China Joining U.S. Shale Renaissance With $40 Billion: Energy
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By Bloomberg News
March 6 (Bloomberg) -- China National Petroleum Corp., the country's biggest oil company, is seeking its first stake in the U.S. as Chinese explorers with $40 billion of cash try to join an energy renaissance unlocking billions of barrels of crude.
"We are currently studying" investing in U.S. oil, Jiang Jiemin, chairman of the state-run company, said yesterday at the National People's Congress meetings in Beijing. Domestic rival China Petrochemical Corp. last month agreed to buy stakes in an Oklahoma field from Chesapeake Energy Corp. for $1.02 billion.
Chinese oil companies using government loans want stakes in shale fields that are fostering the most crude production in the U.S. in 21 years and helping wean it off Middle Eastern imports. They'll be guided by the experience of China's Cnooc Ltd., whose $19 billion bid for Unocal Corp. was blocked by U.S. lawmakers eight years ago. Cnooc last month won U.S. approval for a $15.1 billion purchase of Nexen Inc., albeit with curbs on operating the Canadian company's Gulf of Mexico fields in U.S. waters.
"Stake participation by Chinese companies in U.S. oil fields would be welcomed," said Will Pearson, a London-based analyst for Global Energy & Natural Resources at Eurasia Group. "Full buyouts will continue to be scrutinized and opposed."
While China is taking over entire oil and gas fields from Canada to Latin America, Africa and Australia, such purchases in the U.S. may prove challenging because of political opposition, Pearson said. The world's biggest economy is curbing Chinese deals when the targets are close to military installations or have access to certain kinds of technology. Growing concerns over intellectual property theft and cyber-attacks also have fueled scrutiny of Chinese acquisitions.

Trigger Investment

Still, the U.S. Committee on Foreign Investment's approval of the Nexen purchase will probably trigger a spurt of U.S. energy investments from China, Mirae Asset Securities Ltd. analyst Gordon Kwan said.
"The Chinese want to gain experience in shale gas, oil sands and deepwater so they can redeploy the best U.S. practices and technologies" back in China, Kwan said. "The U.S. is the frontrunner from a political stability perspective. Russia, Argentina, Nigeria could nationalize fields, while Australian

assets are expensive."
Chairman Fu Chengyu of China Petrochemical, also known as Sinopec Group, has said the Beijing-based company was looking for minority stakes to avoid a backlash from U.S. lawmakers.
China National Petroleum's publicly-traded unit PetroChina Co. has bought stakes in energy assets in Canada, including a C$1.18 billion ($1.15 billion) purchase of shale acreages from Encana Corp. in Alberta in December.
Shares of PetroChina closed up 1.9 percent to HK$10.66 in Hong Kong today. The stock has declined 4.7 percent in the past year, compared with a 9.5 percent gain in the benchmark Hang Seng Index.

Ports, LNG Concern

"Participating in key infrastructure like ports and LNG terminals is likely a harder sell and I don't see Chinese involvement in that market segment," Eurasia's Pearson said. "As for stake participation in oil fields, it's a different story and China will be taking up interests in similar deals in the coming months."
Chinese companies have already bought a record $1.52 billion of stakes in oil and natural gas fields in the U.S. this year, more than triple that of last year, according to data compiled by Bloomberg. The three largest Chinese oil companies have about $40 billion in cash, according to data compiled by Bloomberg.
China National Petroleum plans to double overseas production to 200 million tons a year, or 4 million barrels a day, by 2015. The incremental production is equivalent to double Cnooc's output.

Crude Cap

China's energy demand is growing at the fastest pace among major economies even as aging onshore fields fail to keep pace. China plans to cap its crude imports at 61 percent of total consumption by 2015, according to an energy research paper released by China's cabinet in October. The country's reliance on imported crude was 56.4 percent in 2012, according the National Development and Reform Commission.
Sinopec's purchase of Chesapeake Energy's stake in a shale oil field in Oklahoma announced on Feb. 25 gave the Beijing-based company drilling rights to a field twice the size of New York City for less than one-third of the value estimated by Chesapeake for the asset. The same day Cnooc closed its deal to buy Canada's Nexen.
Cnooc was barred from controlling the Gulf of Mexico

oilfields under U.S. terms for its approval of the takeover, people familiar with the matter said this month. The U.S. is officially open to Chinese investment, a position that has been affirmed by President Barack Obama.

Security Risk

In September, Obama barred a Chinese-owned company from building wind farms near a U.S. Navy base in Oregon, the first time in 22 years a president has blocked a transaction as a national security risk. U.S. investment regulators previously had blocked at least three transactions that would have resulted in Chinese companies gaining control of assets near military facilities.

"If the Chinese try and take control then it may be an issue versus taking minority stakes where it seems the Americans are more relaxed," said Simon Powell, head of Asian oil and gas research at CLSA Ltd. in Hong Kong. "China is increasingly staring down the barrel of being more and more dependent on imports, so anything that they can do to hedge they will consider."

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