
<th>Score**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Financial situation</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2) Limited knowledge about Chinese offshore market</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>3) Limited knowledge about Chinese legal system</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

* 1 = Minimal importance   5 = Great importance  
** 1 = Major weakness   3 = Neutral
11.3 Sevan's opportunities

<table>
<thead>
<tr>
<th>Opportunities (External factors)</th>
<th>Attractiveness*</th>
<th>Probability**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) CNOOC expanding their deep-sea activity</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>B) Increasing need for deep-sea technology</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>C) Focus on China friendly companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11.4 Sevan's Threats

<table>
<thead>
<tr>
<th>Threats (External factors)</th>
<th>Seriousness*</th>
<th>Probability**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Copying of design</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>B) CNOOC construct their own deep-sea units</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>C) International competition</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

* 1= Low seriousness   5= High seriousness
** 1= Low probability   5= High probability
### 11.5 Summary of the SWOT analysis

After weighting the different variables, a summary of the important factors in the SWOT analysis provides an overview of Sevan’s present strategic situation.

<table>
<thead>
<tr>
<th>Sevan’s greatest strengths are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Technology / Design</td>
</tr>
<tr>
<td>• Reputation in China</td>
</tr>
<tr>
<td>• Flexibility regarding their business model</td>
</tr>
<tr>
<td>• COSCO relations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sevan’s major weaknesses are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Limited knowledge about market</td>
</tr>
<tr>
<td>• Financial situation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sevan’s essential opportunities are:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasing need for deep-sea technology in China</td>
</tr>
<tr>
<td>• CNOOC expanding their deep-sea activity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sevan’s essential threats are:</th>
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</tr>
<tr>
<td>• International competition</td>
</tr>
</tbody>
</table>
11.6 Critical evaluation of the SWOT
The SWOT analysis is widely known for its ability to identify general and/or simplified internal and external findings. However, the SWOT has been criticized for resulting in a too general outcome, as well as presenting arbitrary conclusions. Adam J. Koch states that; "The way SWOT analysis is often conducted does not allow for proper communication, discussion, and verification of all external and internal factors proposed by all involved. On such occasions, SWOT results prove less reliable an input to the strategy generation process than they are capable of being."  

165 http://www.westga.edu/~bquest/2000/swot1.html
Part V: Strategy

Chapter 12: Strategic Problem Definition
The strategic problem definition is based upon the conclusions from the SWOT analysis. This will serve as a foundation for the strategic recommendations.

Strategic Problem Definition:

“How can Sevan Marine use their technological resources and network in order to take advantage of possible upcoming contracts in the South China Sea while protecting their technology?”

Chapter 13: Strategic goals
Based upon the monopolistic situation in the Chinese offshore market, Sevan will depend on achieving an agreement with CNOOC. Sevan’s goals have therefore been divided into three categories. These are goals related to preparation for market entry, initial market contact and further market development, and are in coherence with the overall goals and visions for Sevan Marine. Each set of goals is accompanied by a set of strategies, which will describe how to reach the goals, as well as the recommended tactics.

13.1 Preparation for market introduction
These goals are short time goals. Sevan should start working towards these goals immediately and they should be accomplished within less than one year. These goals will create the foundation, which Sevan should base their initial contact with CNOOC on.

• Have a solid network with key stakeholders
• Have a clear overview of the industry

• Have a clear overview of legal requirements

13.2 Initial market contact
The initial market contact goals are related to the presentation of Sevan’s products for CNOOC. This is a crucial point for Sevan, as Sevan’s opportunities in the Chinese market depend on CNOOC seeing Sevan as an attractive partner. These are also short-term goals, and should be achieved within a one year period.

• Be the preferred provider when new contracts become available

• Have control over technology

13.3 Future development
Sevan’s future position in the Chinese market can have two drastically different outcomes, based upon their ability to reach an attractive agreement with CNOOC. These goals should be taken into account if an agreement is reached and should serve as the foundation of the company’s long term strategy. Thus two different set of long-term goals has been made.

If Sevan acquires a contract with CNOOC:

• Gain a strong position in the Chinese offshore market

If Sevan does not acquire a contract with CNOOC:

• Withdraw from China without major losses
Chapter 14: Critical success factors

The critical success factors are factors that are crucial for Sevan, in order fulfill the above mentioned goals. These factors have been revealed through the internal and external analysis.

- Gain a favorable position in the Chinese market
- Maintain a strong relationship with COSCO
PART VI: Alternative Strategies and Recommendations

Chapter 15: Alternative Strategies

15.1 Alternative 1
Entering the Chinese offshore market through sale or licensing of design.

It would probably be possible to sell or lease both the Sevan drill design, and the FPSO design to CNOOC. This would probably be attractive to CNOOC as the company wishes to acquire technology in both of these areas and build rigs at the COOEC shipyards. Buying or leasing technology from an international company as Sevan, would also be more attractive than buying a design based upon Sevan technology provided by COSCO, as this would support CNOOC’s international image. The sales or licensing could be conducted as a single transaction or through a JV with CNOOC ltd or COSL.

However, selling or leasing design to CNOOC will be a large risk for Sevan. Even though Sevan has largely patented their technology, China is a country with very weak intellectual property rights. This means that CNOOC possibly might avoid IP restrictions, by altering parts of the design. Sevan can therefore loose important technology to CNOOC if choosing to make use of this strategy.

15.2 Alternative 2
Entering the Chinese offshore market by selling a finished platform to CNOOC

At the current time, both CNOOC and CNOOC’s JV partners own FPSOs. While CNOOC does not own shallow water FPSOs, they have acquired deep-sea FPSO technology through their JVs. This is because the processing technology is not very different between shallow water FPSOs and deep water FPSOs. It is therefore reasonable to believe that CNOOC will prefer to acquire design and build their own FPSOs, or build deep sea FPSOs based upon experience form their JVs.
Our findings shows that the largest opportunities exist within the driller market. As Sevan does not have any drilling rigs available, they would have to construct a new rig based upon an order from CNOOC. For a strategy of this nature to be justified and realistic, it would include Sevan building and providing operational service for an agreed contractual period. Sevan would transfer operational knowledge and expertise to CNOOC, who will after the contract period be able to handle such operations at deep-sea. Sevan could also sell the unit directly without providing operational service. These strategies are possible for Sevan, as the need for deep-sea drilling technology is high. In a short term perspective this could be an attractive solution for Sevan Marine financially. However, Sevan should be aware that by selling a finished platform to CNOOC, without providing operational services, the risk of losing important IPR increases.

15.3 Alternative 3
Enter the Chinese offshore market through a build own and operate model

At the current time there are no FPSO contractors in the Chinese market. As argued in alternative one, it is not likely that this will change in the near future. Even though Sevan does not have any drilling rigs available at the current time, there is a possibility for using the build own operate model in the deep-sea driller market, as need is high both regarding drillers and operational skills. With this model, Sevan could own the entire rig themselves, or it could be owned through a JV. Based upon CNOOCs high demand for technology, and increasing interest in deep-sea areas, it could be possible for Sevan Marine to attain a long-term contract, which would defend the investments in building a new driller.

With this strategy, a build- own-operate model, securing important IP rights will be easier for Sevan.

15.4 Alternative 4.
As the political, socio-cultural and legal factors challenging in China, Sevan could choose to not enter the Chinese market.

With the lack of IP regulations in China, there are risks for loosing intellectual property rights. As CNOOC figurate as a potential customer as well as a competitor, Sevan’s core competences in technology could be exposed and taken
advantage of. In addition, the territorial dispute in the South China Sea is not yet resolved and an entrance could be both time- and cost consuming. Taking to account the current financial situation at Sevan Marine, the opportunities could be over shadowed by heavy investments and delays.

Also, the oil industry in China is heavily regulated, and entering this market either through a joint venture with an SOE, or as a contractor could affect Sevan’s activities in other potential markets that should be of a higher priority. China’s offshore industry can be characterized as monopolistic, and Sevan Marine will face large challenges in pursue of obtaining contracts in China. The magnitude of such efforts could justify not entering the market.

Chapter 16: Choice of Strategy

The authors of this thesis recommend alternative number three “Enter the Chinese offshore market through a build own and operate model” to be the best alternative for Sevan Marine in China.

As CNOOC does not use contractors in the FPSO market, and has a 51% stake in all JVs with international oil companies, Sevan should enter the market with their driller units. Even though Sevan currently does not have any finished drillers available, the need for deep-sea drillers and operational experience, increases the possibility that CNOOC will be willing to engage in a long term agreement that will finance the building of a new driller.

Based upon the large interests in offshore oilfields and the urgent need for deep-sea technology, China may initially seem like a very attractive market for providers of offshore oil services. However, when analyzing the industry structure, this is not the case for every company, due to the monopolistic structure. China’s wish to produce their own rigs create extremely high entry barriers. In addition to this comes the risk following the weak protection of intellectual property rights.

Succeeding in the Chinese offshore market is totally dependent on reaching an attractive agreement with CNOOC, which is challenging. Many international actors have chosen not to enter China because of the difficult conditions and high
entry barriers. Based upon the analysis, Sevan does though seem to have a fair chance of entering the Chinese market, compared to other international competitors.

Because the high risks associated with only targeting one potential customer, Sevan should limit possible losses by avoiding major investments in the Chinese market before an agreement has been reached. If an agreement is reached, it is important that Sevan chooses an entry mode that will protect their technological resources and preserves Sevan’s interests.

The following strategic problem definition, goals and strategic recommendations has been formulated to accommodate these challenges.

**Chapter 17: Strategic recommendations**

**17.1 Market Preparation**

**Establish guanxi with government and industry participants**

Based upon the importance of relations in the Chinese market, it is recommended for Sevan to gain relationships with figures, that can influence CNOOC’s decision making, whether its within other companies or/and the government.

It will be important for Sevan to establish guanxi with people in influential positions and within the right levels of the government. This would be managers within CNOOC and its subsidiaries, government employees at SASAC, and people in companies in cooperation with CNOOC. In order to reach these people, Sevan should utilize their already established connections in COSCO, and use them as intermediaries. In addition to this, Sevan can more easily gain access to employees at a lower level in an organization, which could lead to important relationships within the organization. Sevan could also gain new contacts through their presence at industry events and tradeshows.
Gain knowledge about industry and government goals

To gain a clear overview of the market situation, Sevan needs to continuously receive updated information about the government’s goals and plans for the industry.

With this thesis, Sevan will gain a general overview of the goals and trends in the Chinese market. However, before entering the market, it will be necessary to gain more detailed information regarding the market’s development and which specific fields CNOOC is investing in and focusing on. This information is usually not made public, and Sevan will therefore have to use different sources in order to attain it.

Sevan’s main source of information should be their network. Here, Sevan should aim at getting their information directly through contacts within CNOOC, CNOOC subsidiaries, other companies related to CNOOC’s plans.

Sevan should also aim at gaining additional knowledge through INTSOK and invest in information services from companies specializing on monitoring the international and Chinese oil market. These companies will have different networks and sources than Sevan, and will therefore be able to provide valuable information.

In addition, the new five year plan, which commence in 2011, might influence some of the factors mentioned in this thesis. Sevan should closely read the parts of the plan that is related to the oil industry and monitor the consequences when it becomes published.

Gain knowledge about Foreign Direct Investment (FDI) rules in China

To have a clear overview over relevant legal requirements, Sevan should gain additional knowledge about FDI rules in China.

As pointed out in this thesis, China has a developed, but also rather complicated legal framework, regarding FDI. This framework ensures China’s control over strategically important industries. However, it has been mentioned that these
regulations can be flexible regarding certain products which are believed to be strategically important for China’s development.

Gaining a deeper understanding of these rules will be necessary for Sevan regarding the choice of entry mode, control of their technology, and other factors like taxation, hiring of crew etc. To obtain specific details of how these rules will relate to Sevan, they should use an international law firm with operations in China. This should be a law firm with long experience and many connections within the Chinese oil industry. By cooperating with a law firm, Sevan can get a tailored overview over legal factors that will be relevant for Sevan, hereunder which regulations are fixed, and which regulations that are more flexible.

**Expand marketing activities at the Singapore office**

Even though proximity to the market always is a large advantage, Sevan should not establish a China department before they have attained an agreement with CNOOC. This is because the chance of getting an agreement with CNOOC would not defend the capital investments. Instead, Sevan should increase their China activities from the Singapore office. Sevan should hire an additional Chinese speaking person who will contribute to the marketing activities in China as well as other Asian markets. The Singapore office should be responsible for carrying out the above-mentioned tasks, in addition to assist Sevan headquarters in their future communication with the Chinese market. This should be conducted through regular phone and e-mail correspondence, as well as regular business trips and meetings with attractive contacts.
17.2 Market Introduction

Create a clear position in the Chinese market

To make Sevan the preferred supplier when new contracts become available, Sevan will have to create a clear position on the Chinese market.

Sevan’s position

Sevan should position themselves as a high-quality, deep-sea expert that is contributing to the technological development of the Chinese offshore industry. This positioning would be in coherence with the Chinese need for technology, as well as governmental goals and requirements. By using this positioning, Sevan would be able to develop their already established reputation in the Chinese market, instead of investing in the positioning process from scratch.

When positioning themselves within the Chinese oil industry, Sevan’s main points of difference should be based upon their technology and their manufacturing in China.

They should communicate their technological expertise through focusing on technical attributes, such as ability to operate in deep water, the platforms ability to operate in harsh waters, as well as the ease of moving the drilling units from one field to another. In addition, Sevan should to a lesser extent focus on environmental friendliness. This will rather serve as a point of parity. It will not be of major importance for Sevan’s positioning, but it still might help to reduce the effect of the international competitors attributes.

As their building operations in China is one of the main points of difference, Sevan should actively use this in their positioning process. Sevan should communicate that they through constructing in China have provided China with valuable technological and rig building competence, in addition to strengthening the image of Chinese shipyards. This will show that Sevan has a high degree of commitment and respect for China’s development, and that their goals are in coherence with those of the government.
Communicating the position

To communicate their position in the market, Sevan should make use of three main strategies; Press releases, oil related events and their network.

Sevan projects have already received attention in the media, both internationally and in China. Press coverage of successful activities will be important for Sevan’s positioning. Sevan should use international press coverage in order to communicate their technological proficiency. In addition, they should gain press coverage in China that focuses on how Sevan contributes with new technology, jobs and international recognition for Chinese shipyards.

Sevan should also be present at industry events like industry shows, trade missions and conferences. This will provide Sevan with valuable Chinese contacts, information about the market development, and also raise the awareness of Sevan products and their attributes.

Sevan will also have to use their network as a source of communication. By delivering the value proposition to its established network and informing that Sevan is considering entering the Chinese market, this will most likely create focus upon Sevan as a company and be communicated to other people within the industry.

Present value proposition to CNOOC

Sevan should present a value proposition customized to CNOOCs wants and needs. The value proposition should be communicated directly to CNOOC and be in coherence with Sevan’s established positioning.

Create value to fulfill industry needs

As Sevan currently does not have any drillers available, they should present CNOOC with the opportunity to lease a drilling rig, totally customized to CNOOCs needs. This includes factors such as size, storage capacity, water depth and oceanic conditions.
Regarding operations, Sevan should offer CNOOC management expertise. Sevan would profit from hiring a Chinese crew to take care of the daily operations because this will accommodate the Chinese government’s goal of securing jobs. Sevan should also offer extensive training for the Chinese employees in order to operate the Sevan platforms in a professional manner, and will through this educate Chinese personnel regarding deep-sea drilling operation.

As Sevan is procuring a differentiation strategy, price will not be a major factor in Sevan’s value offering, and Sevan should not adapt their price setting in their China strategy. As the offshore oil industry is constituted by many international actors, China is also operating with international prices in the areas where they are dependent upon foreign technology. Not lowering prices in the Chinese market will also be important for Sevan in order to keep their current prices on international projects.

Create value to fulfill external needs

Because CNOOC is a major NOC, CNOOCs argument for buying a product of this scale would be coherent with the government objectives of ensuring Chinese technological development, jobs for the Chinese people and the future development of China. It will therefore be crucial for Sevan to portray themselves in accordance with these objectives. Even though flexibility regarding where they build is important to Sevan, it is necessary that they continue building as many rigs as possible at Chinese shipyards in order to prove their commitment to China. Through this, Sevan will contribute to cover a need for jobs and technological competence in China. This will create value for the Chinese Government and influence CNOOCs purchase decision.

Communication of value

Sevan should present their offering both to representatives of the CNOOC Group and COSL. Here, Sevan should use a middle man to make the initial introduction. Though many people are capable of taking this role, Sevan has to be very selective when choosing an intermediary. In addition, Sevan should preferably use
a COSCO employee with high ranking connections within CNOOC. This will leverage Sevan’s image within CNOOC.

Based upon the importance of age and status in Chinese companies, who Sevan sends to present their value proposition, and negotiate with CNOOC, is of large importance for the outcome. Sevan will have to bring staff members that both will be in coherence with the focus on age and status, in addition to members acquainted with Chinese business negotiation and language skills. To do this, Sevan should bring senior personnel form Sevan headquarters in Norway, and staff from the Singapore office that is familiar with Chinese language and culture. To increase their credibility, Sevan should also bring high ranking COSCO management members to the presentation and negotiation. COSCO management will thereby serve as a link between Sevan and CNOOC as well as contributing with experience regarding negotiation in Chinese NOCs.

Sevan should also make their offer more tangible, by inviting CNOOC to visit the COSCO shipyards and view the Sevan platforms. In addition, Sevan should also try to reduce uncertainty by actively using current clients to support the performance of the Sevan technology.

**Choose entry mode that protects Sevan’s interests**

To keep control over the Sevan technology, Sevan must choose an entry mode that will protect the Sevan technology, and will contribute to Sevan’s growth in the Chinese market.

If an agreement is reached between CNOOC and Sevan, Sevan will have to establish an office in China as a base for operations and communications with CNOOC.

Sevan should try to enter the Chinese market trough a JV between a Sevan platform holding company and COSCO. If an agreement between Sevan and CNOOC is reached, Sevan should create a holding company for the specific unit, as they have done with all their other units. As COSCO already has large insight in the Sevan technology, a JV with COSCO would cause a lesser threat to Sevan’s IP rights than a JV with CNOOC. In addition, Sevan and COSCO already have a
well functioning relationship, which could serve as an indicator that the JV would
be productive. Sevan should through the JV use COSCO as a means to market a
driller unit more effectively. A JV with COSCO could provide valuable contacts,
market insight, investment and capital. By increasing COSCOs stake in Sevan’s
success to extend beyond transaction-based building projects, Sevan will be able
to use COSCOs established marketing and sale channels, and gain valuable
insight in the Chinese business environment. The use of a Chinese state-owned
company in negotiations with CNOOC could also prove beneficial for Sevan
Marine. A joint venture with COSCO will likely increase Sevan Marine’s
reputation in the Chinese market, as they show interest in contributing to China’s
future growth. In addition, the JV would be positively viewed upon by important
stakeholders, as it will indirectly be related to the government through COSCO. A
joint venture between the two companies would also benefit Sevan, considering
Sevan’s current financial situation.

17.3 Future development
As long-time relationships are very important in the Chinese business culture,
Sevan should take advantage of their established position in the Chinese market,
in order to gain a strong position. To do this, Sevan should focus on three
different future opportunities.

Attaining New Contracts

If negotiations between CNOOC and Sevan result in success, Sevan should work
towards attaining further contracts with CNOOC. As Chinese business culture is
based upon a long term perspective, a well functioning relationship will serve as a
base for additional contracts. To create the best possible fundament, Sevan should
focus on maintaining a harmonic relationship with CNOOC throughout their
entire cooperation. When attaining additional contracts, operational experience
and relationship will be highly valued by CNOOC in the selection process. Sevan
should take advantage of their unique position, nurture and continuously build an
influential relationship with the state-owned companies, both CNOOC and
COSCO.
Enter with other Products

With a strong relationship between Sevan Marine and CNOOC as a basis, Sevan should further look at possible opportunities to expand with their product portfolio in China. During the research conducted for this thesis, the authors have discovered opportunities for some of Sevan’s other products, which should be considered further. With an increased focus in the deep-sea market in China, Sevan’s technology and broad product portfolio should be presented in this market later.

International Cooperation

The strong relationship between Sevan Marine and CNOOC could serve as further motivation for cooperation in new projects internationally. CNOOC are investing heavily in international waters, which promote the opportunity for possible cooperation between Sevan And CNOOC outside of China.
Chapter 18: Conclusions to Research Questions
This chapter is meant to give short but concise answers to the Research Questions proposed in the beginning of the thesis. The questions have been answered based on the findings and analysis presented in part 3 and 4.

1. What is the current situation in the Chinese offshore market?

Market Structure
The oil market in China is dominated by the three major oil companies; CNPC, SINOPEC and CNOOC. These are vertically integrated companies which control all levels of the supply chain.

CNOOC is the main operator of offshore exploration. CNOOC has several subsidiaries operating at all levels within the oil industry. No oil company is allowed to do offshore oil and gas related business without the participation of CNOOC. This includes both CNPC and SINOPEC, and international oil companies. CNOOC owns a 51% stake in all JVs. 166 167

Opportunities & Projections
With an increasing demand of energy resources, China has now set their attention on deep sea exploration, mainly in the SCS. Deep sea exploration is also categorized as the main opportunity in offshore China for international companies, by INTSOK (Market opportunities China 2010). As China’s exploration technology is limited to shallow waters and today 9 blocks are operated by JVs with international oil companies. In addition another 13 has recently been opened for cooperation through JVs

Legislations

166 http://www.energy-pedia.com/article.aspx?articleid=136981
The oil industry is an essential part of the future growth in China, and therefore the industry is heavily regulated. Foreign companies wishing to do offshore oil and gas related business in China will most likely do so in cooperation with CNOOC, and in a joint venture.

2. Who are Sevan Marine’s major competitors in the Chinese market?

The main competitors in the China offshore market are the Norwegian company Sea Drill, and the two subsidiaries of CNOOC; CNOOC Ltd and COSL. Sea Drill's Hercules West is the only drilling company operating in the deep-sea area of South China Sea. It was contracted by Husky and CNOOC in 2008. COSL drillers and CNOOC Ltd's FPSOs are operating on shallow waters, and do not hold the technology for deep-sea operations at present time. Nevertheless CNOOCs subsidiaries are working to close the existing technology gap to deep sea operations, and might become potential future competitors.

3. Which areas within the Chinese offshore industry would be attractive for Sevan Marine?

Based upon primary and secondary research, the authors conclude that the area most attractive for Sevan Marine, is South China Sea. 700,000km2 of the SCS can be characterized as deep waters. CNOOC are also planning major investment in the area before 2020.

4. Which of the technologies in Sevan’s portfolio is most suitable for the Chinese market?

Our research suggestion is that the driller technology will be the most suitable technology in Sevan’s portfolio. This is also supported by our interview candidates. This is because the lack of deep sea drillers in the global market and because the fact that deep sea drillers requires more specialized technology than FPSOs and are therefore more difficult to produce and operate for CNOOC.
5. How can Sevan Marine use their experience and relationships in China in order to obtain upcoming contracts in China?

Sevan Marine has already established a positive reputation in China, through publicity in relation to their construction of drillers. Furthermore Sevan Marine has since 2004 been working closely with COSCO, and the relationship is developing positively. Sevan Marine and COSCO’s relationship consist of construction, marketing and financing. In order to obtain upcoming contracts Sevan should use COSCO’s established marketing and sales channel, and negotiation skills to win contracts in China. In addition Sevan’s already established reputation will reduce the efforts needed related to establish a solid positioning in the market. Sevan has gained experience from establishing their construction sites in China, both through dealing with local government and negotiating contractual construction terms with COSCO.

6. How can Sevan Marine position themselves in order to obtain upcoming contracts in China?

Sevan should position themselves as a high-quality, deep sea expert that is contributing to the technological development of the Chinese Offshore industry. This is in accordance with both the industry needs, but also shows that Sevan focuses on values important for the government.

7. What are the major entry barriers for Sevan Marine in China?

The main barrier for entering the Chinese market is the monopolic structure of the market. Sevan would therefore be totally dependent on a deal with CNOOC. In addition China is a challenging market, both cultural and political. Sevan are faced with challenges such as the risk of IP violation and unsolved territorial disputes. In addition entering China could both be time consuming and costly for the company. Amending to the Chinese culture needs preparations and patience which often demands both human and financial resources.
Part VII: References and Appendix

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Chapter 20: Appendix

Appendix I: FPSO Operator and Contractor overview

Total Vessels Owned by Contractors: 105

Number of Vessels
(Operating, Available, Under Construction or Modification)

Total Operator Owned Vessels: 76
(16 single-vessel owners not shown)

Number of Vessels
(Operating, Available, Under Construction or Modification)

Hvorfor valgte dere å legge hovedkontoret til Arendal?

Det er historisk betinget egentlig. Jeg vil si at det er hovedsaken da. Det ligger jo en del bedrifter i Arendal, som veldig mye annen virksomhet, ikke trenger å være der. Tilbake i historien så var jo naturressursenes plassering som gav plassering av alle virksomheter, men i dag er det bare tilfeldigheter vil jeg si. I veldig stor grad i alle fall.

Det er jo et "kluster" i sør Norge, kan du si litt om det?

Jo da, det er det, og vi nyttegjør oss jo av det i stor grad. Veldig mange av oss har jo vært i APL (Advanced Production and Loading) tidligere. Det er jo flere bedrifter som er sprunget ut av andre bedrifter her, noe som gjør at det er god kontakt mellom bedriftene i "klusteret". I tillegg til at vi kjenner hverandre, vi som jobber der, slik at det er en viss flyt av arbeidskraft mellom disse, er selvfølgelig fordelaktig.

Fra hvor og hvordan ansetter dere vanligvis nye medarbeidere til onshore aktivitet?


Sevan har jo plassering forskjellige steder også i Norge. Og det har også gjort sånn at er det nøkkelpersoner som absolutt ikke har anledning til å komme dit de helst sett burde være, så har vi vært litt fleksible på hvor de kan sitte å jobbe. Det er flere ansatte i både Asker og Bergen, som egentlig naturlig hadde sittet i Arendal.

Hvordan foregår ansettelsen av folk som jobber på plattformene?
Det er jo litt forskjellig. Det er både gjennom bemanningsselskap som spesialiserer seg på offshore arbeidere. For det vil jo være andre selskaper som kjenner de, og disse arbeiderne flyter jo enda lettere rundt i forskjellige jobber enn det de gjør de som er på ingeniørsiden, som mer har det som sin livsoppgave. Så om man jobber på en plattform eller en annen det er jo avhenging av betingelser og andre forhold. Det kan jo også være folk som er engasjert i driftsorganisasjoner som vi også har samarbeid med da. Da får vi hyret inn et ”Crew” som en helhet.

**Bli de arbeiderne ansatt i Sevan?**

Nei, offshore arbeiderne som blir blir ansatt av bemanningsselskap, vil ikke være ansatt i Sevan. Da vil de jo da ha en avtale med disse selskapene. Så i prinsippet så er det jo vi som ligger på toppen og har ansvaret for de menneskene som er der, men det hender da at de rent formelt er ansatt i andre selskaper.

**Hvordan er fordelingen mellom Sevan ansatte og ansatte gjennom bemanningsselskap?**

Det avhenger av hvor vi er. Hvis vi ser på Brasil der vi har vår første plattform, så er alle Sevan ansatte i dag, gjennom et selskap i Brasil. Når det gjelder den ene plattformen i Storbritannia, så er alle ansatte gjennom et bemanningsselskap. Hele mannskapet. Og den andre plattformen i Storbritannia så er det delt. De som er prosessorienterte rundt selve det, de er ansatt i et bemanningsselskap. Så er de som er mer marine ansatte, de som har ansvaret for fortøyning osv, som er ansatt av Sevan.

For oss er det jo slik at vi gir jo bort noe av våre marginer når vi ansetter folk gjennom andre selskaper, så derfor vil det jo kanskje i prinsippet, for å drive forretningen, være bedre at de er ansatt av Sevan. Men så kan det jo være andre argumenter som taler i den andre retningen.

**Så dere vil helst ha egne folk på plattformene?**

Ja, det vil jo være større gevinst for oss, og vi vil også ha større fleksibilitet til å flytte folk frem og tilbake etter hvert som vi får flere plattformer i operasjon.

**Hvor stor del av de ansatte er det som sitter med nøkkelkompetanse?**

Både på land og på sjøen så er det en god del folk som sitter med nøkkelkompetanse som er viktige for selskapet. Så det vil nok være en fordeling
som er ganske typisk for sånne selskaper som dette her. Både innenfor det som har med vår forretningsdrift å gjøre, der går det jo mye på det å ha kjennskap til det som foregår ute på markedet, og også ha nettverk, vite hvem man skal snakke med og ha tilgang der. På teknologisiden så er det jo også en del spesialkompetanse som er å betrakte som høyt oppe på rangen når vi snakker om nøkkelpersonell. Og så kan det jo være andre igjen, som er mer standard. Vi har jo en del støttefunksjoner i Sevan. Men hodene våre er nok mye verdt i bedriften.

**Hvordan er turnover raten i Sevan Marine?**

Jeg har ikke noe tall på det, men den er lav. Og jeg tror også det å ligge med kontorene sine ute slik som vi gjør, det bidrar nok til at vi kan klare å holde en ganske lav turnover rate. Men det er jo også sånn at der det er flere alternativer, vil nok også sjansen være at turnover raten er større. Så vi må anta at de som jobber for oss i Asker, der er risikoen for at de forsvinner til andre selskaper større enn for de som jobber for oss i Arendal, fordi det finnes flere andre muligheter.

**Hvorfor trives folk med å jobbe i Sevan?**

Interessen for vekst i selskapet tror jeg. Det er jo et selskap som man har forventninger til, og som man tenker seg vil vokse. Og det er jo også fra tidligere tider, så har vi jobbet med opsionsprogrammer, som vi føler kan få folk til å være motiverte til å være i Sevan.

**Hva er formålet med kontorene i Brasil?**

I Brasil så var det jo et kontor helt fra starten av da, som tok seg av forretningsutviklingen vår, og hadde veldig nær kontakt med Petrobas. Nå er jo det kontoret fått utvidet sin virksomhet, i og med at vi har to kontrakter i Brasil som skal forvaltes. De driver nå en kombinert virksomhet. De driver med dialogen i forhold til den operasjonen vi har der i øyeblikket, og så driver de med å posisjonere oss i forhold til fremtidige kontrakter. Så i Brasil så har vi jo da folk i Rio. Der er det vel en ca 15 personer. I tillegg har vi en landbase/driftsbasen som ligger oppe i Aracartchu, som er innenfor der plattformen ligger.

**Så dere hadde kontor i Brasil før dere fikk kontrakt med Petrobas?**

Ja, det var jo de som klarte å skaffe den kontrakten. Det var jo hele selskapet, og det var en veldig nær knytning. Alle var tidligere Petrobas ansatte, og hadde
veldig gode kontakter. For et nytt selskap med ny teknologi, så er jo den aller største terskelen man trår over, den aller første kontrakten. Ny teknologi er jo en risk for din kunde, og man skal ha veldig gode grunner for å gå til sin ledergruppe og si at man vil satse på noe helt nytt som ingen andre har prøvd før.

**Hva er formålet med kontoret i Singapore?**

Det har med skattesystemet å gjøre. Så i dag så har vi riggeierskap fra Singapore. Så våre rigger, bortsett fra den første i Brasil, de eies fra Singapore selskap. Og det gir et fordelaktig skatteregime. Og den virksomheten vi har der, er i dag i størst grad motivert ut ifra deres krav om at vi har en viss virksomhet gående i Singapore. Og den er i dag hovedsakelig rettet inn mot finansieringssiden av selskapet. Men det er et potensial for å gjøre noe der, og vi har vurdert om vi skal gjøre mer der, men i øyeblikket så har vi ikke kommet så langt med det. Det er også noen forretningsfolk som sitter der, spesielt i forbindelse med drillig. Og det har jo også vært en link i forhold til den byggingen vi gjør i Kina. Så har vi også en Singapore-Kineser som jobber for oss. Han holder til i Singapore, og er også mye oppe på verftet, og er en veldig god link, kulturelt og spesielt språklig mellom oss og kineserne. Så det å ha med din egen mann som er oppegående, og som er i stand til å fange opp kinesisk, det er veldig viktig.

**Bringer operasjonsdelen automatisk med seg at dere etablerer et kontor?**

Operasjonsdelen gjør jo at vi må ha en landbase da i forhold til plattformene. Så vi har en landbase i Aracarthchu i Brasil, og vi har en landbase i Aberdeen, UK. Og det vil typisk da være en driftsorganisasjon på land. Så hvis vi nå får driften på Goliat, så vil vi da sannsynligvis ha en driftsbase i Hammerfest, som blir landbasen der.

**I Brasil så etablerte dere jo kontor før dere fikk kontrakten. Er det noe dere er villige til å gjøre også i fremtiden?**

Det er jo et spesielt tilfelle der i Brasil, for der var det jo en viss kontakt mellom disse menneskene fra tidligere virksomhet. Så det vil nok ikke være typisk på andre områder, det at vi starter utekontorer og dermed håper å få virksomhet. Det vil nok drives fra sentralt sted nå. Og det er lettere for oss å få gjennomslag også, fordi vi har en større tyngde og det er større kjennskap til oss i markedet i dag.
Hva gjør Sevan for å sikre sin teknologi?


Andre kan også lage sylindriske plattformer, selv om vi er de eneste som gjør det i dag. Men det er andre som lusker i mørket, så vi må forvente at det blir konkurranse. For eksempel på Goliat, så dro Aker opp en konstruksjon som ble mer og mer lik vår, ettersom konkurransen gikk. Så det er litt vanskelig å motvirke, men vi overvåker jo dette, og setter inn de tiltakene som vi ser er mulige å gjøre.

Hvor avhengig er dere av forholdet med COSCO Group of Shipyards?

Vi kan alltid gå til et annet skipsverft. Goliat plattformen skulle jo bygges i Korea, og vi har jo vært veldig nøyte med å være i en posisjon der vi kan skifte verft. I mange marked er en sentral parameter lokalt innhold. Så om vi også kan bygge skrogene der, så vil det være veldig fordelaktig. Og derfor har vi ikke noen faste hånd. Men når det er sagt, så er vi veldig godt fornøyd med COSCO, og vi bygger gjerne der.

Er dere obs på hva dere deler av teknologi med verftene dere bygger hos?

Ja, det må vi jo være. Det vil jo være en viss fare med det, i forhold til andre som kommer til dem og vil bygge lignende saker. Men det er noe som vi prøver å regulere i de avtalene vi har med verftene, og de vil nok være forsiktige med å gå over streken. Hvis vi så at våre tegninger fantes hos andre av våre konkurrenter, så vil det være en veldig alvorlig sak. Men jeg tror nok COSCO og andre som er i den posisjonen vil være veldig forsiktig med hva de gjør, fordi det setter dem i et
veldig dårlig lys hvis de sprer ting rundt. Og det vil jo alltid være et spørsmål om hvor kompetansen sitter.

**Hva er status på kontrakten på Goliat pr. dags dato?**


**Skal dere operere den plattformen?**


**Men dere vil uansett være innblandet i henhold til rådgivning osv?**

Ja, vi har jo et integrert team med ENI. Vi har jo folk som da blir sittende ute på verftet i byggefasen. Så det er et betydelig engasjement fra vår side hele veien. Men vi sitter da på samme side som kontraktøren ENI, i motsetning til de andre tilfellene, der vi er på hver vår side av en kontrakt.
Hvor fleksible er dere på å inngå slike kontrakter i fremtiden?

VI er fleksible. Men når Goliat lisensen, eller ENI, ville eie plattformen, så var våre eiere ganske negative til det. Sånn som aksjonærene ser på Sevan, så er jo mye av oppsiden basert på fremtidige kontrakter. Vi blir jo sittende på en flåte, og de vil jo i stor grad finansieres av sin første kontrakt. Så det er jo en betydelig oppside for videre liv av disse plattformene. Og den vil jo ikke være der, når man selger den. Da er det jo helt definitivt hva som går inn, og det hadde mindre appell til aksjonærene ut fra deres syn på hvordan kursutviklingen og verdietviklingen av selskapet ville være, basert på våre kontrakter.

Men når da finanskrisen kom dalende ned over oss, så viste det seg jo at det var litt mer komplisert å få finansiert disse plattformene. Så det er en helt annen innstilling til dette i dag. Slik at fleksibiliteten vår til å alternative kontrakter, den er der med støtte fra være eiere. Og vi ser jo det at noen lisenser ønsker denne modellen typisk, men andre ønsker at vi tar ansvar for å bygge og selge plattformen til dem, mens andre igjen da ønsker den opprinnelige modellen, der vi eier og driver plattformene. Og vi har fleksibilitet til å gjøre alt sånn.

Hvordan fungere finansieringen under Build Own Operate?

Alle de skrogene vi har bygd de har jo vært startet uten kontrakt. Og de har vært startet basert på egenkapital som har vært hentet inn ved emisjoner. De skrogene vi har i øyeblikket, vi har jo to skrog liggende i Kina, de er i dag finansiert kun på egenkapital som er innhentet. Så har de blitt bygd opp til et nivå da, til vi da eventuelt får et prosjekt. Og når vi får et prosjekt så er det jo mulig å få bankfinansiering, og resten av finansieringen blir da basert på bank og Bonds.

Så dere betaler for hele konstruksjonen, og tjener dette inn igjen gjennom lisensen?

Ja, det er jo sånn det fungerer. Det er jo et voldsomt finansieringsbehov for dette her. Det er jo klart at vi har vært et av de selskapene som har vært mest utsatt i den vanskelige situasjonen som har vært på finansmarkedet nå. Og det er nettopp fordi finansieringsbehovet er så stort som det er. Vi hadde jo også kontrakt med et oljeselskap som gikk konkurs. Den plattformen ligger nå ute på Shelly-feltet. Shelly var operert av et oljeselskap som het Oilexco, et lite kanadisk selskap. Når vi hadde levert plattformen, og koblet den opp på feltet, så gikk de konkurs. Og

**Hvorfør valgte dere å ha Construction i Kina?**

Det var jo en vurdering av hvor det var mest kostnadseffektivt å gjøre det. Hvor vi kunne få lavest priser. Og i dag så er nok forskjellen på Kina og Korea mye mindre enn det den var før. Og på grunn av modenheten i vår teknologi, og det man ser skjer, så er sånn at de store velrenommerede Koreanske verftene, de viser mye større interesse for oss, og ønsker å bygge våre konstruksjoner. Så det at vi nå bygger den første i Korea, det er veldig viktig for oss. Men vi ser jo det at den servicen vi har fått i Kina, den har vært veldig god. Det har vært litt for fulle erfaringer med de verftene vi har vært innom. Vi har jo bygd på to andre verft for vi kom til COSCO. Og det har vært litt kompliserte affærer begge to, med verft som har hatt litt for lite erfaring. Så grunnen for hvorfør vi bygde der, var basert på en vurdering av hvor vi kunne få bygd dem til en fornuftig pris.

**Tor du at dere vil bygge mer og mer i Korea i fremtiden?**
Nei, ikke nødvendigvis. Men jeg tror det at det er en viss skeptis i større organisasjoner for å bygge i Kina. På enkelte av våre kontrakter så ser vi nok kanskje at det er mer sannsynlig at vi kan gå til Korea enn til Kina. Men vi har fullt trøkk i Kina enda, så det er ikke så godt og si hva som vil skje, men i alle fall strategisk så vil vi ha muligheten til å gå der vi ønsker å gå. En annen viktig ting i Kina handler om viljen til å bidra til finansiering av plattformene. Og i Kina så har de jo eksport kreditt byråer, som er villige til å stille opp og garantere for lån som kommer inn med kinesiske penger, til å finansiere prosjektene våre. Og det er et betydelig bidrag, som har en stor betydning for oss for å bygge videre i Kina.

**Hvordan tror du samarbeidet med COSCO vil utvikle seg i fremtiden?**

De er jo i ferd med å bygge en ny borerigg for oss nå, og det betyr at de har en stor kontrakt til. Og vi ser jo potensialet til at de kan komme til å være den dominerende leverandøren vår videre fremover også. Men dette er situasjonsbetinget. For kanskje mer avanserte jobber, der vil det bli bygget i Korea. Og det kan ofte også være krav fra våre kunder, som sier at de ønsker at vi går til et verft som har litt mer erfaring.

Og det går ut fra erfaring fra tidligere bygging. De første byggene som ble bygd i det fjerne Østen på norske krav, de har vært en slags katastrofeprosjekter tidligere. Det har vært veldig mye problemer, og store forsinkelser og store overskridelser på en del av de prosjektene som har blitt bygd som førstebygg på noen verft. Nå har vi jo da en viss erfaring med komplimenteringen av den første boreriggen hos Cosco, og vi har vært veldig godt fornøyd med det arbeidet som har vært gjort der. Og det gir oss en god indikasjon på at vi kommer til å klare det med nye prosjekter også. Men så er det en jobb for oss å klare å overbevise potensielle kunder, om at det kan gjøres. Og det må vi da vurdere i innsalgsfasen, om det er verdet og gamble på. Hvis de ser det som negativt at vi flagger klart at vi skal bygge i Kina, så vil vi kanskje velge en annen strategi for et gitt bud.

**Hva slags kunnskap har Sevan om det kinesiske olje markedet?**

I øyeblikket så har vi gjort alt for lite i Kina i forhold til vår tilstedeværelse og vår bygging der. Så det har vært veldig sporadisk. Vi har hatt noen samtaler med enkelte folk, spesielt hos CNOOC, men vi har gjort veldig lite i Kina. Og det har litt med konsentrasjonen vår å gjøre, og hva vi har kapasitet til. Men jeg tror vi har et betydelig potensial både i Sør-Kina havet og i Bohai bukta.
Hva slags kunnskap har dere om markedstruktur, kultur osv i Kina?

Det hjelper jo oss litt å bygge i Kina. Så vi har en del kobling der som vi burde utnytte. Og vi har jo jobbet litt med å prøve å få det til. Men det som også har vært situasjonen i Kina det er jo det at alle FPSO er i kina har jo vært eid av lisensene. Det har ikke vært noen lease kontrakter i utgangspunktet, som jeg kjenner til. Og det gikk jo da på kryss av våre opprinnelige strategier, og derfor var det da valgt vekk på et vis. Men eller så er jo Kina et marked som er ganske oversiktlig i forhold til dominansen i lisensene, siden CNOOC og kineserne er inne med majoritet på alle sine lisenser i øyeblikket, hvis ikke noe er endret seg i det siste. Problemet er ofte det at det er de utenlandske selskapene som kjører. Så det er partnerne som kjører lisensene som jeg har sett det tidligere. Og de må jo da adresseres. Og vi har sporadisk snakket med dem, men som sagt så har vi gjort veldig lite. Men vi har en del teknologiutvikling som er interessant for Kina.

Hvem er det som tar seg av disse samtalene?

I dag så har vi jo en person i Singapore, som dekker forretningsutvikling og rapporterer til meg. Og han har hatt som oppgave å gjøre vei i vellinga her, men det har vært litt for mye trøkk med verftet til at han har kunnet prioritere det. Og vi har valgt å ikke gjøre noe oppbemanning, eller noe sånt noe. Men vi ser at det er et potensial her.

Hvordan er forholdet mellom CNOOC og Sevan i dag?


Hvor attraktivt er det kinesiske markedet for Sevan.

Det er attraktivt, men i øyeblikket så har ikke vi sett prosjekter som ligger på trappene akkurat nå som er relevante, men det kan jo fort komme. Men hvor attraktivt det er, det er vanskelig for meg å si. Men det er mer attraktivt nå enn før, fordi vi har fått en aksept for den modellen og lisensiere ut teknologien vår og selge den ut. Og det burde være et godt utgangspunkt ved at vi allerede bygger i Kina.

Kunne det da blitt aktuelt og opprette et kontor i Kina?

**Rollefordelingen mellom Sevan og oljeselskapene. Hvem gjør hva på plattformene, og hvor mye innblanding har de der?**


**Dette gjelder bare FPSO ene?**


**Er det slik at Sevan eier alle plattformene som er ute i dag?**

Ja

**Men dere er åpne for å dele med oljeselskap?**
Jada. Den plattformen som ligger på Chestnut, den eies 20% av olje selskapet, og 80% av oss. Så de ønsket å komme inn på eiersiden. Og det har av og til vært ønske fra oljeselskap om å være inne på eiersiden. Og det diskuteres. I alle tilfeller så har vi satt opp ett eierselskap på enheten vår. Og da kan det eierselskapet være satt opp som et JV. Som det da er på Chestnut plattformen, med en 20/80 fordeling mellom dem og oss. Og det har blitt diskutert i andre lisenser også.

**Kan du utdtype litt om eierselskapene?**

Ja, alle de FPSO ene våre, de har et eget eierselskap. De er satt opp for å eie og drive plattformen. Det er et dedikert selskap, som eier hver plattform. Og de selskapene kan da være 100 % eid av Sevan, som de er i de fleste tilfeller. Men i det ene tilfellet, så er det selskapet da eid 20% av oljeselskapet, og 80% av oss.

**Kan du si litt om Sevans situasjon i dag?**

Vi har jo opp til nå hatt en negativ kontantstrøm i selskapet. Nå vi er vel omtrent på det nivået, at når vi begynner å få boreriggen i gang, og får en relokering på nummer 3, så bør vi da begynne å få riktig farge på tallene. Men dette er jo et selskap som har vært satt opp for å bli lønnsomt på lang sikt. Man hadde vel i utgangspunktet tenkt at det skulle skje raskere, men i øyeblikket så er vi i ferd med å komme over på den siden, at vi betaler vår egen drift.

Men er det jo et betydelig finansieringsbehov, og det ligger et betydelig inntøn i det vi har av flåte. Men det er vel ikke til å stikke under en stol at i løpet av den perioden vi har hatt bak oss, fjordåret, så har situasjonen vært ganske anstrengt. Men i øyeblikket, så ser vi at vi er på overflaten. Men det er en oppmerksomhet rundt Sevans økonomiske situasjon ut i fra det at man har sett det at vi var i en situasjon der vi ikke kunne betale våre forpliktelser i en periode i fjor. Men i øyeblikket så er det en situasjon som er nokså bekvem. Og med det vi ser av kontrakter på vei, så er vi optimister.

**Med tanke på Build, Own, Operate modellen. Dere er jo ganske villige til å vurdere andre løsninger. Kunne dere hatt operasjonsdelen uten å etablere kontor?**

Det er spørsmål med hva man mener med et kontor. Altså, man trenger en landbase i forhold til dette her. Og da er det jo naturlig at det er noen folk der.
Men om det er en egen definert organisasjon, eller ligger under en paraply, det er jo noe som blir vurdert i hvert enkelt tilfelle.

**Hvilke faktorer vektlegges når dere vurderer andre modeller enn Build, Own Operate?**


**Men det er fortsatt ønskelig for Sevan å holde seg til Build Own Operate?**

Nei, det er ikke nødvendigvis noen preferanser for det. Det har vist seg såpass utfordrende å finansiere dette, at det kan være en støtte til vår drift, og ha flere ben å stå på. Så i øyeblikket, så vil jeg si at Goliat kontrakten, som da var betalingsnøytral, så hjalp den oss til å komme gjennom den situasjonen som vi opplevde i fjor. Fordi vi allerede hadde betalinger inn til oss da i den fasen.

**Hvordan stiller Sevan seg til et eventuelt JV i Kina?**

Som jeg har sagt, så er vi åpne for å gjøre det. Det blir alltid en totalvurdering fra vår side, hva som er tjenelig. Men det er ofte utsidens som har veldig sterke preferanser på hvordan ting skal gjøres, så blir det oss som må vurdere om dette er akseptabelt, om det er forenlig med de kravene som våre finansieringsinstitusjoner og våre eiere måtte ha. Men jeg ser absolutt det som en gjørbar løsning.
Appendix III: Interview with Erik Henriksen, Senior Principal Engineer and Offshore Coordinator Region Greater China at DNV (Energy). (Shanghai), 29.04.2010 (Norwegian Text)

Hva er din rolle i DNV?

Det er offshore. Alt av nybygg. Borerigger og FPSOer av forskjellige typer. Og delvis annen dypvannsteknologi, som det nå begynner å komme en del av i Kina.

Henriksen snakker fritt om Bohai Bay:


Men hovedsakelig vil du si at det er South China Sea som burde være satsningsområdet for Sevan her i Kina?

Ja, fordi markedet kjenner Sevan konseptet, på grunn av Brasil, som en dypvannsenhet.

Hvilke andre utenlandske selskaper er det som opererer i South China Sea?

Huskey. Murphy. Og et par-tre andre som jeg ikke har navnet på nå.

Hvor mange blokker er aktive i South China Sea per i dag?

**SINOPEC og CNPC, er de også involvert i Deep-sea Markedet her i Kina?**

Nei. I henhold til Kinesisk lovgivning så har CNOOC enerett på alt som er dypere enn fem meter vanndyp. Men man kan jo si at SINOPEC og CNPC har partnere i utlandet, så de prøver å komme seg inn i JVer i utlandet på offshore markedet med lisenspartnere. De har også prøvd å snakke med myndighetene i Beijing, for de er jo eid alle tre, av det samme selskapet. Et eierselskap som styrer alle disse stateide selskapene. Så de har jo samme eiere. CNOOC er jo et aksjeselskap, men det er bare deler av det som er til salgs på aksjemarkedet. Det er jo et utrolig stort organisasjonskart i disse bedriftene.


Et eksempel på dette er jo stålproduksjonen i landet. De skulle redusere stålverkproduksjonen i Kina, og bestemte da at alle stålverk under en viss størrelse skulle legges ned. Og det gjennomførte dem. Men det førte til at lokale myndigheter økte kvotene til de andre stålverkene som var der, og det endte jo med at de økte produksjonen med 10%.

Men nå prøver de jo å dra inn sentralstyringen. For det er jo imot Kinas interesser, når regionene kjemper mot hverandre. Så det diskuteres jo fortsatt om man skal splitte opp Kina i enda flere regioner. I dag er det 32. Men hvis man sammenligner med USA, som har mye mindre mennesker, så har de ca 50 stater. Så et ønske er jo mindre enheter, som jobber mer sammen.

**De internasjonale selskapene som opererer på South China Sea, eier de eller leaser de sine FPSOer?**

De bygger ofte skroget her, og ofte utrustes de i Singapore, men også andre steder.

Så gjennom sine JVer så får de tilgang på teknologien?

Ja, men til nå er det mest på grunnvann. Men det de ønsker fremmover, er jo mer teknologi på dyptvann.

Hvor realistisk er det for Sevan å ha en Build, Own Operate modell for sine FPSOer her i Kina?

I Kina har det alltid vært oljeselskapene som eier det selv. Men det har vært ett tilfelle hvor det var en annen løsning. Så man skal aldri være sikker på noe, men sannsynligheten for at Sevan kommer inn som en contractor her er nok liten.

Hvis Sevan bare selger designet, så vil det bygges her nede?

Ja

Har de en god kunnskap på operasjonsdelen her nede?

På FPSOer har de nok begynt å få det, på grunnvann. Men på dyptvann så har de nok ikke det enda. Så det er jo en utfordring der.

En av våre tidligere intervjuobjekter sa at det blir nødvendig med en JV hvis man ønsker å entre det kinesiske markedet med sin opprinnelige Build, Own Operate. Blir det også nødvendig hvis man bare skal selge designet? Eller kan man selge designet rett fra Norge?

Nei, det blir ikke nødvendig, og det kan selges fra Norge. Da går man jo bort fra den originale businessmodellen. Men jeg ville vært litt skeptisk til å selge designet. Teknologien blir jo ofte ”kinesifisert”. Man forandrer litt her og der, men teknologien er jo egentlig den samme. Men sånn er det dessverre i Kina. Og myndighetene oppfordrer jo til at folk skal bygge i Kina. Men det er andre designere som har brent seg på det.

Oljeindustrien er jo preget av å være internasjonal, og at ”stjelning” av teknologi fører til et svært dårlig rykte. Hvordan er den oppfattelsen i Kina?
Jeg tror nok ikke de kinesiske selskapene er så veldig opptatt av det, for å si det rett ut.

**Men la oss si at Sevan selger designet sitt til CNOOC, og det bygges på COSCO sitt verft. Sevan har jo patentert deler av teknologien. Tror du da at CNOOC vil eventuelt bygge egne rigger selv etter hvert?**

Både CNOOC og COSCO er jo eid av staten. Så at det vil kunne skje, er det nok mulighet for ja.

**CNOOC ønsker jo et godt rykte internasjonalt. Så tror du CNOOC vil kjøpe teknologien av COSCO, hvis de fikk tilgang på den, eller vil de heller kjøpe av Sevan?**

De vil nok kjøpe av Sevan. Man kan enkelt forandre noen deler av et design, så det ikke blir dekket av patentene. Men da mister man jo også konseptet.

**Tror du det vil være andre løsninger som vil være aktuelle for Sevan?**

Det kan jo være en løsning å bygge en enhet å eie den sammen med CNOOC. Men man kan jo si at det CNOOC trenger mest, det er jo den dypvannsdelene. Kontrollteknologien der, og ikke nødvendigvis selve flyteren.

Ingen av de internasjonale kontraktørene i Kina, opererer her. Og de har heller ingen planer om å operere her. Som sammenligning da.

**Hvor attraktivt er det kinesiske markedet?**


**Hvordan er nivået på dagsratene i Kina i forhold til det internasjonale markedet?**

På de store enhetene så ligger dagsratene på et internasjonalt nivå. Men på enklere enheter, så er den lavere.
Sevan har jo en fordel på hardt vann, men det er de jo ikke alene om.

**Hvordan er konkurransen sånn sett?**

De er jo ikke alene om det. Fordelen til Sevan er jo at bevegelseskaracteristikken under produksjon, den er ganske bra. Også er de jo bygd i Kina, noe som også gir dem en fordel på det kinesiske markedet. Andre FPSOer er jo ofte større i lengden, og har en annen bevegelseskaracteristikk. Og det fører også med seg behov for en tøffere forankringsmekanikk. Så de har flere fordeler.

**Hvor viktig tror du disse fordelene er i Kina i forhold til pris?**

Ikke så mye. Pris er viktig. At ting er billig, det er hovedprinsippet her. Kvalitet osv, er jo viktig det også. Men de bygger masse rart her, som de også reparerer veldig fort. Men det jo viktig for Kina å få i gang produksjonen tidlig. For de trenger jo oljen.

**Kina er ikke veldig attraktivt på langtidsbasis. Men hva med på korttid?**

Det kan det være, men da må enheten stå lenge å vente. Og det koster penger.

Et annet konsept som kan være interessant, det er jo det at man går inn i en dialog med CNOOC for en SEVAN for tømme småfelt uansett vanndyp. Det kan jo være et konsept, for Sevan plattformene er jo veldig tilpasset å kunne gjøre det. Da kan man presentere seg for CNOOC. Presentere Sevan. Legge vekt på at det er bygd i Kina. Bruke COSCOs kontakter. Og si at man gjør det sammen med CNOOC. For det finnes jo en del slike småfelt her, som de ikke vet helt hvordan de skal bygge ut. Og det er ikke noen ”tieback” muligheter i Sør-Kina havet enda.

**Men tror du CNOOC vil være villige til å betale de prisene som Sevan vil da måtte kreve?**

Ja, det vil jeg nesten tro. For finansiering kan man få gjennom kinesiske banker og systemer. Og det er ganske rimelig finansiering.

**Men dette vil gjelde hele Kina, og ikke bare South China Sea?**

Ja, både i Bohai Bay og East China Sea. Dette er en modell som kan fungere, fordi det er ingen andre som har gjort. For noen kontraktører har gjort det andre steder, og det kan være en ide her også. For det er ikke alle steder som har en god
infrastruktur, så da kan det være en mulighet der. Men da må man bruke, for alt det er verdig, at det er bygd i Kina. Med COSCO.

**Hvis de skal gjøre dette, vil det da være i en JV med CNOOC?**

Det tror jeg. For man vil ikke kunne operere her uten å ha en JV her. Man kan etablere i Hong Kong, men det er spørts hva CNOOC sier om det. Det er jo veldig politisk styrt. Men det blir nok utfordringer med det ja. Myndighetene har jo også begynt og stramme inn på representasjonskontorer i Kina, så man vil nok være nødt til å ha et selskap registrert i Kina. Og da må man jo oftest ha en JV.

**Så det er direktesalg eller JV som er mest aktuelt for Sevan?**

Ja, jeg vil tro det. Hvis ikke de klarer å få det registret i Hong Kong, men det tror jeg er vanskelig.

**Hvordan er det med direktesalg fra Norge til Kina, og forholdet der?**


**Hvor viktig er det med tilstedeværelse når man gjør business i Kina?**

Mine erfaringer er jo; "If you do business in China, be in China.” Det er jo store selskaper i Norge som har brent seg skikkelig her. Men det gjelder jo som oftest ikke direkte salg.

**Hvor store er forskjellene på markedet for FPSOer og markedet for Drillere?**

Drillere er mer et opportunistisk market, som ofte går på kortidskontrakter, selv om det finnes flere langtidskontrakter der også. Med 4-5 års kontrakter så får man jo betalt ned enheten sin.

**Hvordan er etterspørselen på drillere i forhold til FPSOer?**

På dypvannsrigger så har det vært større etterspørsel på drillere. Og det fortsetter nok et par år til, for de bygger jo mye nytt, både i Brasil, Mexico Gulfen og her. FPSOer er litt annerledes. De er jo veldig markedsavhengig, og oljeprisavhengig. Når man hadde veldig høy oljepris for et par år siden, var det veldig mange...
FPSOer som satte i gang. Ofte spekulativt. Men da oljeprisen falt, så ble jo 
feltuttyggningsprosesser plutselig utsatt. Da satt jo eierne med FPSOer som de 
ikke fikk brukt. Et par gikk jo også konkurs. Så det forskjellige markeder, med 
forskjellige kunder og forskjellig dynamikk.

**Hva vil være mest aktuelt på det kinesiske markedet for Sevan, drillere eller 
FPSOer?**

Drillere. Hvis man tenker lokalt i Kina.

**Men tror du det vil være mulig å få fem års kontrakter for å dekke dette?**

Det tror jeg. Hvis man bruker COSCO kontakter og ”made in China”, så tror jeg 
det vil være mulig.

**Tror du CNOOC vil ønske å leie en driller fra Sevan?**

Det er en mulighet, men man må jo huske at CNOOC bygger sine egne 
dypvannsenheter. CNOOC eier jo COSL. Det er jo en mulighet as CNOOC vil 
bruke de. For det er jo statside dette. Og de ønsker kontroll.

**Men hvorfor skule de da vurdere Sevan?**

For teknologien, og ikke minst at det blir bygget i Kina. Når Sevan Driller 1 ble 
lever, var det jo veldig stort i Kina. For det var jo den første deep water driller 
som var ”made in China.” Så det var jo en stor branding for Sevan og COSCO.

**Vil du si at Kina er et attraktivt marked i motsetning til andre markedet?**

Jeg ville nok ikke puttet pengene mine her. Det er et attraktivt marked, men det er 
et et vanskelig marked. På grunn av politiske faktorer. De ønsker at alt skal være 
bygd i Kina, og at alt skal være kinesisk.

**Men hvis de skal inn i Kina, og operere en driller, da må de inn i en JV med 
CNOOC?**

Nei, andre har vært her før, uten å ha JV. Seadrill har for eksempel ikke noe JV. 
De eier alt selv. Og de har et kontor der driftsorganisasjonen sitter. Da opptrer 
man som en contractor, med sine spesialiteter.
Har Sevan mulighet for å inngå en kontrakt med CNOOC på å bygge en driller, som CNOOC vil benytte?

Ja, de tenker jo ofte langsiktig. De har jo sør Kina havet, men de vet ikke hva som er der. Men det de vet, er at de skal bygge ut. Myndighetene har jo bevilget et titalls milliarder for å gjøre research osv til sine selskaper. Så har de langsiktighet i tankene, og ønsker å bygge opp egen kompetanse. Så de har nok mulighet til å vente på en driller.

Hvordan er dette i forhold til konkurrenter?


Hvem er det som leier inn enhetene i South China Sea.

Huskey for eksempel, har leid inn SeaDrill til å borre. Dette er jo et ansvar de har delt seg i mellom. CNOOC og Huskey.

Vil det være CNOOC eller de Internasjonale aktørene som vil være målet for Sevan hvis de skal inn på det markedet?

Det er vel egentlig begge to, men jeg ville nok prøvd CNOOC. Og bruk COSCO kontaktene.

Når CNOOC vil få nok kunnskap og teknologi til å ta ansvar for egne felt, så vil muligheten være større for at Sevan vil kunne bli leid inn?

Ja, men som sagt så har de også sine egne enheter som blir bygd. Så spørsmålet vil jo bli hva; Hva ønsker CNOOC? De mangler jo fortsatt kunnskap om drilling på dypere vann. Men de ønsker å lære, og tilegne seg kunnskap.

Tror du Sevan har bevist nok internasjonalt, at de kan være aktuelle også for Kina?


Men vi kan konkludere med at FPSO markedet er lite attraktivt her i Kina?
Ja, det er min mening i alle fall.

**Og på driller markedet så er det tøft og vanskelig, men det skader ikke å presentere hva man har?**

Ja, og bruk COSCO. De har jo et godt forhold til Cosco, og må da bruke det for alt det er verdt. Og fokuser på ”made in China.”

På alt av FPSOer og supplybåter, så har det vært JV. Men ikke på borerigger. For de reiser jo rundt. Så da er ikke JV et så godt alternativ.

**Hvordan kommer Sevan inn på anbudslistene til CNOOC?**

Bruk COSCO for alt det er verdt. Ta med toppledelsen i COSCO. Diskuter med COSCO om hva som er mulighetene. Og reis da sammen med COSCO til CNOOC.

COSCO kan lede Sevan til de rette folkene.

**De som opererer andre drillere, setter de også opp kontorer i Kina?**

De setter opp driftskontorer. Men om de er registrerte selskaper, eller hva de er. Men det største problemet er ofte levering av utstyr. For alt må innom land, og tolleprosessen kan være ganske omfattende.

**Hvordan er kvaliteten på boreriggene til CNOOC?**

Nei, de trenger nok litt nivåheving. For de er nok ikke kjent for høyteknologi og god kvalitet.

**Hvordan er den politiske sitasjonen mellom landene rundt South China Sea?**

Jeg vet at det er et betent område. Alle vil gjøre det, men ingen er enige. Og jeg tror nok det vil ta litt tid før de endelig blir enig. Så det er nok med på å bremse en del av progresjonen der nede.

**Hvor mye makt har myndighetene i CNOOC?**

Det er en stor diskusjon hele tiden. Statseide selskaper blir jo styrt fra Beijing. Men spørsmålet er jo hvor mye av den styringen som blir gjennomført i selskapet. Og der er det jo en stor diskusjon. Men ledelsesfigurer fra myndighetene

**Hvor viktig er det med et godt forhold til myndighetene?**

Det er viktig. Selskapene vil jo bli store og sterke, men i bunn og grunn så blir de styrt av myndighetene. Det gjelder både CNOOC, SINOPEC og CNPC.

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**Appendix IV: Interview with Pia Polsa (Ph.D), Professor, 22.04.2010 (English text)**

When we talk about impersonal business relationships in China, how willing are Chinese to enter such a relationship? How usual are they?

I guess all the relationships are personal. My perception is that they very seldom do institutional or impersonal relationships, between one company and the other company. But in some cases they do, if your company has something that this government wants, or this local government wants, or this company wants. If you have a technology that’s superior in the world, or you are market leader and so on. Then it is easy to access here and you do not need that kind of personal contact. But if you not are on the top of the world, and you don’t have such a competitive advantage, then you have to work for a personal relationship. But even then, nobody is a fool. If you have 60 years of personal contact, but you don’t have a product they want, off course nobody is doing business with you.

**Technology compared to guanxi, how important are they compared to each other?**

They probably go hand in hand. To be really successful you need both. Norway is famous for their oil, so that helps. I assume it would help if you could attract ministers, or prime minister, or your royals to come here and then build up a very high level of Guanxi, if the company that you are working for is able to leverage such kind of political visits here. EXPO is a brilliant occasion for these kinds of meetings. And then they can involve some of the people that they would like to sell to in those meetings. Then you build up Guanxi. Then you give them some
“face” that they want to have. You have to interconnect politics of Norway and a whole bunch of different actors in the society to help that. They always remember, in any field, that a certain prime minister has visited here, or another important person has been here. So it doesn’t only help that you try to contact these people that you want to sell to, but you should also try to have delegations from your country.

**How important is the Country-of-origin effect in China?**

I think it is important. I don’t know what Norway’s reputation is in China. But I think these kinds of things are important. And they follow the world probably much better than the USA. Finland has been very successful in always making a point that we were actually one of the first countries who acknowledged the People’s Republic of China as a real country, before the United Nations. And that is something you can always use. So these kinds of things you can learn from the history of Norway, is something a businessperson should learn and use. If you don’t have those kinds of things in your country you should figure out what kind of “face giving” you can give. This is one example, but there might be other examples to. But you can also look at the history behind the revolution. Ericsson has been successful in acknowledging the fact that they have even before the liberation been here trading and so on. But then look at Nokia who is a very young company, and still are one of the market leaders in China. And they have been able to build up “Guanxi” despite the very short history. But they they are also market leaders globally, so that helps. That kind of reputation helps. And when it comes to Nokia, they have had a personal connections with the government, and have a consultant that have personal connection with the different levels of Chinese government.

**How difficult is it to establish a relationship with the government?**

I assume that in a place like Shanghai, maybe its not so relevant. Because this function is almost like western country, and has similar type of business. But then you have all the other parts of China that are not so westernized. So you have to be careful there. In oil industry you are not dealing with private companies, but you are dealing with the state-owned companies. And then you are dealing with the government. Because the state owned are owned by national level, owned by province level, owned by city level, owned by different levels of governmental
bureaus. And they are the ones who are legislating. So you have to be extremely
careful of all the game among the government, that they do have.

**How much does actually the state play part in running a state owned company?**

That depends on the company, I assume. I cannot give a general answer. I listened
to a lecture about state owned business and how they are going abroad from
China. She was the analyst for the Forbes 500 companies, and she said that the
government businesses are still extremely strong, because the government
supports them. And if you look at the banking in China, all the banks are still state
owned, and even if they are run like a professional company, they still support the
government businesses. And according to her, if you find a successful private
company, then it is extremely good because it has all these obstacles in this
country to do business. Probably a part of them are so developed, that they are run
almost like a private company, and they are very efficient. Scandinavian countries
have government owned businesses too, which are very well run. And there is no
monopoly between that. So the same applies here. The Chinese banks used to
have allot of problem loans, but that is now cleaned out. So it doesn’t mean that
government businesses are bad, but they are government businesses, they are
owned by government, and then you have government relationships.

**How important is Guanxi in China today?**

That again depends on where you are in China. I think it’s less important in
Shanghai. I have heard Chinese people saying that it is old-fashioned, and that
they do not have it anymore. And my co-author, with whom I am doing research
with, he says that it doesn’t matter to the same extend here. But then again I have
a friend who comes from university of Texas. And he says “Well, you I have to
give so much more time in China to cultivate Guanxi during the evenings. Going
to dinner with colleagues and spending special time with them, which I didn’t
need to do in USA.” So OK, relationships are important in the USA, but it’s at
different level. It is less important in the US then in China. So yes, Guanxi is
important everywhere, but I think it is more important here. But apparently in
Shanghai, it is less then other parts of China. So there are levels, and you have to
know which level you are in. So it’s still important, less important in Shanghai,
but more important in the in-land and Beijing, which is less Shanghai. I wouldn’t
even say that Shanghai is more western. I would say that Shanghai is Shanghai. And here it’s different. And then in other parts it’s more important.

**How important is Guanxi going to be in China in the future?**

I think it will always be here. But it might be hidden. So if you ask Chinese people, they would say that “no, we don’t have it anymore”. I believe it will remain, the same way as in our cultures, no matter what, we have preserved some of our own features. But I think Guanxi will be hidden. Especially for us foreigners. They behave according to the Guanxi, they don’t see it. And then we are told it doesn’t exist anymore, and then we think it doesn’t exist anymore. And then we don’t understand why this and this happened. Relationships are personal.

**In what stages of a contract signing is Guanxi most important?**

It is different. In the very beginning, to get the access, or to get the contract signed, you already need Guanxi to some part. But when you have a contract, and you have established formal Guanxi, then it is still more. Maybe that still depends on where you are in China. If you have to renegotiate your contract, then you still need guanxi, but you also need your extremely good negotiation skills, after the signing of the contract. But you have to be very careful, because this country is changing. So try to make the best contract also, to start with, because all of the sudden it might be that the country has changed, and the contract is the one that is important. In China you have to be so careful of these changes, because these changes are extremely rapid. So it can be a change over the night, and that’s because the government is quite powerful here. So I would try to have a formal written contract, as good as possible. Then I would prepare to renegotiate it. But then I am also prepared for the fact that this is how this is going to be. So don’t underestimate the written contract either.

**How is the negotiation process, is it time consuming with allot of involved people?**

There used to be a lot of people, and allot of different people. Maybe a lawyer, maybe someone from the technology department and so on. Sometimes 10-20 persons. And it’s governmental officials as well. It might be a party member, it might be somebody who is knowledgeable in English. But here you have to be
careful, because you don’t know about it. Maybe it all goes through an interpreter, but there might be somebody who is fluent in English sitting on the other side of the table. Nowadays people start to have lawyers, because the legislative environment has changed. In the negotiations I would be very tactical and very careful. Not even saying in Norwegian anything that I don’t want them to hear. You never know in this country, if somebody is fluent in English, or Norwegian for that matter. We have this arrogant habit that we start to talk in our mother tongue. They have the same habit of starting to talk in Chinese. I would have a team member in my team who is fluent in Chinese, and taking notes of what they are saying to each other in Chinese. They use the same tactic with us, so I would do that too. So that you hear all the small talk in between, which is not translated.

Are there any industries where Guanxi is more important than in others?

I think there must be, but I have no knowledge about this. Nobody has done this kind of study, because you cannot measure Guanxi. You cannot send a questionnaire. You can, but I would doubt it’s reliability. I still assume, but I might be very wrong, that the Chinese government businesses are more Guanxi related, than the private ones that are more modern. But I might be very, very wrong. Government businesses are learning among themselves, and they are highly educated. It is not like the old fashioned communist party. The government is very well developed. Otherwise they would not have had this economic growth.

The offshore market is a very international market. Even in China, operators are also playing by international rules. Do you think we still can find anything Chinese in there?

Many Chinese have degrees from top universities from the USA, and have learned western ways of doing business. You have to know about the Chinese way of doing it, but also ignore it if you realize that it looks like they are just playing with international rules. But if they are Chinese and behave like internationals, then they still might be patriotic. If you are a foreign company, and you have a competitor that is a Chinese one, they are more patriotic. Their task is to be patriotic. So they might give the deal to the Chinese one if you are very equal. Because then the psychological things matter. They will go for their own. We are doing this in western countries too. Buying domestic. If you look at the EU legislation, it is purely to protect our own industries.
What are the major challenges that a international company faces when doing business in China?

Nowadays, it is not anymore guanxi, or access. It is the rise of Chinese competitors. If I was a business owner, I would very, very carefully look at the Chinese market, in any industry. That kind of feasibility studies. All the time having an eye of these kind of companies here.

The Chinese are working much harder then we do. We have our social security that is backing us up. And we are not willing to sacrifice our personal lives, the same way they would. They are hungry, but we are not hungry anymore. So I think the emerging competition is the biggest challenge today.

What are the major differences between doing business with China and other countries.

I think the biggest issue is that we are small. So we can never use our size as one indicator of doing business. China can do that. China can put some barriers, saying we don’t agree on this and that, and people are following. They have a marriage between the USA and China, and that marriage is something where both are dependent on each other. We don’t have that. Nobody is dependent on us. But what we have is the best functioning societies in the whole world, which is unique. If we can use his as a competitive advantage on a company level it would be beneficial. But I don’t know if you can.

But Scandinavians are humble, and the Chinese are the same way. We are ahead of the other nations that are more arrogant in their behavior. But that might also mean that we are vulnerable.

What are some of the major entry barriers when entering China?

Some of their own industries are very protected. Exactly the same as the way we are protecting some of our industries. I think that has been a very smart strategy from their side. And they learned during the opium wars, where westerners are forcing their businesses here. And they learned from the colonialism. That’s the biggest challenge. You have to look at the government policies, and the five-year plans. What are the government’s goals? And if you have that in your mind, then you use that. What are their legislations? You use that. And so on. You have to be extremely literate of their legislation and of their official policies and of their five-
year plans, in order to know how to tackle the entry barriers of entering this country.

**Are Chinese firms known for being willing to take risks?**

I have never thought about that. But they do their homework better than we do. The “Art of War”, which they are reading very carefully, is about knowing your enemy. That’s what they do. We think we are the kings and we have a good product, so let’s go! Instead of; I have to learn about the enemy, the market, or where I am supposed to enter. And they are much better on that. They have this learning orientation, which we don’t have. We have to create something everywhere, or we have to be innovative and so on. They have the learning orientation, and that’s what they do. They learn before they do anything.

**What are Chinese companies looking for when they want to do business with international companies?**

Learning, learning, and learning. Management learning, technology learning and so on. When you are dealing with Chinese, remember they are learning. You should learn from them, so that not in the end your cooperation its not only benefiting them. They are very good at that. Very good! That’s part of this humbleness. I learn from you, and all of the sudden you learn above the person who is teaching you. We think it is copying. But their view of copying is different. We think they are copying from us, and partly they have been copying. But that copying is a way of learning. And don’t think this is a bad thing, just look at this society. They are not only selling counterfeits, they are selling their own products already. So through copying, the learning has functioned for this country quite well.

**Can you talk a little bit about Chinese JV compared to more western JVs?**

I used to lecture about the goals of JVs. Westerns wanted access to the market and profits. Chinese goals were learning. Technology learning, management learning, and then came profits. So they were not so concerned about profits. That’s why they put us to make a good JV. Now they have learned, so now they have agreed on fully owned enterprises here. Because they have probably reached a part of their goal. That’s the difference I think, the learning. We make JV’s to become
more efficient, and to become bigger. Westerners do not have the same focus on learning.

**How aggressive should a company be when entering China?**

Aggressiveness is again a western way of thinking. I don’t believe in aggressiveness at all in this country, by no means. If you are aggressive you close the doors. And Chinese don’t tell upfront to you, that now you crossed a line. But after five years you realize that; “you cannot do very much in this country”. So they allow you to be here, but actually you have not made any profit. A lot of JV that came in the 80s and even today don’t make any profits here. And sometimes you are wondering why you even came here.

The latest Harvard business review is saying that you have to be in China. Who says you have to be here? Make a very, very strong feasibility study, and don’t let Harvard business review fool you. There are Chinese writers who cooperate with Fudan University, and they also have their agenda in that journal. I would be very careful. If you are aggressive you might close the doors forever. So rather be humble, learn, and take your time. Humbleness is more valued than aggressiveness. And of course you have to have limits. You have to balance between being humble and not being too kind. So firm and humble is the key. And aggressive in an indirect way. But you have to know your limits. These males here are more feminine, than the males in the west. Which means that this aggressiveness we put in business doesn’t work here. That’s the western way of doing things, very direct. The tougher you are, the better you are. But here it is different. You are not intelligent enough to make it indirectly. You are so stupid that you have to be upfront. White lies are more usual here.

I don’t call it lying. I call it giving face.

**How important is Guanxi in big, one-time transactions?**

I would immediately think, that if you have this one sale, are there easier markets to go to than China? That would be my sort of observation. There are two ways, going to easier markets, but keeping a hold in this market. Having a team here, that works constantly. Because you never know about this country. So don’t close the doors. I call it a latent relationship. That means that you never close them down, you never say we don’t go here, this is not our strategy, you never say that. You say we have this strategy but actually you are working more towards another
country. Not putting all your emphasize here, but you are keeping one or two people here to work for this long-time, to keep doors open here. That’s what Chinese are doing by themselves. They have told me that they keep this contact even if they don’t sell any more of their products. They send new-year cards, etc. But when they need them, the relationship is there. Keeping up the latent contact would be good, but then again, if I can make easy money in Brazil, why put all my eggs to China?

So presence in China is valuable if you want to do business here sometime?

Yes, they appreciate that. They also appreciate the sacrifices you have done. Nokia did some sacrifices, and now they have JVs all over China.

How much influence does the Chinese state have in a JV with a state-owned company?

A lot. But still depending on what level it is. As I said, they make a JV in order to learn from you. You have to think about your benefits from having that JV. And they are very good at negotiating through their goals. If it’s state, or a private one, the private ones have also connections with the government. Here you have a government connection that influences. If you have a private company in a JV, it is important that they have governmental connections in order to be able to function here. In that way government owned businesses would be better. Government owned businesses is not a negative thing. Connections to government are not a negative thing. They are doors to your business. Ok, they do have double management, one is the leader, and one is a party member. But nowadays this party member is just like another operative manager, it’s not just political. The government is not political the same way that we think. They are just access.

Nothing is impossible in China, but nothing is easy.