China seeks N. American energy reserves, know-how

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In this Aug. 24, 2011 file photo, China National Offshore Oil Company Ltd. Chairman Wang Yilin attends a company announcement in Hong Kong. Oil and gas producer Nexen Inc. has agreed to be acquired by China National Offshore Oil Company for US$15.1 billion cash, according to reports Monday, July 23, 2012. (AP Photo/Kin Cheung, File)

(AP) — Offshore Chinese energy giant CNOOC's $15 billion offer for Canadian oil and gas producer Nexen Inc. is strategically calibrated to win regulatory approval — unlike its failed 2005 attempt to buy Unocal.

The deal announced Monday shows China's appetite for overseas energy assets remains as strong as ever despite its current economic slowdown. Weaker oil prices and a resolve to capture technologies China needs to unlock its own sizable but hard to extract reserves are powerful incentives for its energy companies to snap up foreign producers.

Back in 2005, protests that the sale of Unocal might jeopardize U.S. national security prompted CNOOC Ltd. to withdraw its $18.5 billion bid.

"The main problem for Chinese companies buying American companies is always not the price, but the politics," said Sun Chong, an analyst at Sinolink Securities, based in Shanghai.

This time, in an apparent show of commitment to national interests, CNOOC is pledging to set up a regional headquarters in Calgary, Alberta, where Nexen is based. It also says it will keep the Canadian company's management and projects in place and list shares on the Canadian bourse.

CNOOC laid the groundwork for the deal early on with earlier preliminary purchases of Nexen oil sands.

"It's structured the deal in a number of ways to ensure it has a maximum chance of being approved," said Thomas Grieder, Asia-Pacific energy analyst at IHS World Markets Energy in Geneva.

The incentive to make the deal work is evident: dependent on foreign oil for more than half the energy it consumes, China has a strong vested interest in diversifying its supplies, said Sun.

That is especially true for CNOOC, whose existing fields are fast maturing.

"The resources CNOOC has found in offshore China are respectable resources but they have much bigger ambitions than that and want to be a global player," Grieder said. The purchase of a big player like Nexen, if approved, would "massively grow the company," he said.

In this April 25, 2012 photo, Nexen chief executive Kevin Reinhart addresses the company's annual meeting in Calgary, Alberta. Oil and gas producer Nexen Inc. has agreed to be acquired by China National Offshore Oil Company for US$15.1 billion cash. (AP Photo/The Canadian Press, Jeff McIntosh)

The takeover offer will face a review by Canada's industry minister and the Competition Bureau, an independent regulatory agency. Canada has balked at past foreign bids for natural resources, but with U.S. interest in Canadian gas and oil dented by the surge in supplies of natural gas, it now may be more open to such acquisitions.

CNOOC and other big state-owned Chinese energy companies have increased purchases of oil and gas assets in the Americas as part of a global strategy to gain access to resources needed to fuel China's economy.

Also on Monday, Canadian oil and gas company Talisman Energy announced it was selling a 49 percent interest in its UK division to China's Sinopec Corp. for $1.5 billion.

Total acquisitions by Chinese energy firms jumped from less than $2 billion between 2002 and 2003 to nearly $48 billion in 2009 and 2010, according to the International Energy Agency.

Often, they are paying a premium to get those deals done. The CNOOC offer of $27.50 a share is 60 percent above Nexen's closing price last Friday.

Given that Nexen's share price several years ago was $40, however, the deal is less expensive than it looks, said Gordan Kwan, head of energy research at Mirae Asset in Hong Kong.

Despite its own slowing growth, China's demand for energy is soaring, partly fueled by a drive to buy at a time when prices are relatively weak.

The country's imports of liquefied natural gas jumped 29 percent in the first half of this year while coal imports surged 61 percent, according to Chinese customs data.

One key aim of the acquisition, analysts say, is to acquire advanced technology.

"This deal with Nexen has deep-water technology, shale gas, oil sands as well as paving the way to develop in Nigeria," Kwan said.

"CNOOC, 10 years from now when they look back at it, this will be a great deal," he said.

Nexen operates in western Canada, the Gulf of Mexico, North Sea, Africa and the Middle East, with its biggest holdings in oil sands. But it is also exploring for natural gas in shale rock formations and owns about 300,000 acres (121,400 hectares) of shale-gas blocks in the Horn River Basin in British Columbia.

The U.S. Energy Information Administration has estimated that China has about 36 trillion cubic meters (1,300 trillion cubic feet) of recoverable shale gas, the biggest known reserves. But the country lacks the expertise needed to get to it.