CHINA PETROLEUM REPORT

A weekly report on China's petroleum and petrochemical industries

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In this issue

Sinopec teams up with Rosneft in TNK-BP unit race

China Petrochemical Corporation, better known as Sinopec, has reached an agreement with Russia's Rosneft to put in a joint bid for Udmurtneft, an oil company in eastern Siberia.

If the acquisition turns out to be a success, Sinopec's reserves in its overseas assets are expected to double.

The seller of Udmurtneft is Russia's largest joint venture-TNK-BP, which is 50% owned by British Petroleum (BP). Sinopec is BP's only strategic partner in China.

According to the data available on TNK-BP's website, Udmurtneft's annual output is approximately 6Mt.

TNK-BP has hired ABN Amro and UBS AG to assist it in the Udmurtneft sale. Standard & Poor's valued Udmurtneft at US$3 billion.

The Russian government has so far approved nine binding bids from domestic and foreign companies. Apart from Sinopec, the other foreign companies include Austria's OMV, Hungary's MOL, Kazakhstan's Kazmunaigaz, and a consortium between Russia's Itera and India's ONGC (51% and 49% respectively).

Chinese analysts said that ONGC is Sinopec's biggest rival. However, the Russian newspaper Vedomosti recently reported that TNK-BP had reached an agreement with Russia's gas monopoly, Gazprom, to award the bid to the latter.

China raises oil product prices again

China's National Development and Reform Commission (NDRC) decided to raise domestic gasoline, diesel, and aviation kerosene prices by 500 yuan per ton each starting from May 24.

This is the second oil price adjustment by the Chinese government since the beginning of this year.

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On March 26, the NDRC raised the refinery-gate prices of gasoline and diesel oil by 300 yuan per ton and 200 yuan per ton respectively.

In recent months, international crude oil prices have remained steadily above US$70 per barrel.

To minimize the difference between domestic and international oil prices and ensure adequate oil supplies to the domestic market, the NDRC decided to raise the ex-plant prices of domestic oil products again.

CNOOC has a new offshore platform on stream

CNOOC Limited, the country's largest offshore oil producer, announced on May 24 that it recently put a new offshore platform into operation in Bo Zhong (BZ) 25-1/25-1S oilfield in Bohai Bay.

The BZ 25-1/25-1S oilfield is located at the southeast side of Bohai Bay, approximately 127 km northwest of Longkou city in Shandong province.

The field's water depth is approximately 20 meters. The development of the field has been divided into two phases, each of which will employ three production platforms.

The new platform, Platform A, is the last one to come on stream among the six platforms in the field.

There are now two operating wells at Platform A with a combined oil output of approximately 2,200 barrels per day.

BZ 25-1/25-1S oilfield currently produces 30,000 barrels of oil per day and the output is expected to increase further after more wells are set in operation.

CNOOC owns 83.3% of the BZ 25-1/25-1S oilfield and also is its operator.

China's coal-derived oil products production capacity to hit 50Mt by 2020

By 2020, China will be able to produce 50Mt of oil products annually by liquefying coal, said a Chinese coal expert at a forum recently.

At the annual meeting of the North China Coke Industry Association held on May 15th in Beijing, Du Minghua, director of the Beijing Research Institute of Coal Chemistry, said that China is now able to liquefy coal on a commercial scale.

"Over the next 15 years, China will invest 400 to 500 billion yuan in coal liquefaction projects in order to establish an oil products production capacity of 50Mt/a," said Mr. Du.

"At that time, China will also be able to produce 20Mt of oil products annually using biomass as a raw material. These new fuel production capacities will reduce China's reliance on imported crude oil to below 45% from 60% where it stands now," the expert added.

Mr. Du told the meeting that the current cost of converting coal to oil products in China is

approximately US$25 per barrel, almost as that of South Africa, the world's biggest coal-derived oil product producer.

China starts formulating epoxy resin industry development plan for next five years

China recently started the formulation of its epoxy resin industry development plan for the next five years.

According to the China Petroleum and Chemical Industry Association, China has long before started mulling the plan and is now finalizing it.

Latest statistics show that China produced 440kt, imported 250kt, exported 60kt and consumed 630kt of epoxy resin in 2005. China became the world's biggest producer of epoxy resin last year and is expected to become the world's biggest epoxy resin consumer over the next five years.

China's epoxy resin consumption is expected to reach 165kt to 175kt by 2010.

Over the next five years, China's epoxy resin industry will no longer focus on developing conventional bisphenol A epoxy resin and priority will be given to cyanide bisphenol A epoxy resin, bisphenol F epoxy resin, acrylic acrid epoxy resin and secondarily processed epoxy resin products which are all in great demand and in short supply in the Chinese market.

Cyanide bisphenol A epoxy resin and bisphenol F epoxy resin currently represent about one-sixth of China's total epoxy resin consumption. However, almost all of the country's needs for these two products rely on imports.

China plans to cultivate several world-class epoxy resin enterprises over the next five years. The Wuxi Resin Factory of Bluestar New Chemical Materials Co., Ltd. is one of major epoxy resin producers in the country. The factory now has a production capacity of 50kt/a and has begun exporting basic resin on a large scale.

China starts commercial development of coalbed methane

China's National Development and Reform Commission (NDRC) approved the establishment of a national coalbed methane development and utilization research center on March 6 this year. This act has been widely seen as the start of commercial development of coalbed methane in the country.

At an international natural gas and power generation forum held on March 30 in Beijing, several energy experts including Che Changbo, vice director of the Oil and Gas Resources Strategic Research Center of China's Ministry of Land and Resources, called on the government to accelerate the development of the domestic coalbed methane industry.

China's coalbed methane reserves are almost equivalent to its natural gas reserves and the elements and functions of these two gases are almost the same. Most of China's natural gas deposits are located in the country's western part, while most of the country's coalbed methane resources are buried in the country's central and eastern parts. North central China holds 62% of the country's total coalbed methane resources.

After the start of operation of the West East Pipeline project, the Chinese government decided to unify its plans for the development of coalbed methane and natural gas to prevent haphazard investment.

Statistics show that the total volume of coalbed methane resources in the world is about 260 trillion cubic meters. Russia is the largest holder of coalbed methane deposits in the world followed by Canada and China.

China has around 35 trillion cubic meters of coalbed methane resources, 31.4 trillion cubic meters of which are buried less than 2,000 meters underground, the same volume of onshore natural gas resources in the country.

Qinshui basin and the eastern part of Ordos basin are the two biggest coalbed methane deposits in China with a total of about 10 trillion cubic meters of coalbed methane resources. Sixty percent of coalbed methane resources in these two areas is buried less than 1,500 meters underground.

In recent years, China has launched more than 50 coalbed methane development projects, some of which are funded by foreign loans. China has developed a complete package of coalbed methane development technologies, more than 20 of which are among the world's most advanced.

However, technical bottlenecks remain the main restraint to the development of China's coalbed methane industry.

In 2005, China produced three billion to four billion cubic meters of coalbed methane. The country's coalbed methane output is expected to reach 10 billion cubic meters by 2010.

China to build 300 million kilowatts of flue gas desulfurizing units

At of the end of 2004, there were about 20 million kilowatts of flue gas desulfurizing units in China, including the units that were established but yet to come on stream, and about 30 million kilowatts of units under construction.

Over the next 10 years, the total capacity of flue gas desulfurizing units in China, including the units under construction, will reach about 300 million kilowatts.

To reduce the discharge of sulfur dioxide, China's State Environmental Protection Administration imposed a coal sulfur dioxide emission pollution control technology policy in 2002. That policy stipulates that enterprises must build ancillary flue gas desulfuring units when building, expanding and reconstructing coal-fired power plants.

CNOOC starts gas supply to Indonesian power plant

Chinese oil and gas firm CNOOC, together with six other production sharing contractors (PSC), began delivering gas to Indonesia's state electricity company PT PLN via an 85-kilometer submarine pipeline, a report said recently.

Indonesian subsidiary, CNOOC South East Sumatra (SES), will supply 50 billion British thermal units (BBTU) of gas per day to the 750-megawatt (MW) power plant in Cilegon, West Java, in

the first year and is expected to deliver 80 BBTU per day afterwards, said The Jakarta Post.

The company's partners include Inpex Sumatra Ltd., KNOC Sumatra Ltd., Orchard Energy Sumatra BV, Fortuna Resources (Sunda) Ltd., Talisman UK (Southeast Sumatra) Ltd. and Talisman Resources (Bahamas) Ltd., it said.

China to expand ethanol gasoline application to large cities

China plans to expand the scope of ethanol gasoline application to several largest cities, to reduce its reliance on conventional fuel and promote the application of clean bio-energy fuel, an announcement of Chinese economic planning department said. Presently, 10% of gasoline fuel for vehicles can be replaced by ethanol gasoline without changing engines.

According to NDRC, China will incorporate several central cities into the demonstration project, like Beijing, Shanghai, Tianjin, etc. China has set 9 provinces as experimental unit for ethanol gasoline, including Heilongjiang, Jilin, Liaoning, Hebei, Shandong, Anhui, Jiangsu, Henan and Hubei.

Bai Yuguang, Vice Manager of Planning Department of PetroChina, commented that Chinese ethanol production capacity can reach 6Mt/a before 2010, accounting for 10% of the gasoline market. Currently, Chinese ethanol gasoline production is 10.2Mt, of which 1Mt is ethanol.

Chinese sixth largest oilfield set up stock company successfully

Recently, Yanchang Oilfield Co., sub-company of Shaanxi Yanchang Petroleum Group was set up, which is China's sixth largest oilfield. It integrated resources and technologies of 22 crude oil production enterprises in north Shaanxi region.

Shaanxi Province restructured and upgraded oil market system in Yan'an and Yulin. It established Chinese fourth largest petroleum group-Shaanxi Yanchang Petroleum Group in Sep. 2005, via reclaiming operation rights, ownership and exploration rights.

Shaanxi Yanchang Petroleum Group further deepened regroup of enterprises and Yanchang Oilfield Co. will be spun off afterwards. Currently, the restructure works of Yanchang Oilfield Co. was basically completed.

It's said that Yanchang Oilfield produced 2.8909Mt of crude oil in the first four months of 2006, with a net production growth of 16.61%, and a production capacity of more than 9Mt/a was formed, making it one of the most important energy production bases in west China. Yanchang Oilfield plans to strengthen its exploration works in areas out of Shaanxi Province on the basis of resources in Shaanxi this year, with the target of adding 80Mt of reserves in place and proven natural gas reserves of 10 billion cu m.

Exploration & Production

China's natural gas output up 31.3% in Q1

China's natural gas output reached 15.92 billion cubic meters in the first quarter of this year, up 31.3% from the same period last year.

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China's natural gas output has been growing rapidly in recent years as a result of the improvements in exploration technology and the growth in proven reserves.

In 2004, China produced approximately 40 billion cubic meters of natural gas and last year the country's natural gas output rose to nearly 50 billion cubic meters (49.95 billion cubic meters), up 80.2% from 2000.

In the past five years, China's chemical industry utilized 40.72% of the country's total natural gas consumption, residential consumers accounted for 40.57%; industrial consumers, 15.21%; power plants, 3.5%.

Analysts have predicted that by 2010, China's natural gas output will double from that of 2005 end and reach 80-100 billion cubic meters.

Over the past five years, China has proved 2.47 trillion cubic meters of natural gas. The number of the country's major gas fields has gone up to 182 and the total length of gas pipelines in the country has reached 26,200 kilometers.

China's crude oil production to see stable growth over next 15 years

China's crude oil production will enter a stable-growth period over the next 15 years along with the increase in proven reserves.

China's annual oil production is expected to reach 185Mt to195Mt over the next five years and is also expected to remain at this level until 2020.

There are now 576 major oilfields in China, including offshore fields, with the total length of oil pipelines having reached 11,300 kilometers. In 2005, China produced 182Mt of crude oil.

According to Mr. Pan Derun, vice director of the China Petroleum and Chemical Industry Association (CPCIA), since 1984, China has been increasing its proven oil reserves by 800Mt to 900Mt annually.

In the past five years China has located 6.93 billion tons of oil reserves, Mr. Pan said.

In 2005, China imported approximately 126Mt of crude oil and 31.43Mt of oil products. The country's reliance on imported oil reached 44%.

Analysts have predicted that China's oil demand will reach 330Mt to 350Mt by 2010 and 400Mt to 500Mt by 2020.

To meet its domestic demand, China will need to import 150Mt to 160Mt of oil annually over the next five years and 250Mt to 270Mt between 2010 and 2020.

Chinese oil industry started seeking oil and gas in volcano rocks

On May 15, International Conference on Continental Volcanism was held in Guangzhou City.

Liu Jiaqi, academician of Chinese Academy of Sciences disclosed that Chinese petroleum industry has launched its third round of innovation, which is seeking oil and gas reserves in volcanic rocks. Numbers of discoveries have been made reportedly.

According to recent studies, a great amount of oil reserves are contained in volcanoes. The formation of oil can be accelerated in volcano as a result of the inner active rock-magma. Meanwhile, the sealed volcanic rock can be well stored. Thus, it has been the third innovation of Chinese oil industry to explore oil and gas along volcanic rock. Chinese scientists have discovered a great deal of petroleum located in northeast, northwest and north China volcanic rock areas. Besides, Sanshui and Heyuan of Guangdong Province have prolific mineral resources due to its existence of volcanic rocks.

China proved up its oil shale and oil sand reserves

Recently, "Compiling of Executive Evaluation Proposal of Oil Shale Resources", "Compiling of Executive Evaluation Proposal of Oil Sand", "Appraisal on Chinese Oil Shale Resources" and "Appraisal on Chinese Sand Resources" were verified officially. The first two specialized research findings were undertaken by Professor Liu Zhaojun, while the other two were performed by vice professor Dan Xuanlong, Jilin University. The findings of the evaluations show that Chinese oil shale and oil sand resources are of great potentials, and will become one brilliant aspect for Chinese energy development. Experts said that the excellent appraisal results of the resources have reached world-leading level.

Jilin University commenced resource appraisal works from 2003. It spent one year completing the project of "Compiling of Executive Evaluation Proposal of Oil Shale Resources" project. Then they carried out research works on "Appraisal on Chinese Oil Shale Resources" project. Results show that Chinese oil shale resources is abundant but have not been well utilized, with oil shale reserves ranking fourth globally.

At the same time, "Executive Evaluation Proposal of Oil Sand" was well finalized over one year. Then "Appraisal on Chinese Sand Resources" was performed, led by Jilin University, together with CNPC, Sinopec, and Chengdu University of Technology. The findings further demonstrated that Chinese oil sand resources are mainly located in west basin, which can be used as a kind of important substitute and sufficient energy.

Refining & Petrochemical

PetroChina subsidiary puts 600kt/a extraction plant into operation

Liaoyang Petrochemical Company, a subsidiary of China's biggest oil producer PetroChina Limited, put a new extraction plant into operation on May 12.

The unit, with a production capacity of 600kt/a, uses technology independently developed by Beijing Jinweihui Company.

Construction of the 76.77 million yuan unit started in August 2005 and was completed at the end of last year. The unit will produce aromatic hydrocarbon products including benzene and methylbenzene.

Annual gross profit from the unit is expected to reach 16.99 million yuan including 11.39 million yuan of after-tax profit.

The rate of return on investment of the project will reach 22.14% and the investment profit-tax rate will be 29.04%.

Shell in talks to purchase CNOOC refinery stake

Royal Dutch/Shell, the world's third largest oil firm, announced on May 22 that it is negotiating with China National Offshore Oil Corporation (CNOOC) about the purchase of a stake in a refinery in south China.

According to Tan Ek-kia, Shell Chemicals Ltd Vice President, the investment in the refinery totals 16.7 billion yuan and Shell holds a 50% stake in a petrochemical complex adjacent to the refinery.

The official's remarks seem to refer to CNOOC's wholly-owned Nanhai petrochemical and oil refining project in Huizhou, Guangdong province.

Construction of that project begun at the end of last year and is expected to complete in the first half of 2008. Investment in the project will exceed 16 billion yuan.

A CNOOC vice president said, he had no knowledge of the ongoing negotiations.

CNOOC's Nanhai petrochemical and refining project is located at the west of CNOOC and Shell's Nanhai petrochemical and ethylene project, the largest Sino-foreign joint venture in China. Under the project, 13 main production units and a series of ancillary facilities will be constructed, which will be able to process 12Mt of high-acid heavy crude oil annually.

CNOOC's Nanhai refinery will supply 1.5Mt of raw materials for the ethylene units of the CNOOC-Shell project annually, approximately 80% of the project's ethylene feedstock demand.

In addition, the refinery will supply other raw materials to the joint venture, including propylene, benzene, methylbenzene and para xylene (PX).

The CNOOC-Shell project will supply C4, C5, ethylene and propylene to the CNOOC refinery.

Chinese pentaerythrite industry develops rapidly

In recent years, Chinese pentaerythrite industry developed rapidly, not only in terms of production capacity, but also in aspect of production technology. Currently, Chinese pentaerythrite industry is developing its downstream products, with priority in intermediate products of epoxy cross linking agents.

Experts said that the current production capacity and production of Chinese pentaerythrite are 150,000 tons and 107,800 tons respectively. 2005 Chinese consumption on pentaerythrite reached about 14,000 tons and the figure will run up to some 17,000 tones due to the sustainable growth in intermediate product deep processing industry of epoxy cross linking agents.

Imports & Exports

China imposes antidumping duties on American and Japanese catechol

China began imposing antidumping duties on catechol imported from the United States and Japan on May 31, after the country's Ministry of Commerce completed an antidumping investigation into the product and issued its final ruling, according to which catechol from the above two countries was dumped on the Chinese market.

The duties to be imposed on catechol produced by the US firm Rhodia Inc will be 4% and those on products by other American companies will be 46.81%, the Ministry of Commerce announced on May 31 on its website.

The duties on catechol produced by Japanese firms will be 42.86%, the website said. The imposition of the said duties will be in force for a period of five years.

China launched the antidumping investigation into the above product in May 2005 and on December 2, the Ministry of Commerce announced its preliminary ruling that catechol from the United States and Japan had been dumped on the Chinese market and had adversely affected China's domestic industries.

Following this preliminary ruling, the Ministry continued its investigation into the case in order to establish whether the said dumping case was true.

China imposes temporary antidumping measures against imported urethane elastic fiber

China started imposing temporary antidumping measures against urethane elastic fiber imported from Japan, Singapore, South Korea, Taiwan, and the United States on May 24.

The country's Ministry of Commerce launched an antidumping campaign against the above product on April 13, 2005.

On May 24 of this year, the Ministry announced in its preliminary ruling on the campaign that imported urethane elastic fiber from the above countries and territories was dumped on the Chinese market and injured China's domestic industries.

According to the preliminary ruling, dealers are required to provide deposits to the Chinese Customs when importing urethane elastic fiber from the above countries and territories, starting on May 24.

The highest dumping margin set for urethane elastic fiber producers is 61%.

Giant Australia-China gas deal kicks off on May 17

A historic 25-billion-dollar (US$ 19 billion) gas deal between China and Australia has kicked off with the loading of the first China-bound cargo of liquified natural gas (LNG) from the giant North West Shelf field.

Woodside Petroleum, operator of the gas project, said 125,000 cubic meters of LNG were being loaded onto a ship near Karratha in the Pilbara region of Western Australia. The loading of the

ship marks the official start of a major trade relationship between Australia's largest LNG enterprise and Guangdong Dapeng LNG Co. Ltd.

The sales and purchase agreement, signed in Oct. 2002, is worth US$19 billion. Under the contract, the North West Shelf Venture will supply more than 3.3Mt/a of LNG for 25 years. As part of the deal, a China LNG joint venture was established within the overall North West Shelf project to accommodate Chinese National Offshore Oil Corporation (CNOOC). CNOOC holds a 25 percent share in the new joint venture.

Market Review

Three characteristics of Chinese rubber industry development

Chinese rubber industry development shows the following three characteristics:

First, China has developed into the largest rubber consumer globally, and it also the largest rubber production country in the world. In 2004, China consumed 3.4Mt of rubber, accounting for 22% of the world total rubber consumption. Meanwhile, the production of main products of Chinese rubber industry ranked global frontal. It produced 239 million tires, 400 million bicycle tires, 80 million sq m of conveyer belt and 990 pairs of rubber overshoes. In 2005, Chinese tire industry produced 283 million tires, up 18.5 percentage point compared with that of 2004, with a sales revenue of over RMB 80 billion yuan.

Second, China is poor in rubber resources, despite its fast-developing rubber industry. Chinese natural rubber production ranked world fifth, closely following Thailand, Indonesia, Malaysia and India. Its synthetic rubber production ranked third globally, running after America and Japan. Its rubber resource only accounts for 10% of the world total. In recent years, China imported more than 1.2Mt of natural rubber per year, whereas synthetic rubber of approximately 600,000 tons per year. It's difficult for China to develop its rubber industry if turns to rubber resource imports, because of the limited international rubber resources.

Third, China boasts its most scraped rubbers globally, and it need to utilize the scraped rubber comprehensively. China generated approximately 2.72Mt of scraped rubbers in 2004, most of which were scraped tires with the amount of 100 million. However, current utilization factor of Chinese scraped rubber is merely 60%. In 2020, China will probably generate scraped rubber in excess of 6Mt, which will contribute to a much severer utilization situation.

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Chinese styrene market to be balanced in 2010

In recent years, Chinese styrene production was accelerated and expanded due to the rapid growth in demand. Styrene facility of Qilu Petrochemical Co. was upgraded to 200,000 ton/a from initial 60,000 tons/a, and it was put into production in Oct. 2004. Daqing Petrochemical Corporation, completed its styrene upgrading project in Aug. 2005, and the annual styrene production was increased to 90,000 tons from 60,000 tons per year. The 150,000 ton/a styrene project, jointly constructed by China Railway Material United Co. and Changzhou Donghao Chemical Trade Co. in Changzhou City, came on stream in 2005. The 500,000 ton/a styrene

facility of BP-Sinopec also came on line in 2005 in Caojing, Shanghai. The epoxypropane-styrene facility jointly held by Shell Chemical Co. and CNOOC, with styrene production capacity of 560,000 ton/a, was commissioned in Feb. 2006. 60,000 ton/a styrene unit of Jinxi Refining and Chemical Complex was put into production in middle Mar. 2006.

As of May 2006, China has 17 main styrene production enterprises, with a total production capacity of 2.509Mt/a (the number was 15 in 2005, with overall production capacity of 1.889Mt/a), accounting for 8% of the world total styrene production capacity, of which 10 installations were imported with the production capacity of 1.83Mt/a, accounting for 72.9% of the national total.

In recent years, Chinese styrene production rose continuously attributing to increasing styrene production capacity. In 2005, Chinese styrene production hit 1.25Mt. From 1999 to 2005, the annual growth rate of Chinese styrene production is approximately 5.8%.

Meanwhile, Chinese apparent styrene consumption is continuously ascendant. 2004 Chinese apparent styrene consumption is 3.8661Mt, while that of 2005 rose to 4.0495Mt.

China has been short of styrene products for a long time and has been highly depended on imports. China imported 2.8890Mt and 2.812Mt of styrene in 2004 and 2005 respectively. Chinese styrene dependency on imports was 74.70% in 2004, while that of 2005 was reduced to 69.44%. A number of downstream products of styrene were also imported into China, together with massive styrene imports.

It's estimated that Chinese styrene production capacity will be considerably increased during 2006-2008, and a batch of proposed new projects and upgrading projects will be started up. The 80,000 ton/a styrene production project from FCC dry gas of Hainan Shihua Jiasheng Chemical Co. will be finalized in Jun. 2006, along with its oil refining project. The 80,000 ton/a styrene installment of Jinzhou Petrochemical Co. will come on stream in Aug. 2006. Guangdong Shantou Marine Industrial Co. plans to build a new set of 400,000 ton/a styrene production facility in Quanzhou, Fujian. Liaoning Huajin Chemical Group and Jilin Petrochemical Co. both poised to expand their current production capacity to 200,000 ton/a. Taiwan Styrene Co. scheduled to establish a 350,000 ton/a styrene facility by 2007, in Quanzhou, Fujian. Yangzi-BASF Styrene Product Co. plans to expand its present production capacity to 300,000 ton/a, whilst BASF is considering establishing a styrene joint venture with Sinopec, with a world-level styrene production capacity as high as 500,000 ton/a. Shanghai Gaoqiao Petrochemical Co. plans to build a 100,000 ton/a styrene production facility. Nanjing Jinling Petrochemical Co. intended to set up a 60,000 ton/a production facility. PetroChina Jiaxin Co. will build a 200,000 ton/a styrene unit with Shanghai Petrochemical Co. Xinjiang Dushanzi Petrochemical Co. will complete a 320,000 ton/a styrene installation as of 2007.

It's estimated that Chinese gross styrene production capacity will exceed 4Mt in 2008. China will substantially alleviate its tight styrene supply and demand situation by 2010, and basically keep it in balance.